

**CITY OF ONTARIO  
RICHLAND COUNTY, OHIO**

***BASIC  
FINANCIAL STATEMENTS  
(Audited)***

For The Year Ended  
December 31, 2003

**MS. SHIRLEY BOWMAN, AUDITOR**





**Auditor of State  
Betty Montgomery**

Members of Council and Mayor  
City of Ontario  
555 Stumbo Road  
Ontario, Ohio 44906

We have reviewed the *Independent Auditor's Report* of the City of Ontario, Richland County, prepared by Julian & Grube, Inc., for the audit period January 1, 2003 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

**Finding For Recovery**

City of Ontario Ordinance 02-64 established the compensation of the Mayor of the City for 2003 at \$56,650. David D. Kreisher served as Mayor from January 1, 2003 through June 1, 2003, a total of 152 days. The Mayor's annual compensation amount translates to a per diem amount of \$155.21. The Mayor's compensation as Mayor from January 1, 2003 through June 1, 2003 should have been \$23,591.92. The actual compensation was \$25,040.95, an overpayment of \$1,449.03.

In accordance with the foregoing facts, and pursuant to City of Ontario Ordinance 02-6, a Finding for Recovery for public monies that have been paid in excess of the amount allowed is hereby issued against David D. Kreisher, in the amount of \$1,449.03, in favor of the general fund of the City of Ontario, Richland County.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Ontario is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY  
Auditor of State

October 27, 2005

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**CITY OF ONTARIO, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

TABLE OF CONTENTS

Independent Auditor’s Report .....	1 - 2
Management’s Discussion and Analysis .....	3 - 16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	17
Statement of Activities.....	18 -19
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	20
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	23
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund.....	24
25% Street Construction .....	25
Statement of Net Assets - Proprietary Funds .....	26
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds .....	27
Statement of Cash Flows - Proprietary Funds.....	28-29
Statement of Fiduciary Net Assets – Fiduciary Fund .....	30
Notes to the Basic Financial Statements .....	31-56
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	57 - 58

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# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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## Independent Auditor's Report

Members of Council and Mayor  
City of Ontario  
555 Stumbo Road  
Ontario, Ohio 44906

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, 2003, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and 25% street construction funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3 to the financial statements, the City restated capital assets for errors and omissions and the retroactive reporting of infrastructure capital assets. In addition, the City’s long-term obligations were restated to properly report the Park Land Acquisition Bonds.

Members of Council and Mayor  
City of Ontario  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.  
September 16, 2005



## CITY OF ONTARIO, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2003 UNAUDITED

The discussion and analysis of the City of Ontario's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### Financial Highlights

Key financial highlights for 2003 are as follows:

- The total net assets of the City increased \$782,985. Net assets of governmental activities decreased \$102,996 or .43% over 2002 and net assets of business-type activities increased \$885,981 or 9.36% over 2002.
- General revenues accounted for \$4,540,607 of total governmental activities revenue. Program specific revenues accounted for \$978,697 or 17.73% of total governmental activities revenue.
- The City had \$5,309,203 in expenses related to governmental activities; \$978,697 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$4,330,506 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,540,607.
- The general fund had revenues of \$2,742,642 in 2003. This represents an increase of \$101,120 from 2002 revenues. The expenditures and other financing uses of the general fund, which totaled \$3,343,530 in 2003, increased \$148,932 from 2002. The net decrease in fund balance for the general fund was \$600,888 or 40.42%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2003 by \$885,981. This increase in net assets was due primarily to transfers in coupled with adequate charges for services revenue to cover operating expenses.

#### Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

#### Reporting the City as a Whole

##### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The statement of net assets and the statement of activities answer this question. These statements include all *assets, liabilities, revenues and expenses* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**CITY OF ONTARIO, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**UNAUDITED**

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

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

**Governmental activities** - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

**Business-type activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, and solid waste operations are reported here.

The City's statement of net assets and statement of activities can be found on pages 17-19 of this report.

**Reporting the City's Most Significant Funds**

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

***Governmental Funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and non-major funds. The City's major governmental funds are the general fund, 25% Street Construction fund and Capital Improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20 - 25 of this report.

