



**CITY OF ONTARIO
RICHLAND COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

**CITY OF ONTARIO
RICHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Ontario
Richland County
555 Stumbo Road
Ontario, Ohio 44906

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, (the City) as of and for the year ended December 31, 2002, which collectively comprises the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Management has not included all required infrastructure for the business-type activities and, accordingly, has not recorded depreciation expense on those assets. Governmental Accounting Standards Board (GASB) Statement No. 34, paragraph 335, requires that all infrastructure assets of business-type activities be capitalized when GASB Statement No. 34 is first implemented, which would increase the assets, net assets and expenses of the business-type activities. We cannot reasonably determine the amount by which this departure would affect the assets, net assets and expenses of the business-type activities.

In our opinion, except for the effects, if any, of not including all of the required infrastructure for the business-type activities and the major water and sewer funds, as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the major water and sewer funds of the City of Ontario, Richland County, Ohio, as of December 31, 2002, and the respective changes in the financial position and cash flows thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information for the City of Ontario, Richland County, Ohio, as of December 31, 2002, and the respective changes in financial position, and the respective budgetary comparison for the General and 25% Street Construction Special Revenue Funds thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As described in Note 4, during the year ended December 31, 2002, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. As a result of our limited procedures, we believe the Management's Discussion and Analysis does not conform to Governmental Accounting Standards Board guidelines, since as discussed in paragraph three, business-type activities' assets and net assets presented in Table 1 are understated and Capital Assets in Table 3 are understated as well for the Business-Type Activities.



Betty Montgomery
Auditor of State

September 27, 2004

City of Ontario, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

The discussion and analysis for the City of Ontario's (the "City") financial statements provides an overall review of the financial activity of the City for the twelve months ended December 31, 2002. The intent of this discussion and analysis is to provide a narrative that describes the City's performance as a whole. To obtain a more detailed understanding, one should also review the basic financial statements and the notes to the basic financial statements.

Financial Highlights

Financial highlights for 2002 are as follows:

- Total Net Assets increased \$1,143,216. Net Assets of governmental activities increased \$49,760 which represents a .28 percent increase from 2001. Net Assets of business-type activities increased \$1,093,456 or 29.3 percent from 2001.
- Total Assets of governmental activities increased \$114,469 or .60 percent above the 2001 level.
- Total Current Liabilities increased \$109,207. This is an increase of 13 percent from the previous year.
- Total Capital Assets increased \$1,423,708, which represents a 12.6 percent increase.
- Total Outstanding Debt decreased \$650,204 or 18.3 percent during 2002.

Using this Annual Financial Report

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

The Statement of Net Assets and the Statement of Activities provide information from a summary perspective showing the effects of the operations for the year 2002 and how they affected the operations of the City as a whole.

Reporting the City of Ontario as a Whole

Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities provide summary information concerning the financial position and operations of the City as an entity. They provide a good resource for an overall evaluation of the City's financial performance "on one page." These statements include all assets and all liabilities using the accrual basis of accounting. This method takes into account all revenues when they are earned and all expenses when they are incurred. These transactions are booked when they occur and not when the actual cash is received for revenues or when invoices are paid for expenses.

These two statements report the City's net assets and changes in those assets. The change in net assets is important since it is an indication of whether the financial position of the City is improving or declining. However, to properly evaluate the operation of the City, certain non-cash items should be taken into consideration. These items would include the current economic situation as a whole, the current tax base for the City and the age and condition of the City buildings and infrastructure.

City of Ontario, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2002
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In the Statement of Net Assets and the Statement of Activities, the City is divided into two major activities:

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

Reporting on the Most Significant Funds of the City of Ontario

Fund Financial Statements

The analysis of the City's major funds begins on page 7. The fund financial reports give a detailed report of the activities within the funds. The City currently has twenty funds. These funds are in existence to provide a multitude of services to the citizens of Ontario. Each fund is in some ways an entity unto itself. Each fund has a designed revenue stream and restricted uses for the monies within the fund.

In this report, the focus is on five major funds, the General fund, the 25% Street Construction fund, the Capital Improvements fund, the Sewer fund and the Water fund.

Governmental Funds All of the City's major activities (excluding the Water and Sewer funds) are reported in the governmental funds. This report shows how monies flow into and out of these funds and also shows what balances are available for future expenditures. The accounting method used to report this activity is the modified accrual method. This method reports cash and like-cash items that can be converted into cash. This shows what level of financial resources is available or will be available to provide the services that the general government provides in the near future. These services include park operations (leisure time activities), street maintenance and repairs and police protection. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the 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.

Fiduciary Funds The City acts in a trustee capacity as an agent for individuals. This activity is reported in an agency fund. The City's fiduciary activity is reported in a separate Statement of Fiduciary Net Assets on page 24. This activity is excluded from the City's other financial statements because the assets cannot be utilized by the City to finance its operations.

City of Ontario, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2002
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The City of Ontario as a Whole

The Statement of Net Assets provides an overall view of the City. Table one shows a summary of the City's net assets for 2002 as they compare to 2001.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2001	2002	2001	2002	2001	2002
Assets						
Current and Other Assets	\$13,154,040	\$12,158,281	\$1,510,444	\$1,693,798	\$14,664,484	\$13,852,079
Capital Assets, Net	5,783,602	6,893,830	5,557,878	5,871,358	11,341,480	12,765,188
<i>Total Assets</i>	<u>18,937,642</u>	<u>19,052,111</u>	<u>7,068,322</u>	<u>7,565,156</u>	<u>26,005,964</u>	<u>26,617,267</u>
Liabilities						
Current Liabilities	746,414	884,401	89,128	60,348	835,542	944,749
Long-Term Liabilities:						
Due Within One Year	165,692	172,207	3,077,242	2,544,945	3,242,934	2,717,152
Due in More Than One Year	346,120	266,327	173,007	137,462	519,127	403,789
<i>Total Liabilities</i>	<u>1,258,226</u>	<u>1,322,935</u>	<u>3,339,377</u>	<u>2,742,755</u>	<u>4,597,603</u>	<u>4,065,690</u>
Net Assets						
Invested in Capital Assets, Net of Related Debt	5,425,860	6,641,330	2,378,467	3,214,051	7,804,327	9,855,381
Restricted for:						
Capital Projects	6,868,832	6,063,756	0	0	6,868,832	6,063,756
Debt Service	114,608	225,071	0	0	114,608	225,071
Street Construction and Repair	2,901,792	3,018,593	0	0	2,901,792	3,018,593
Court Computerization	79,161	64,732	0	0	79,161	64,732
Police Pension	37,608	27,384	0	0	37,608	27,384
Cemetery	18,877	17,489	0	0	18,877	17,489
Recreation	18,186	14,764	0	0	18,186	14,764
Law Enforcement and Education	24,383	15,534	0	0	24,383	15,534
Unrestricted	2,190,109	1,640,523	1,350,478	1,608,350	3,540,587	3,248,873
<i>Total Net Assets</i>	<u>\$17,679,416</u>	<u>\$17,729,176</u>	<u>\$3,728,945</u>	<u>\$4,822,401</u>	<u>\$21,408,361</u>	<u>\$22,551,577</u>

Total assets increased in 2002 by \$611,303. Total liabilities decreased by \$531,913. The increase in assets is reflected primarily in the capital assets where the increase was \$1,423,708.

The reduction of \$531,913 in total liabilities is due to reductions in long-term liabilities. The increase in current liabilities is \$109,207. The reduction in long-term liabilities is primarily the result of the payments on the debt.

Total net assets increased by \$1,143,216. This number reflects an increase in net assets in both the governmental activities and the business-type activities.

The City also works hard to increase net assets through our investment program. Investment earnings for governmental and business-type activities were \$316,511 in 2002.