***Proprietary Funds***

The City maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 26 - 29 of this report.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 30 of this report.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31 - 56 of this report.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2003 and 2002:

	Governmental Activities 2003	Governmental Activities 2002	Business-Type Activities 2003	Business-Type Activities 2002	Total 2003	Total 2002
<b><u>Assets</u></b>						
Current and other assets	\$ 11,568,545	\$ 12,158,281	\$ 2,149,736	\$ 1,693,798	\$ 13,718,281	\$ 13,852,079
Capital assets	<u>13,193,196</u>	<u>12,959,444</u>	<u>10,455,291</u>	<u>10,509,134</u>	<u>23,648,487</u>	<u>23,468,578</u>
Total assets	<u>24,761,741</u>	<u>25,117,725</u>	<u>12,605,027</u>	<u>12,202,932</u>	<u>37,366,768</u>	<u>37,320,657</u>
<b><u>Liabilities</u></b>						
Long-term liabilities						
outstanding	443,536	438,534	2,151,485	2,682,407	2,595,021	3,120,941
Other liabilities	<u>726,911</u>	<u>984,901</u>	<u>107,384</u>	<u>60,348</u>	<u>834,295</u>	<u>1,045,249</u>
Total liabilities	<u>1,170,447</u>	<u>1,423,435</u>	<u>2,258,869</u>	<u>2,742,755</u>	<u>3,429,316</u>	<u>4,166,190</u>
<b><u>Net Assets</u></b>						
Invested in capital						
assets, net of related debt	12,977,796	12,606,444	8,338,088	7,851,827	21,315,884	20,458,271
Restricted	9,727,160	9,447,323	-	-	9,727,160	9,447,323
Unrestricted	<u>886,338</u>	<u>1,640,523</u>	<u>2,008,070</u>	<u>1,608,350</u>	<u>2,894,408</u>	<u>3,248,873</u>
Total net assets	<u>\$ 23,591,294</u>	<u>\$ 23,694,290</u>	<u>\$ 10,346,158</u>	<u>\$ 9,460,177</u>	<u>\$ 33,937,452</u>	<u>\$ 33,154,467</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2003, the City's assets exceeded liabilities by \$33,937,452. At year-end, net assets were \$23,591,294 and \$10,346,158 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 63.15% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2003, were \$12,977,796 and \$8,338,088 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2003, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$9,727,160, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$886,338 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2003 and 2002.

	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>	<u>Business-Type Activities 2003</u>	<u>Business-Type Activities 2002</u>	<u>Total 2003</u>	<u>Total 2002</u>
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 646,230	\$ 807,413	\$ 1,686,081	\$ 1,311,999	\$ 2,332,311	\$ 2,119,412
Operating grants and contributions	<u>332,467</u>	<u>287,462</u>	-	-	<u>332,467</u>	<u>287,462</u>
Total program revenues	<u>978,697</u>	<u>1,094,875</u>	<u>1,686,081</u>	<u>1,311,999</u>	<u>2,664,778</u>	<u>2,406,874</u>
General revenues:						
Property taxes	687,908	461,718	-	-	687,908	461,718
Income taxes	3,502,618	3,455,279	540,451	608,071	4,043,069	4,063,350
Unrestricted grants	124,815	276,108	-	-	124,815	276,108
Interest	175,086	306,944	43,531	9,567	218,617	316,511
Miscellaneous	<u>50,180</u>	<u>87,284</u>	<u>3,628</u>	<u>4,585</u>	<u>53,808</u>	<u>91,869</u>
Total general revenues	<u>4,540,607</u>	<u>4,587,333</u>	<u>587,610</u>	<u>622,223</u>	<u>5,128,217</u>	<u>5,209,556</u>
Total revenues	<u>5,519,304</u>	<u>5,682,208</u>	<u>2,273,691</u>	<u>1,934,222</u>	<u>7,792,995</u>	<u>7,616,430</u>
Expenses:						
General government	1,380,634	1,564,286	-	-	1,380,634	1,564,286
Security of persons and property	1,928,272	2,146,964	-	-	1,928,272	2,146,964
Public health and welfare	7,235	8,362	-	-	7,235	8,362
Transportation	1,701,131	1,080,278	-	-	1,701,131	1,080,278
Community environment	54,222	29,983	-	-	54,222	29,983
Leisure time activity	218,541	158,695	-	-	218,541	158,695
Utility services	18,094	-	-	-	18,094	-
Interest and fiscal charges	1,074	1,091	-	-	1,074	1,091
Water	-	-	769,601	729,386	769,601	729,386
Sewer	<u>-</u>	<u>-</u>	<u>931,206</u>	<u>754,169</u>	<u>931,206</u>	<u>754,169</u>
Total expenses	<u>5,309,203</u>	<u>4,989,659</u>	<u>1,700,807</u>	<u>1,483,555</u>	<u>7,010,010</u>	<u>6,473,214</u>
Capital Contributions	<u>(313,097)</u>	<u>(642,789)</u>	<u>313,097</u>	<u>642,789</u>	-	-
Change in net assets	<u>\$ (102,996)</u>	<u>\$ 49,760</u>	<u>\$ 885,981</u>	<u>\$ 1,093,456</u>	<u>\$ 782,985</u>	<u>\$ 1,143,216</u>