City of Ontario, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

Table 2 shows the changes in net assets for the year ended December 31, 2002 for both our governmental activities and our business-type activities. Since this is the first year the City is reporting under the GASB 34 reporting model, revenue and expense comparisons to the year 2001 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets

	Governmental Activities 2002	Business-Type Activities 2002	Total 2002
Revenues			
Program Revenues:			
Charges for Services	\$807,413	\$1,311,999	\$2,119,412
Operating Grants and Contributions	287,462	0	287,462
Total Program Revenues	1,094,875	1,311,999	2,406,874
General Revenues:			
Property Taxes	461,718	0	461,718
Income Taxes	3,455,279	608,071	4,063,350
Grants and Entitlements	276,108	0	276,108
Investments	306,944	9,567	316,511
Miscellaneous	87,284	4,585	91,869
Total General Revenues	4,587,333	622,223	5,209,556
Total Revenues	5,682,208	1,934,222	7,616,430
Program Expenses			
General Government	1,564,286	0	1,564,286
Security of Persons and Property	2,146,964	0	2,146,964
Transportation	1,080,278	0	1,080,278
Public Health Services	8,362	0	8,362
Community Environment	29,983	0	29,983
Leisure Time Activities	158,695	0	158,695
Interest and Fiscal Charges	1,091	0	1,091
Enterprise Operations:			
Sewer	0	754,169	754,169
Water	0	729,386	729,386
Total Program Expenses	4,989,659	1,483,555	6,473,214
Increase in Net Assets			
Before Transfers	692,549	450,667	1,143,216
Transfers	(642,789)	642,789	0
Increase in Net Assets	49,760	1,093,456	1,143,216
Net Assets Beginning of Year	17,679,416	3,728,945	21,408,361
Net Assets End of Year	\$17,729,176	\$4,822,401	\$22,551,577

City of Ontario, Ohio
Management's Discussion and Analysis
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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.

The City's income tax was established by ordinance to be effective January 1, 1998 at a rate of 1 percent. The rate has not been increased. Even though this rate is much lower than the state average for municipalities that have an income tax, there are no plans at this time to increase the rate. The income tax accounted for revenues of \$3,455,279 in 2002. These revenues were split thirty-five percent to the general fund, forty percent for capital improvements and twenty-five percent to the 25% street construction fund.

Security of persons and property represents the largest expense of the governmental activities. This expense of \$2,146,964 represents 43 percent of the total expenses. The police department is a full time, 24 hour a day, 365 days a year department with 19 officers and a full time Chief.

Our Street Maintenance and Repair and Traffic Department employs 7 full time employees who provide the City and its citizens many services that include public road salting, leaf and debris pickup, paint striping, and alley profiling. This area had expenses of \$1,080,278 in 2002, equaling 21.7 percent of the total governmental activities expenses.

Business-Type Activities

The City also operates a Utility Department that consists of two utilities (water and sewer). The revenues and expenses for both of these utilities are reported under the business-type activities on Table 2. The revenues are generated primarily from charges for services. In 2002, charges for services of \$1,311,999 accounted for 67.8 percent of the revenues. The total expenses for the utilities were \$1,483,555, thus leaving an income before capital contributions of \$450,667 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 14. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$5,733,094 and expenditures of \$6,791,098. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the business-type funds starts on page 20. These funds are accounted for on an accrual basis. All business-type funds had operating revenues of \$1,316,584, which fell short of operating expenses of \$1,410,555 by \$93,971 or 7.1 percent of operating revenues. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

Budgeting Highlights

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. Our budget is adopted at object level within each department. Any budgetary modifications at that level may only be made by Council action. The general fund had final appropriations (\$3,685,045) above original appropriations (\$3,621,487) due to increases in benefits, utilities and insurance. The actual revenue was \$614,865 less than the budget, with the majority of the short fall due to the income taxes and interest not meeting their

City of Ontario, Ohio
Management's Discussion and Analysis
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budget. The actual expenditures were \$435,515 less than the budget, with the majority of the difference due to general government and security of persons and property expenditures being less than budgeted.

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.

Strong emphasis is placed on fund balances. The City Auditor reviews fund balances on a daily basis. Special attention is paid to the operating funds, which are the general, sewer and water funds. Council also receives a monthly report showing beginning fund balance for all funds at the beginning of the year, the change in the balance thus far year to date, and the current fund balance.

Line item reports are reviewed regularly by the City Auditor to ensure spending is within the legal level. The managers and superintendents, as well as the Service Safety Director, also monitor their appropriations and fund balances to ensure the entire operation of the City operates within the appropriations.

Capital Assets

Table 3
Capital Assets at December 31

	Governmental Activities		Business-Type Activities		Total	
	2001	2002	2001	2002	2001	2002
Land	\$2,172,787	\$2,172,787	\$262,626	\$262,626	\$2,435,413	\$2,435,413
Buildings	2,012,966	1,930,515	427,016	407,573	2,439,982	2,338,088
Improvements Other than Buildings	591,602	1,358,661	34,492	31,207	626,094	1,389,868
Equipment and Machinery	775,157	730,255	1,425,919	1,296,288	2,201,076	2,026,543
Vehicles	231,090	284,606	0	0	231,090	284,606
Infrastructure	0	417,006	3,407,825	3,873,664	3,407,825	4,290,670
<i>Total Capital Assets</i>	<u>\$5,783,602</u>	<u>\$6,893,830</u>	<u>\$5,557,878</u>	<u>\$5,871,358</u>	<u>\$11,341,480</u>	<u>\$12,765,188</u>

Total Capital Assets for the City for the year ended December 31, 2002 were \$12,765,188, which reflects a \$1,423,708 increase over the 2001 figure of \$11,341,480. Note 9 provides capital asset activity during the 2002 year. The increase in improvements other than buildings was due to around \$800,000 being spent for park improvements. Infrastructure was added in 2002 for governmental activities. In 2002, the City reported its current year infrastructure and has the option to phase-in beginning balances in future years. \$417,006 was added for improvements and additions to roads. Business-type infrastructure increased with the addition of water lines and water tower restorations during the year.

City of Ontario, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2002
Unaudited

Debt

The outstanding debt for the City as of December 31, 2002 was \$2,909,807. This balance reflected a reduction of \$650,204 from the previous year's balance of \$3,560,011, a reduction of 18.3 percent.

Table 4
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2001	2002	2001	2002	2001	2002
Lewis Road Bonds	\$21,600	\$18,000	\$0	\$0	\$21,600	\$18,000
Park Land Acquisition Bond	335,000	234,500	0	0	335,000	234,500
OPWC Water Treatment Loan	0		33,074	31,237	33,074	31,237
Sewer Improvement Bonds	0	0	6,000	0	6,000	0
Sewer Improvement Bonds	0	0	18,000	9,000	18,000	9,000
Sewer Improvement Note	0	0	146,337	117,070	146,337	117,070
Water System Improvement Note	0	0	3,000,000	2,500,000	3,000,000	2,500,000
<i>Total</i>	<u>\$356,600</u>	<u>\$252,500</u>	<u>\$3,203,411</u>	<u>\$2,657,307</u>	<u>\$3,560,011</u>	<u>\$2,909,807</u>

The Lewis Road Bonds were issued in 1997 for the purpose of road improvements. The Park Land Acquisition Bonds were issued in May 2000 by the City to four individuals for the purpose of acquiring real property adjacent to Marshall Park for recreational use.

The OPWC Water Treatment Loan was entered into during July 2000 to finance improvements to the water treatment plant. The water system improvement note was used for constructing and equipping an addition to the City water treatment plant, and constructing an elevated water storage tank, together with all necessary appurtenances.

The Sewer Improvement Note was entered into during June 1988 in order to equalize the investment between the City of Mansfield sewer users and the City of Ontario sewer users for those improvements made by the City of Mansfield to its treatment plant and collection system as such benefits the City of Ontario. The City has set utility rates sufficient to cover debt service obligations. The Sewer Improvements Bonds were issued for sewer system improvements.

The water system improvement note, the OPWC water treatment loan and the sewer improvement note will all be paid from the capital improvement capital projects fund. The two sewer improvement bonds will be paid from the debt service fund.

Additional information on the City's debt can be found in Note 11 of this report.

Current Financial Issues

In 2002, many improvements were made to the City park system. New ball fields, dugouts and lighting were added to Marshall Park. The City's baseball program has really grown, requiring more room to play. The additions to Marshall Park provide a central location for the ball games to be played. In the past, games have been divided between two parks within the City.

The City is continually improving its water and sewer systems. In 2002, there was much work on the water distribution. Water towers were revamped and updated. The City has implemented a replacement

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plan for water lines. Water and sewer rates have been increased in 2003 in order to continue upgrading the lines and system. Also, meter readers have been updated.

Lexington-Springmill Road is being updated. The road is currently being engineered to replace sidewalks for better access for walkers. The road will also be resurfaced. This is a joint effort between the City and Richland County.

On behalf of the City, we would like to thank the staff from the Auditor of State for their help in preparing the GASB 34 statements. They were cooperative, professional, and efficient. This was our first experience reporting under GASB Statement 34 and their guidance was extremely valuable.

Contacting the City's Finance Department

This report is intended to provide our citizens and anyone interested in the financial aspects of the City of Ontario a general overview of our financial operation. If there are questions, please contact City Auditor, Shirley Bowman, City of Ontario, 555 Stumbo Road, Ontario, Ohio 44906, telephone 419-529-3818 or website at www.Ontarioohio.org.

City of Ontario, Ohio

Statement of Net Assets

December 31, 2002

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$10,119,408	\$1,284,209	\$11,403,617
Cash and Cash Equivalents:			
In Segregated Accounts	32,765	0	32,765
With Fiscal Agent	0	20,900	20,900
Materials and Supplies Inventory	131,999	81,967	213,966
Accrued Interest Receivable	16,168	0	16,168
Accounts Receivable	3,500	297,339	300,839
Intergovernmental Receivable	224,207	0	224,207
Prepaid Items	56,116	0	56,116
Income Tax Receivable	987,889	0	987,889
Property Taxes Receivable	475,560	0	475,560
Loans Receivable	89,143	0	89,143
Special Assessment Receivable	21,526	9,383	30,909
Nondepreciable Capital Assets	2,172,787	262,626	2,435,413
Depreciable Capital Assets, Net	4,721,043	5,608,732	10,329,775
<i>Total Assets</i>	<u>19,052,111</u>	<u>7,565,156</u>	<u>26,617,267</u>
Liabilities			
Accounts Payable	68,162	10,184	78,346
Accrued Wages	75,900	10,962	86,862
Contracts Payable	147,367	0	147,367
Intergovernmental Payable	172,765	10,047	182,812
Accrued Interest Payable	78	8,255	8,333
Retainage Payable	0	20,900	20,900
Deferred Revenue	420,129	0	420,129
Long-Term Liabilities:			
Due Within One Year	172,207	2,544,945	2,717,152
Due In More Than One Year	266,327	137,462	403,789
<i>Total Liabilities</i>	<u>1,322,935</u>	<u>2,742,755</u>	<u>4,065,690</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	6,641,330	3,214,051	9,855,381
Restricted for:			
Capital Projects	6,063,756	0	6,063,756
Debt Service	225,071	0	225,071
Street Construction and Repair	3,018,593	0	3,018,593
Court Computerization	64,732	0	64,732
Police Pension	27,384	0	27,384
Cemetery	17,489	0	17,489
Recreation	14,764	0	14,764
Law Enforcement and Education	15,534	0	15,534
Unrestricted	1,640,523	1,608,350	3,248,873
<i>Total Net Assets</i>	<u>\$17,729,176</u>	<u>\$4,822,401</u>	<u>\$22,551,577</u>

See accompanying notes to the basic financial statements

City of Ontario, Ohio
Statement of Activities
For the Year Ended December 31, 2002

	Expenses	Program Revenues	
		Charges for Services and Sales	Operating Grants and Contributions
Governmental Activities:			
General Government	\$1,564,286	\$750,925	\$0
Security of Persons and Property	2,146,964	4,044	24,209
Transportation	1,080,278	17,748	263,253
Public Health Services	8,362	5,299	0
Community Environment	29,983	22,282	0
Leisure Time Activities	158,695	7,115	0
Interest and Fiscal Charges	1,091	0	0
<i>Total Governmental Activities</i>	<u>4,989,659</u>	<u>807,413</u>	<u>287,462</u>
Business-Type Activities:			
Sewer	754,169	845,838	0
Water	729,386	466,161	0
<i>Total Business-Type Activities</i>	<u>1,483,555</u>	<u>1,311,999</u>	<u>0</u>
<i>Total - Primary Government</i>	<u>\$6,473,214</u>	<u>\$2,119,412</u>	<u>\$287,462</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Other Purposes

Income Tax Levied for:

 General Purposes

 Other Purposes

 Capital Outlay

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year - See Note 4

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(\$813,361)	\$0	(\$813,361)
(2,118,711)	0	(2,118,711)
(799,277)	0	(799,277)
(3,063)	0	(3,063)
(7,701)	0	(7,701)
(151,580)	0	(151,580)
(1,091)	0	(1,091)
(3,894,784)	0	(3,894,784)
0	91,669	91,669
0	(263,225)	(263,225)
0	(171,556)	(171,556)
(3,894,784)	(171,556)	(4,066,340)
401,214	0	401,214
60,504	0	60,504
1,490,081	0	1,490,081
989,594	608,071	1,597,665
975,604	0	975,604
276,108	0	276,108
306,944	9,567	316,511
87,284	4,585	91,869
4,587,333	622,223	5,209,556
(642,789)	642,789	0
3,944,544	1,265,012	5,209,556
49,760	1,093,456	1,143,216
17,679,416	3,728,945	21,408,361
<u>\$17,729,176</u>	<u>\$4,822,401</u>	<u>\$22,551,577</u>

City of Ontario, Ohio

Balance Sheet

Governmental Funds

December 31, 2002

	General	25% Street Construction	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,288,670	\$2,274,672	\$5,655,879	\$900,187	\$10,119,408
Cash and Cash Equivalents					
In Segregated Accounts	0	0	0	32,765	32,765
Materials and Supplies Inventory	8,278	122,868	0	853	131,999
Accrued Interest Receivable	16,168	0	0	0	16,168
Accounts Receivable	3,500	0	0	0	3,500
Intergovernmental Receivable	148,291	0	0	75,916	224,207
Prepaid Items	56,116	0	0	0	56,116
Income Taxes Receivable	345,761	246,972	395,156	0	987,889
Property Taxes Receivable	412,183	0	0	63,377	475,560
Loans Receivable	89,143	0	0	0	89,143
Special Assessments Receivable	0	0	0	21,526	21,526
<i>Total Assets</i>	<u>\$2,368,110</u>	<u>\$2,644,512</u>	<u>\$6,051,035</u>	<u>\$1,094,624</u>	<u>\$12,158,281</u>
Liabilities					
Accounts Payable	\$57,046	\$10,002	\$0	\$1,114	\$68,162
Accrued Wages	56,731	17,505	0	1,664	75,900
Contracts Payable	0	0	147,367	0	147,367
Intergovernmental Payable	40,466	254	0	24	40,744
Deferred Revenue	727,198	127,175	203,480	132,620	1,190,473
<i>Total Liabilities</i>	<u>881,441</u>	<u>154,936</u>	<u>350,847</u>	<u>135,422</u>	<u>1,522,646</u>
Fund Balances					
Reserved for Encumbrances	151,544	46,278	212,420	15,447	425,689
Reserved for Loans Receivable	89,143	0	0	0	89,143
Unreserved:					
Undesignated, Reported in:					
General Fund	1,245,982	0	0	0	1,245,982
Special Revenue Funds	0	2,443,298	0	590,434	3,033,732
Debt Service Fund	0	0	0	203,623	203,623
Capital Projects Funds	0	0	5,487,768	149,698	5,637,466
<i>Total Fund Balances</i>	<u>1,486,669</u>	<u>2,489,576</u>	<u>5,700,188</u>	<u>959,202</u>	<u>10,635,635</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,368,110</u>	<u>\$2,644,512</u>	<u>\$6,051,035</u>	<u>\$1,094,624</u>	<u>\$12,158,281</u>