**Governmental Activities**

Governmental activities net assets decreased \$(102,996) in 2003. This decrease is a result of capital contributions out to the business-type activities.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$1,928,272 of the total expenses of the City. These expenses were partially funded by \$311,751 in direct charges to users of the services. Transportation expenses totaled \$1,701,131. Transportation expenses were partially funded by \$94,769 in direct charges to users of the services and \$332,467 in operating grants and contributions.

**CITY OF ONTARIO, OHIO**

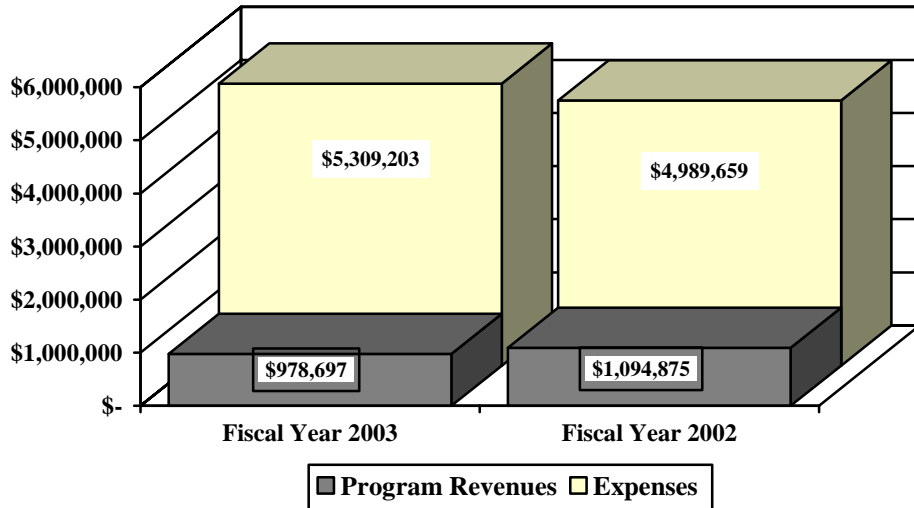
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

The state and federal government contributed to the City \$332,467 in operating grants and contributions. These revenues are restricted to a particular program or purpose. All of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$4,540,607, and amounted to 82.27% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,190,526. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$124,815. In August 2002, the State placed a freeze on local government and local government revenue assistance to be distributed to local governments in 2003.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon property and income taxes as well as unrestricted grants and entitlements to support its governmental activities.

**Governmental Activities – Program Revenues vs. Total Expenses**



**CITY OF ONTARIO, OHIO**

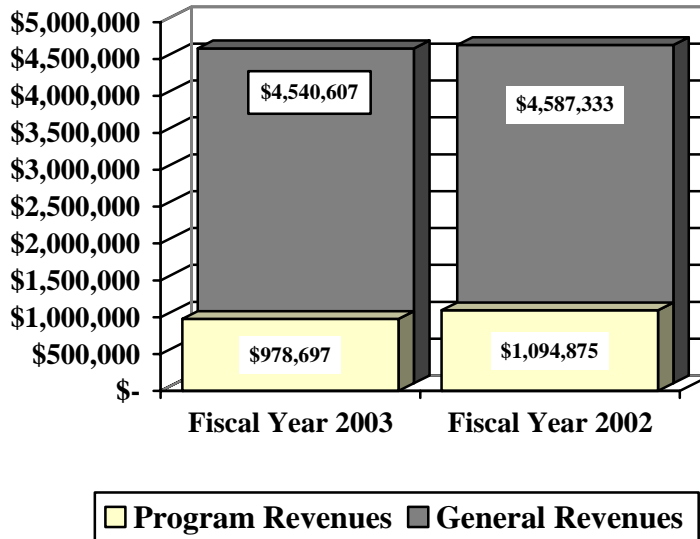
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