See accompanying notes to the basic financial statements

City of Ontario, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2002*

Total Governmental Fund Balances	\$10,635,635
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*Amounts reported for governmental activities in the
 statement of net assets are different because*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	6,893,830
--	-----------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	9,469
Income Tax	508,700
Grants	230,649
Special Assessments	<u>21,526</u>

Total	770,344
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Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(132,021)
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Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(78)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

General Obligation Bonds	(252,500)
Compensated Absences	<u>(186,034)</u>

Total	<u>(438,534)</u>
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<i>Net Assets of Governmental Activities</i>	<u><u>\$17,729,176</u></u>
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City of Ontario, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2002

	General	25% Street Construction	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues					
Property and Other Local Taxes	\$418,147	\$0	\$0	\$65,819	\$483,966
Income Taxes	1,529,803	1,017,968	1,021,001	0	3,568,772
Special Assessments	0	0	0	118,011	118,011
Intergovernmental	175,381	0	0	294,073	469,454
Interest	165,204	16,269	103,148	22,323	306,944
Fines, Licenses and Permits	293,835	0	0	389,475	683,310
Rentals	2,810	0	0	0	2,810
Charges for Services	0	0	0	12,533	12,533
Contributions and Donations	10	0	0	0	10
Other	56,332	4,427	200	26,325	87,284
<i>Total Revenues</i>	<u>2,641,522</u>	<u>1,038,664</u>	<u>1,124,349</u>	<u>928,559</u>	<u>5,733,094</u>
Expenditures					
Current:					
General Government	1,117,411	0	0	370,361	1,487,772
Security of Persons and Property	1,820,764	0	0	215,354	2,036,118
Transportation	21,085	961,209	0	217,695	1,199,989
Public Health Services	0	0	0	8,392	8,392
Community Environment	29,881	0	0	0	29,881
Leisure Time Activities	90,357	0	0	30,965	121,322
Capital Outlay	0	0	1,734,073	67,203	1,801,276
Debt Service:					
Principal Retirement	0	0	100,500	4,742	105,242
Interest and Fiscal Charges	0	0	0	1,106	1,106
<i>Total Expenditures</i>	<u>3,079,498</u>	<u>961,209</u>	<u>1,834,573</u>	<u>915,818</u>	<u>6,791,098</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(437,976)</u>	<u>77,455</u>	<u>(710,224)</u>	<u>12,741</u>	<u>(1,058,004)</u>
Other Financing Sources (Uses)					
Transfers In	0	0	0	115,100	115,100
Transfers Out	(115,100)	0	0	0	(115,100)
<i>Total Other Financing Sources (Uses)</i>	<u>(115,100)</u>	<u>0</u>	<u>0</u>	<u>115,100</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(553,076)</u>	<u>77,455</u>	<u>(710,224)</u>	<u>127,841</u>	<u>(1,058,004)</u>
<i>Fund Balances Beginning</i>					
<i>of Year - Restated (See Note 4)</i>	<u>2,039,745</u>	<u>2,412,121</u>	<u>6,410,412</u>	<u>831,361</u>	<u>11,693,639</u>
<i>Fund Balances End of Year</i>	<u>\$1,486,669</u>	<u>\$2,489,576</u>	<u>\$5,700,188</u>	<u>\$959,202</u>	<u>\$10,635,635</u>

See accompanying notes to the basic financial statements

City of Ontario, 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, 2002*

Net Change in Fund Balances - Total Governmental Funds (\$1,058,004)

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

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

Capital Asset Additions	1,482,695
Current Year Depreciation	<u>(372,467)</u>

Total 1,110,228

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues
in the funds.

Property Taxes	(22,248)
Income Tax	(113,493)
Grants	94,116
Special Assessments	<u>(9,261)</u>

Total (50,886)

Repayment of the bonds and lease principal is an expenditure in the
governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets.

105,242

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

15

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	(31,964)
Pension Obligation	<u>(24,871)</u>

Total (56,835)

Change in Net Assets of Governmental Activities

\$49,760

City of Ontario, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Local Taxes	\$432,000	\$432,000	\$418,147	(\$13,853)
Income Taxes	1,795,250	1,795,250	1,489,563	(305,687)
Intergovernmental	250,000	250,000	176,135	(73,865)
Interest	294,597	294,597	137,916	(156,681)
Fines, Licenses and Permits	340,000	340,000	293,207	(46,793)
Rentals	3,000	3,000	2,810	(190)
Loan Payment	50,000	50,000	27,336	(22,664)
Contributions and Donations	0	0	10	10
Other	55,000	51,188	56,046	4,858
<i>Total Revenues</i>	3,219,847	3,216,035	2,601,170	(614,865)
Expenditures				
Current:				
General Government	1,334,001	1,350,428	1,197,861	152,567
Security of Persons and Property	2,106,433	2,149,484	1,907,018	242,466
Transportation	24,250	24,250	24,250	0
Community Environment	47,982	51,062	30,034	21,028
Leisure Time Activities	108,821	109,821	90,367	19,454
<i>Total Expenditures</i>	3,621,487	3,685,045	3,249,530	435,515
<i>Excess of Revenues Under Expenditures</i>	(401,640)	(469,010)	(648,360)	(179,350)
Other Financing Uses				
Transfers Out	(131,242)	(150,500)	(115,100)	35,400
<i>Net Change in Fund Balance</i>	(532,882)	(619,510)	(763,460)	(143,950)
<i>Fund Balance Beginning of Year</i>	1,550,942	1,550,942	1,550,942	0
Prior Year Encumbrances Appropriated	279,605	279,605	279,605	0
<i>Fund Balance End of Year</i>	\$1,297,665	\$1,211,037	\$1,067,087	(\$143,950)

See accompanying notes to the basic financial statements

City of Ontario, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
25% Street Construction Special Revenue Fund
For the Year Ended December 31, 2002

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Income Taxes	\$990,000	\$990,000	\$1,003,261	\$13,261
Interest	100,000	100,000	41,459	(58,541)
Other	10,000	10,000	4,427	(5,573)
<i>Total Revenues</i>	1,100,000	1,100,000	1,049,147	(50,853)
Expenditures				
Current:				
Transportation	1,161,598	1,207,832	1,011,087	196,745
<i>Net Change in Fund Balance</i>	(61,598)	(107,832)	38,060	145,892
<i>Fund Balance Beginning of Year</i>	2,148,191	2,148,191	2,148,191	0
Prior Year Encumbrances Appropriated	36,052	36,052	36,052	0
<i>Fund Balance End of Year</i>	<u>\$2,122,645</u>	<u>\$2,076,411</u>	<u>\$2,222,303</u>	<u>\$145,892</u>

See accompanying notes to the basic financial statements

City of Ontario, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2002

	Enterprise Funds		
	Sewer	Water	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$962,976	\$321,233	\$1,284,209
Cash and Cash Equivalents			
With Fiscal Agent	0	20,900	20,900
Receivables:			
Accounts	199,984	97,355	297,339
Special Assessment	9,383	0	9,383
Materials and Supplies Inventory	18,269	63,698	81,967
<i>Total Current Assets</i>	1,190,612	503,186	1,693,798
<i>Non-Current Assets:</i>			
Land	0	262,626	262,626
Depreciable Capital Assets, Net	1,390,893	4,217,839	5,608,732
<i>Total Non-Current Assets</i>	1,390,893	4,480,465	5,871,358
<i>Total Assets</i>	2,581,505	4,983,651	7,565,156
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	1,000	9,184	10,184
Accrued Wages	3,906	7,056	10,962
Intergovernmental Payable	3,668	6,379	10,047
Compensated Absences Payable	1,189	3,652	4,841
Accrued Interest Payable	720	7,535	8,255
Retainage Payable	0	20,900	20,900
Special Assessment Bond Payable	9,000	0	9,000
Notes Payable	29,267	2,500,000	2,529,267
OPWC Loan Payable	0	1,837	1,837
<i>Total Current Liabilities</i>	48,750	2,556,543	2,605,293
<i>Long-Term Liabilities:</i>			
Compensated Absences Payable (net of current portion)	4,472	15,787	20,259
Notes Payable (net of current portion)	87,803	0	87,803
OPWC Loan Payable (net of current portion)	0	29,400	29,400
<i>Total Long-Term Liabilities</i>	92,275	45,187	137,462
<i>Total Liabilities</i>	141,025	2,601,730	2,742,755
Net Assets			
Invested in Capital Assets, Net of Related Debt	1,264,823	1,949,228	3,214,051
Unrestricted	1,175,657	432,693	1,608,350
<i>Total Net Assets</i>	\$2,440,480	\$2,381,921	\$4,822,401

See accompanying notes to the basic financial statements

City of Ontario, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2002*

	Enterprise Funds		
	Sewer	Water	Total
Operating Revenues			
Charges for Services	\$845,838	\$466,161	\$1,311,999
Other	143	4,442	4,585
<i>Total Operating Revenues</i>	<u>845,981</u>	<u>470,603</u>	<u>1,316,584</u>
Operating Expenses			
Personal Services	98,517	164,020	262,537
Fringe Benefits	37,683	43,834	81,517
Contractual Services	441,106	82,453	523,559
Materials and Supplies	70,790	129,380	200,170
Depreciation	94,973	244,815	339,788
Other	10	2,974	2,984
<i>Total Operating Expenses</i>	<u>743,079</u>	<u>667,476</u>	<u>1,410,555</u>
<i>Operating Income (Loss)</i>	<u>102,902</u>	<u>(196,873)</u>	<u>(93,971)</u>
Non-Operating Revenues (Expenses)			
Interest and Fiscal Charges	(11,090)	(61,910)	(73,000)
Income Tax	38,734	569,337	608,071
Interest	3,189	6,378	9,567
<i>Total Non-Operating Revenues (Expenses)</i>	<u>30,833</u>	<u>513,805</u>	<u>544,638</u>
<i>Income before Capital Contributions</i>	133,735	316,932	450,667
Capital Contributions	0	642,789	642,789
<i>Change in Net Assets</i>	133,735	959,721	1,093,456
<i>Net Assets Beginning of Year - Restated (See Note 4)</i>	<u>2,306,745</u>	<u>1,422,200</u>	<u>3,728,945</u>
<i>Net Assets End of Year</i>	<u>\$2,440,480</u>	<u>\$2,381,921</u>	<u>\$4,822,401</u>

See accompanying notes to the basic financial statements

City of Ontario, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2002

	Enterprise Funds		
	Sewer	Water	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$847,990	\$455,181	\$1,303,171
Other Cash Receipts	143	4,442	4,585
Cash Payments to Employees for Services	(97,865)	(163,565)	(261,430)
Cash Payments for Employee Benefits	(36,382)	(65,833)	(102,215)
Cash Payments for Goods and Services	(516,496)	(235,470)	(751,966)
Other Cash Payments	(10)	(2,974)	(2,984)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>197,380</u>	<u>(8,219)</u>	<u>189,161</u>
Cash Flows from Noncapital Financing Activities			
Income Taxes	<u>38,734</u>	<u>569,012</u>	<u>607,746</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Sale of Notes	0	2,500,325	2,500,325
Principal Paid on 1992 Bonds	(6,000)	0	(6,000)
Principal Paid on 1993 Bonds	(9,000)	0	(9,000)
Interest Paid on 1992 Bonds	(345)	0	(345)
Interest Paid on 1993 Bonds	(765)	0	(765)
Principal Paid on OPWC Loan	0	(1,837)	(1,837)
Principal Paid on Note	(29,267)	(3,000,000)	(3,029,267)
Interest Paid on Note	(9,467)	(67,500)	(76,967)
Payments for Capital Acquisitions	0	(10,479)	(10,479)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(54,844)</u>	<u>(579,491)</u>	<u>(634,335)</u>
Cash Flows from Investing Activities			
Interest on Investments	<u>3,189</u>	<u>6,378</u>	<u>9,567</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	184,459	(12,320)	172,139
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>778,517</u>	<u>354,453</u>	<u>1,132,970</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$962,976</u></u>	<u><u>\$342,133</u></u>	<u><u>\$1,305,109</u></u>

City of Ontario, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2002

	Enterprise Funds		
	Sewer	Water	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	\$102,902	(\$196,873)	(\$93,971)
Adjustments:			
Depreciation	94,973	244,815	339,788
(Increase) Decrease in Assets:			
Accounts Receivable	(13,958)	(10,980)	(24,938)
Special Assessments Receivable	16,110	0	16,110
Materials and Supplies Inventory	(532)	(1,855)	(2,387)
Increase (Decrease) in Liabilities:			
Accounts Payable	(4,068)	(4,712)	(8,780)
Retainage Payable	0	(17,070)	(17,070)
Accrued Wages	652	455	1,107
Compensated Absences Payable	1,029	(22,767)	(21,738)
Intergovernmental Payable	272	768	1,040
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$197,380</u>	<u>(\$8,219)</u>	<u>\$189,161</u>

Noncash Capital Financing Activities:

During 2002, capital assets were donated from the capital improvements fund to the water enterprise fund in the amount of \$642,789.

See accompanying notes to the basic financial statements

City of Ontario, Ohio
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
December 31, 2002

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$38,116</u>
Liabilities	
Deposits Held and Due to Others	<u>\$38,116</u>

See accompanying notes to the basic financial statements

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 1 - Description of the City and Reporting Entity

As a result of the 2000 census, Ontario, formerly known as the Village of Ontario, became the City of Ontario. The City of Ontario (the "City") is a statutory municipal corporation, incorporated under the laws of the State of Ohio. The City operates under a Mayor-Council form of government. Council is elected to two year terms. The Mayor, Auditor, Treasurer and Law Director are elected to four year terms.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the City. The primary government provides the following services to its citizens: water and sewer utilities, park operations (leisure time activities), street maintenance and repairs, police protection and a mayor's court.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There are no component units included as part of this report.

Note 2 - Summary of Significant Accounting Policies

The basic 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 principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and Interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

A. Basis of Presentation

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

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

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

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

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

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The City's funds are classified as either governmental, proprietary or fiduciary.

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

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

25% Street Construction Fund This fund receives 25 percent of the City's income tax revenues for constructing, maintaining and repairing City streets.

Capital Improvements Fund This fund receives City income tax revenues for the construction and maintenance of capital items.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

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

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

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

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

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund used for subdivision inspections.

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue

City of Ontario, Ohio
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from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all 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".

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

The City uses a fiscal agent to hold retainage on construction contracts. The balance in this account is presented as "cash and cash equivalents with fiscal agent" and represents deposits or short-term investments in certificates of deposit. See Note 5, Deposits and Investments.