**Governmental Activities**

	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>	Total Cost of Services <u>2002</u>	Net Cost of Services <u>2002</u>
Program Expenses:				
General government	\$ 1,380,634	\$ 1,154,548	\$ 1,564,286	\$ 813,361
Security of persons and property	1,928,272	1,616,521	2,146,964	2,118,711
Public health and welfare	7,235	4,085	8,362	3,063
Transportation	1,701,131	1,273,895	1,080,278	799,277
Community environment	54,222	54,222	29,983	7,701
Leisure time activity	218,541	214,020	158,695	151,580
Utility services	18,094	18,094	-	-
Interest and fiscal charges	<u>1,074</u>	<u>(4,879)</u>	<u>1,091</u>	<u>1,091</u>
Total Expenses	<u>\$ 5,309,203</u>	<u>\$ 4,330,506</u>	<u>\$ 4,989,659</u>	<u>\$ 3,894,784</u>

The dependence upon general revenues for governmental activities is apparent, with 85.52% of expenses supported through taxes and other general revenues.

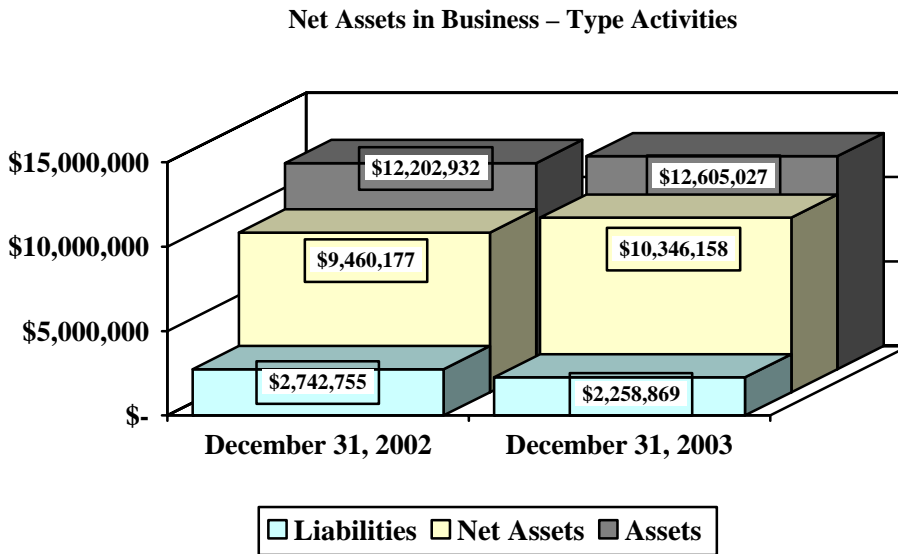
**Governmental Activities – General and Program Revenues**



**CITY OF ONTARIO, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**UNAUDITED**

**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$1,686,081, general revenues of \$587,610 and expenses of \$1,700,807 for 2003. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



**Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$10,440,373 which is \$195,262 below last year's total of \$10,635,635. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2003 for all major and nonmajor governmental funds.



**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

	<u>Fund Balances</u> 12/31/03	<u>Fund Balances</u> 12/31/02	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 885,781	\$ 1,486,669	\$ (600,888)
25% Street Construction	2,419,950	2,489,576	(69,626)
Capital Improvement	6,069,030	5,700,188	368,842
Other nonmajor governmental funds	<u>1,065,612</u>	<u>959,202</u>	<u>106,410</u>
Total	<u>\$ 10,440,373</u>	<u>\$ 10,635,635</u>	<u>\$ (195,262)</u>

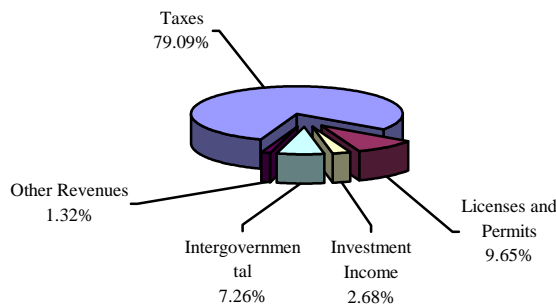
**General Fund**

The City's general fund balance decreased \$600,888, primarily due to increasing expenditures being more than increased revenues by \$484,033. The table that follows assists in illustrating the revenues of the general fund.