During 2002, investments were limited to certificates of deposits, overnight repurchase agreements and STAROhio. Except for nonparticipating investment contracts, investments are reported at fair market value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as

City of Ontario, Ohio
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For the Year Ended December 31, 2002

an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold at December 31, 2002.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during 2002 amounted to \$165,204 which includes \$116,729 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deductions 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 hundred dollars. The City's infrastructure consists of roads, water lines and sewer lines. The City only reported the amounts acquired during 2002 for the roads. The City has the option to phase in the prior year amounts in future years. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings	20-40 years
Improvements other than Buildings	20 years
Machinery and Equipment	5-15 years
Vehicles	8 years
Infrastructure	15-50 years

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For the Year Ended December 31, 2002

I. Compensated Absences

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Fund Balance Reserves

Reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Fund balance reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances and loans receivable.

L. Net Assets

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

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

N. Contributions of Capital

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

O. Interfund Activity

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

Q. Estimates

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

R. Budgetary Process

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

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

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including

City of Ontario, Ohio
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For the Year Ended December 31, 2002

amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Note 3 - Budgetary Basis of Accounting

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain 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 fund and 25% street construction special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and 25% street construction special revenue fund.

Net Change in Fund Balance		
General and Major Special Revenue Funds		
	General	25% Street Construction
GAAP Basis	(\$553,076)	\$77,455
Net Adjustment for Revenue Accruals	(3,844)	10,483
Unrecorded Cash	(36,508)	0
Net Adjustment for Expenditure Accruals	7,874	2,491
Encumbrances	(177,906)	(52,369)
Budget Basis	(\$763,460)	\$38,060

Note 4 - Change in Accounting Basis and Restatement of Prior Year Fund Equity

For the year ended December 31, 2002, the City has presented financial statements in accordance with generally accepted accounting principles. In conjunction with this presentation, the City has changed its basis of accounting from a cash basis to the accrual basis of accounting for its governmental and business-type activities and its proprietary funds and to the modified accrual basis for its governmental funds in accordance with GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments". This change required that certain adjustments be

City of Ontario, Ohio
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recorded to the December 31, 2001, fund balances as previously reported to reflect the adoption of these new accounting basis.

The implementation of these changes had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvements</u>	<u>Nonmajor</u>	<u>Total</u>
Cash Balances, December 31, 2001	\$1,830,547	\$2,184,243	\$6,253,659	\$821,788	\$11,090,237
Modified Accrual Adjustments	209,198	227,878	156,753	9,573	603,402
Adjusted Fund Balance December 31, 2001	<u>\$2,039,745</u>	<u>\$2,412,121</u>	<u>\$6,410,412</u>	<u>\$831,361</u>	\$11,693,639
GASB 34 Adjustments:					
Capital Assets					5,783,602
Intergovernmental Payable					(107,150)
Accrued Interest Payable					(93)
Long-Term Liabilities:					
Compensated Absences					(154,070)
Bonds Payable					(356,600)
Capital Leases Payable					(1,142)
Long-Term (Deferred) Assets					821,230
Governmental Activities Net Assets, December 31, 2001					<u>\$17,679,416</u>

The following is the transition for the enterprise funds.

	<u>Sewer</u>	<u>Water</u>	<u>Business-type Activities</u>
Cash Balances, December 31, 2001	\$768,062	\$304,778	\$1,072,840
Accrual Adjustments	1,538,683	1,117,422	2,656,105
Net Assets December 31, 2001	<u>\$2,306,745</u>	<u>\$1,422,200</u>	<u>\$3,728,945</u>

Note 5 - Deposits and Investments

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

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

Inactive deposits are public deposits that Council has identified as not required for use within the current five 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.

City of Ontario, Ohio
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For the Year Ended December 31, 2002

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

Inactive monies may 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 and 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;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds 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 other obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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 a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories or risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Cash on Hand At year end, the City had \$200 in undeposited cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents."

Cash with Fiscal Agent The City has a retainage account for the various construction projects throughout the City. The amount at December 31, 2002 was \$20,900.

City of Ontario, Ohio
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Deposits At year-end, the carrying amount of the City's deposits was \$6,645,075 and the bank balance was 6,668,457. Of the bank balance:

1. \$531,885 was covered by federal depository insurance.
2. \$6,136,572 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments The City's investments are required to be categorized to give an indication of the level or risk assumed by the City at year end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying/ Fair Value
Repurchase Agreements	\$3,605,000	\$3,605,000
STAROhio		1,245,123
Total Investments	\$3,605,000	\$4,850,123

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." Cash and cash equivalents are defined to include investments with original maturities of three months or less and cash and investments of the cash management pool.

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$11,495,398	\$0
Investments of the Cash Management Pool:		
STAROhio	(1,245,123)	1,245,123
Repurchase Agreements	(3,605,000)	3,605,000
Cash on Hand	(200)	0
GASB Statement No. 3	\$6,645,075	\$4,850,123

City of Ontario, Ohio
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Note 6 - Receivables

Receivables at December 31, 2002, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, accrued interest on investments and accounts (billings for utility service). Loans receivable expected to be collected in more than one year for the City amount to \$64,932. Special assessments receivable expected to be collected in more than one year for the City amount to \$14,400.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of the 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 real property taxes are levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2002 real property taxes are collected in and intended to finance 2003.

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. 2002 public utility property taxes which became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2002, was \$2.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real Property	\$157,115,860
Tangible Personal Property	69,494,570
Public Utility Property	5,529,440
Total	<u>\$232,139,870</u>

Real property taxes are payable annually or semi-annually. If paid annually, the 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 in the county, including the City of Ontario. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2002 and for which there is an enforceable legal claim. In the general fund and police pension special revenue fund, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2002 operations and

City of Ontario, Ohio
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the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full 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 a municipal income tax of 1 percent on substantially all earned income arising from employment, residency or business activities within the City. The City allows a credit of 100 percent for the income tax paid to another municipality, not to exceed one percent of taxable income, to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvements, 25% street construction fund and the water fund.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Local Government	\$84,367
Estate Tax	45,962
Gasoline Tax	33,345
Motor Vehicle Tax	24,909
Homestead and Rollback	19,696
Permissive Sales Tax	15,014
Other	914
<i>Total Governmental Activities</i>	<u><u>\$224,207</u></u>

Note 7 - Litigation

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

City of Ontario, Ohio
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For the Year Ended December 31, 2002

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; injuries to employees; and natural disasters. During 2002, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

Type of Coverage	Deductible	Coverage
General Liability	\$0	\$5,000,000/\$7,000,000
Employers Liability	0	5,000,000
Employee Benefits	0	1,000,000/3,000,000
Law Enforcement Officers Liability	2,500	5,000,000/7,000,000
Public Officials Liability	2,500	5,000,000/7,000,000
Automobile	0	1,000,000
Property	1,000	14,061,417
Special Property Coverage	1,000	875,104
Electronic Equipment/Media Coverage	500	62,390
Public Employee Dishonesty	0	25,000
Boiler and Machinery	1,000	14,061,417

There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

The City participates in the Ohio Association of Rural Water and Wastewater Systems Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost controls, and actuarial services to the GRP.

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2002, was as follows:

	Balance 12/31/2001	Additions	Deductions	Balance 12/31/2002
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$2,172,787	\$0	\$0	\$2,172,787
Capital Assets being depreciated:				
Buildings	3,111,400	0	0	3,111,400
Improvements Other Than Buildings	1,214,044	836,411	0	2,050,455
Equipment and Machinery	1,592,103	71,900	0	1,664,003
Vehicles	960,887	154,485	0	1,115,372
Infrastructure	0	419,899	0	419,899
Total Capital Assets being depreciated	6,878,434	1,482,695	0	8,361,129
Less Accumulated Depreciation:				
Buildings	(1,098,434)	(82,451)	0	(1,180,885)
Improvements Other Than Buildings	(622,442)	(69,352)	0	(691,794)
Equipment and Machinery	(816,946)	(116,802)	0	(933,748)
Vehicles	(729,797)	(100,969)	0	(830,766)
Infrastructure	0	(2,893)	0	(2,893)
Total Accumulated Depreciation	(3,267,619)	(372,467) *	0	(3,640,086)
Total Capital Assets being Depreciated, net	3,610,815	1,110,228	0	4,721,043
Governmental Activities Capital Assets, Net	\$5,783,602	\$1,110,228	\$0	\$6,893,830
Business-Type Activities				
Capital Assets not being depreciated:				
Land	\$262,626	\$0	\$0	\$262,626
Capital Assets being depreciated:				
Buildings	762,501	0	0	762,501
Improvements Other Than Buildings	54,622	0	0	54,622
Equipment and Machinery	2,267,655	10,479	0	2,278,134
Infrastructure:				
Sewer Lines	1,892,237	0	0	1,892,237
Water Lines	3,073,974	642,789	0	3,716,763
Total Capital Assets being depreciated	8,050,989	653,268	0	8,704,257
Less Accumulated Depreciation:				
Buildings	(335,485)	(19,443)	0	(354,928)
Improvements Other Than Buildings	(20,130)	(3,285)	0	(23,415)
Equipment and Machinery	(841,736)	(140,110)	0	(981,846)
Infrastructure:				
Sewer Lines	(610,550)	(37,845)	0	(648,395)
Water Lines	(947,836)	(139,105)	0	(1,086,941)
Total Accumulated Depreciation	(2,755,737)	(339,788)	0	(3,095,525)
Total Capital Assets being Depreciated, net	5,295,252	313,480	0	5,608,732
Business-Type Activities Capital Assets, Net	\$5,557,878	\$313,480	\$0	\$5,871,358

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

* Depreciation expense was charged to governmental activities as follows:

General Government	\$55,790
Security of Persons and Property	83,205
Leisure Time Activities	74,573
Transportation	158,899
Total Depreciation Expense	\$372,467

Note 10 – Other Employee Benefits

A. Compensated Absences

Vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten or more days of vacation per year, depending upon length of service. Vacation accumulation is limited to the amount earned in one year. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid 60 percent of accumulated, unused sick leave.

B. Insurance

The City provides health, prescription, dental, vision, life and accidental death and dismemberment insurance to its employees through Medical Mutual Insurance.

Note 11 - Long-Term Debt

Debt Issue	Interest Rate	Original Issue Amount	Date of Maturity
Governmental Activities			
Lewis Road Bonds - 1997	5.000%	\$36,000	December 1, 2007
Park Land Acquisition Bonds - 2000	0.000%	536,000	December 1, 2004
Business-Type Activities			
OPWC Water Treatment Loan - 2000	0.000%	36,749	January 1, 2020
Water System Improvement Note - 2002	1.550%	2,500,000	October 1, 2003
Sewer Improvement Bonds - 1992	5.750%	58,000	December 1, 2002
Sewer Improvement Bonds - 1993	4.250%	83,000	December 1, 2003
Sewer Improvement Note - 1988	6.810%	556,080	December 1, 2006

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

The changes in the City's long-term obligations during the year consist of the following:

	Amount Outstanding 1/1/2002	Additions	Deletions	Amount Outstanding 12/31/2002	Amounts Due in One Year
Governmental Activities					
Lewis Road Bonds 1997	\$21,600	\$0	\$3,600	\$18,000	\$3,600
Park Land Acquisition Bonds 2000	335,000	0	100,500	234,500	134,000
Capital Lease	1,142	0	1,142	0	0
Compensated Absences	154,070	186,034	154,070	186,034	34,607
Total Governmental Activities	<u>\$511,812</u>	<u>\$186,034</u>	<u>\$259,312</u>	<u>\$438,534</u>	<u>\$172,207</u>
Business-Type Activities					
OPWC Water Treatment Loan 2000	\$33,074	\$0	\$1,837	\$31,237	\$1,837
Water System Improvement Note	3,000,000	2,500,000	3,000,000	2,500,000	2,500,000
Sewer Improvement Bonds 1992	6,000	0	6,000	0	0
Sewer Improvement Bonds 1993	18,000	0	9,000	9,000	9,000
Sewer Improvement Note	146,337	0	29,267	117,070	29,267
Compensated Absences	46,838	4,905	26,643	25,100	4,841
Total Business-Type Activities	<u>\$3,250,249</u>	<u>\$2,504,905</u>	<u>\$3,072,747</u>	<u>\$2,682,407</u>	<u>\$2,544,945</u>

The 1997 Lewis Road Bonds will be paid from the debt service fund, and the Park Land Acquisition Bond will be paid from the capital improvements capital projects fund.

The OPWC Water Treatment Loan and the Sewer Improvement Note will all be paid from the capital improvements capital projects fund. The two Sewer Improvement Bonds will be paid from the debt service fund.

The Lewis Road Bonds were issued in 1997 for the purpose of road improvements. The Park Land Acquisition Bonds were issued in May 2000 by the City to four individuals for the purpose of acquiring real property adjacent to Marshall Park for recreational use.

The OPWC Water Treatment Loan was entered into during July 2000 to finance improvements to the water treatment plant.

The water system improvement note was used for constructing and equipping an addition to the City water treatment plant, and constructing an elevated water storage tank, together with all necessary appurtenances. The bond anticipation note is backed by the full faith and credit of the City and matures within one year.

The Sewer Improvement Note was issued during June 1988. The note was intended to equalize the investment between the City of Mansfield sewer users and the City of Ontario sewer users for the improvements made by the City of Mansfield to its treatment plant and collection system. The Sewer Improvements Bonds were issued for sewer system improvements.

Compensated absences will be paid from the general fund, the street construction and maintenance and community drug and alcohol special revenue funds, and the water and sewer enterprise funds.

As of December 31, 2002, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$24,122,186 and the unvoted legal debt margin was \$12,515,193. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2002 are as follows:

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Year Ending December 31	Lewis Road Bonds		Park Land Acquisition Bonds
	Principal	Interest	Principal
2003	\$3,600	\$900	\$134,000
2004	3,600	720	100,500
2005	3,600	540	0
2006	3,600	360	0
2007	3,600	180	0
Total	\$18,000	\$2,700	\$234,500

Year Ending December 31	OPWC Water Treatment Loan	Sewer Improvement Bonds - 1993		Sewer Improvement Note	
	Principal	Principal	Interest	Principal	Interest
2003	\$1,837	\$9,000	\$382	\$29,267	\$7,474
2004	1,837	0	0	29,267	5,481
2005	1,837	0	0	29,268	3,488
2006	1,837	0	0	29,268	1,495
2007	1,837	0	0	0	0
2008-2012	9,186	0	0	0	0
2013-2017	9,190	0	0	0	0
2018-2019	3,676	0	0	0	0
Total	\$31,237	\$9,000	\$382	\$117,070	\$17,938

Note 12 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll, reduced from 9.25 percent in 2001. Contributions are authorized by State statute. The City's required contributions to OPERS for pension obligation for the years ended December 31, 2002, 2001, and 2000 were \$102,513, \$106,401 and \$72,730, respectively. The full amount has been contributed for 2001 and 2000. 68.94 percent has been contributed for 2002 with the balance outstanding reflected as an intergovernmental payable.

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Police are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent. For 2001, the City contributions were 12 percent. Contributions are authorized by State statute. The City's contributions to the OP&F for pension obligation was \$86,814 for the year ended December 31, 2002, \$91,129 for the year ended December 31, 2001 and \$86,866, for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 64.91 percent has been contributed for 2002 with the balance outstanding reflected as an intergovernmental payable.

Note 13 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System of Ohio (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care for 2002.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants was 402,041. The City's actual contributions for 2002 which were used to fund postemployment benefits were \$59,949. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program. For 2001 the percent used to fund healthcare was 7.50 percent. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$57,260 for police. OP&F's total health care expenses for the year ended December 31, 2002, were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police.

Note 14 – Interfund Transfers

Interfund transfers for the year ended December 31, 2002, consisted of the following:

Transfer to	Transfer From	
	General	Governmental Activities
Nonmajor funds	\$115,100	\$0
Business-Type Activities	0	642,789
	\$115,100	\$642,789

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 and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. During 2002, the capital improvements capital projects fund bought capital assets for the water enterprise fund in the amount of \$642,789 and is reflected on the Statement of Activities as a transfer out of the governmental activities and a transfer into the business-type activities.

City of Ontario, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2002

Note 15 – Subsequent Events

On September 12, 2003, the City awarded a contract in the amount of \$727,051 for Phase II of the Marshall Park Improvements Project. The anticipated completion date of this phase is the fall of 2004.

On October 22, 2003, the City issued a bond anticipation note (BAN) in the amount of \$2,000,000 to pay off the existing BAN of \$2,500,000. The purpose of the BAN is for the water system improvements for constructing and equipping an addition to the City water treatment plant.

On January 30, 2004, the City awarded a contract in the amount of \$327,100 for the repair, cleaning and painting of a City water tower.

On August 5, 2004, the City changed the allocation of income tax revenue to allocate a higher percentage to the General Fund.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Ontario
Richland County
555 Stumbo Road
Ontario, Ohio 44906

To the City Council:

We have audited the financial statements of the City of Ontario, Richland County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated September 27, 2004, which was qualified since the City failed to include all required infrastructure for the business-type activities and major water and sewer funds and we also noted the City implemented a new financial reporting model. Except for this matter, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated September 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-001 and 2002-002.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider reportable condition 2002-001 listed above to be a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 27, 2004.

This report is intended for the information and use of management and City Council, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

September 27, 2004

**CITY OF ONTARIO
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002**

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

FINDING NUMBER 2002-001

Material Weakness

Capital Assets

The following conditions were noted during our testing of the City's capital assets:

- The City does not have a formal capital asset policy that has been approved by Council. This could allow for assets to be inadvertently omitted from the capital asset accounting system or allow for inconsistent treatment of assets. For example, the City did not include three police cars that were purchased during 2002, which understated the capital assets.
- The City did not prepare a detailed listing of additions and deletions to capital assets for the year. The City did have an independent appraisal done on May 29, 2003 that listed the date of acquisition of the assets. This could allow for inaccurate amounts recorded as current year additions and deletions.
- The City did not assign tag numbers to assets, which could lead to problems in identifying the existence of capital assets and the ability to track assets if they are moved from one location to another.
- The accumulated depreciation was not calculated correctly for numerous assets tested. The accumulated depreciation was calculated as of May 29, 2003 (date of appraisal) rather than December 31, 2002. As a result, the capital assets, net of depreciation, are understated.
- The City did not include all capital asset infrastructure that was required to be reported in accordance with GASB Statement No. 34. The business-type activities infrastructure, including water and sewer lines, was incomplete. Also, the City did not originally include the current year governmental activities infrastructure (i.e. roads), which the accompanying financial statements have been adjusted to include the current year road additions. In addition, the City did not categorize assets consistently. Some of the water towers were classified as machinery and equipment, and some were classified as buildings. It was found that there was a lack of supporting documentation for the amounts shown for infrastructure. The amounts were determined by obtaining the approved bid amounts from the ordinances in the minutes, rather than determining the actual cost of the asset, or if necessary, the historical estimated cost for the asset.

To help improve accountability over their capital asset accounting system:

- The City should approve a formal written capital asset policy. The policy should address items such as (this list is not all inclusive):
 - Listing the definition of various asset categories and identifying what assets will be included in those categories. For example, water towers should be consistently classified as infrastructure.
 - Documenting the capital asset threshold for which assets will or will not be capitalized. The City currently uses \$500 as the threshold.
 - How they are going to handle groups of assets that have a cost that exceeds the threshold in aggregate, but individually the cost is below the threshold.
 - How depreciation will be calculated (i.e. straight-line method).
 - The process for adding and deleting assets, such as what type of forms to use, who to submit the forms to, etc.
 - How infrastructure cost is calculated.

FINDING NUMBER 2002-001 (Continued)

Material Weakness (Continued)

- The City should maintain a detailed listing of additions and deletions to capital assets each year. They should develop a system to ensure all additions and deletions are accounted for.
- The City should tag all capital assets to enable proper identification. This will help ensure the tracking of the assets and would be beneficial in determining the accuracy of the capital asset listing.
- The City should ensure that the correct accumulated depreciation is being calculated as of the end of the year. Since the appraisal was done at May 29, 2003, and the accumulated depreciation was calculated as of that date, the City needs to ensure that the accumulated depreciation as of the end of 2003 does not include the accumulated depreciation between January 1, 2003 and May 29, 2003 twice.
- The City should ensure that all infrastructure that is required to be reported in accordance with GASB 34 is reported. For the governmental activities, the City has the option to phase-in the infrastructure for any roads and bridges owned by the City in future years. The values of the roads and bridges need to be determined by the City, and should have adequate supporting documentation for how those amounts were determined. Also, the City needs to include current year additions to governmental activities even before the phase-in of the remaining infrastructure. The City has until December 31, 2007 to phase-in the governmental activities infrastructure, if they choose to do so. For the business-type activities, the City should determine the value of all of the water and sewer lines in the City limits. The City needs to have adequate supporting documentation for the values of the infrastructure and the list of, and values for, the infrastructure should be reviewed for completeness and accuracy.

FINDING NUMBER 2002-002

Reportable Condition

Bank Reconciliations

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records. This process involves reconciling the bank balance to the cash and investment balance. For all of 2002, the City did not resolve various differences between the adjusted bank balance and the balance reflected within the City's accounting records for the general checking account. For the payroll account, the City did not resolve various differences between the adjusted bank balance and the balance reflected within the City's payroll records for the period of September to December 2002. The differences for the general checking account were resolved during the audit and appropriate adjustments were posted to the accompanying financial statements. For the payroll account, there was a variance of \$590.88 as of December 31, 2002 that was not resolved.

Without complete and accurate monthly bank reconciliations, the City's internal control is weakened, which could hinder the detection of errors or irregularities by the City's management in a timely manner.

FINDING NUMBER 2002-002 (Continued)

Reportable Condition

Bank Reconciliations (Continued)

The City should perform, and complete, monthly bank reconciliations in a timely manner. Any variances should be investigated to determine the cause of the variance and should be corrected before the subsequent month's reconciliation is completed. The reconciliations (general checking account, payroll, and Mayor's Court) should be reviewed by someone other than the preparer. The reviewer should sign or initial the reconciliation to indicate that they have completed the review. In addition, Council should review and approve the reconciliations as part of their financial package that is approved each month. Unreconciled differences have continued from the end of the audit period to the date of this report by as much as \$33,278 in the general account and \$950 in the payroll account.

In addition, the General Fund book balance has decreased from approximately \$1,300,000 as of the end of the audit period to approximately \$64,000 as of July 31, 2004. Since the General Fund is the general operating fund for the City, Council should closely monitor spending in this fund and/or consider adjusting the income tax allocation to avoid any deficit balances in this fund and possibly being placed in fiscal emergency.

**CITY OF ONTARIO
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20570-001	Use of Credit Cards	Yes	Finding No Longer Valid.
2001-20570-002	Payroll – payroll checks were given out one to eight days prior to the check date for the Mayor.	Yes	Finding No Longer Valid.



**Auditor of State
Betty Montgomery**

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CITY OF ONTARIO

RICHLAND 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
OCTOBER 14, 2004**