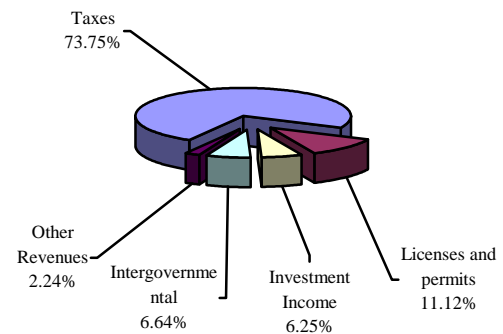
	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,168,829	\$ 1,947,950	11.34 %
Licenses and permits	264,769	293,835	(9.89) %
Investment income	73,552	165,204	(55.48) %
Intergovernmental	199,153	175,381	13.55 %
Other	<u>36,339</u>	<u>59,152</u>	(38.57) %
Total	<u>\$ 2,742,642</u>	<u>\$ 2,641,522</u>	3.83 %

Tax revenue represents 79.08% of all general fund revenue. Tax revenue increased by 11.34% over prior year. The decrease in investment income is due to drastic cuts in interest rates by the Federal Reserve Bank throughout the year. The increase in taxes revenue is due to an increase in the collections of municipal income taxes. All other revenue remained comparable to 2002.

**Revenues – Fiscal Year 2003**



**Revenues – Fiscal Year 2002**



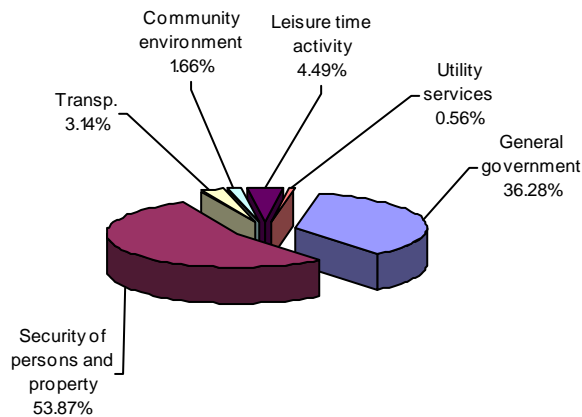
**CITY OF ONTARIO, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**UNAUDITED**

The table that follows assists in illustrating the expenditures of the general fund.

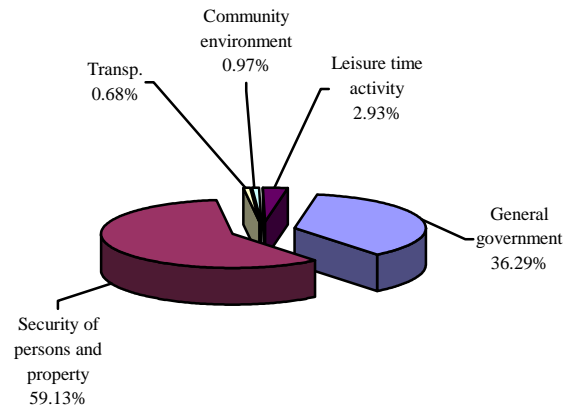
	<u>2003</u> <u>Amount</u>	<u>2002</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 1,170,623	\$ 1,117,411	4.76 %
Security of persons and property	1,737,981	1,820,764	(4.55) %
Transportation	101,412	21,085	380.97 %
Community environment	53,693	29,881	79.69 %
Leisure time activity	144,872	90,357	60.33 %
Utility services	<u>18,094</u>	<u>-</u>	100.00 %
<b>Total</b>	<b><u>\$ 3,226,675</u></b>	<b><u>\$ 3,079,498</u></b>	<b>4.78 %</b>

The most significant increase was in the area of transportation. This increase is primarily due to the park and ride project used during the holiday season. All other expenditures increased by the decrease in security of persons and property. The largest expenditure line item, general government, increased slightly, which is primarily attributed to wage and benefit increases and overall cost increases in purchased goods and services.

**Expenditures - Fiscal Year 2003**



**Expenditures - Fiscal Year 2002**



**25% Street Construction Fund**

The 25% street construction fund had revenues of \$1,103,001 and expenditures of \$1,172,627 in 2003. The 25% street construction fund's fund balance decreased \$69,626 from \$2,489,576 to \$2,419,950.

**Capital Improvement Fund**

The capital improvement fund had revenues and other financing sources of \$1,221,945 and expenditures of \$853,103 in 2003. The capital improvement fund's fund balance increased \$368,842 from \$5,700,188 to \$6,069,030.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

***Budgeting Highlights - General Fund***

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$75,000 from \$4,047,978 to \$4,122,978. Actual revenues of \$2,800,283 were less than final budgeted revenues by \$89,542. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$553,210 lower than the final budgeted amounts.

***Proprietary Funds***

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

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2003, the City had \$23,648,487 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Of this total, \$13,193,196 was reported in governmental activities and \$10,455,291 was reported in business-type activities. The following table shows fiscal 2003 balances compared to 2002:

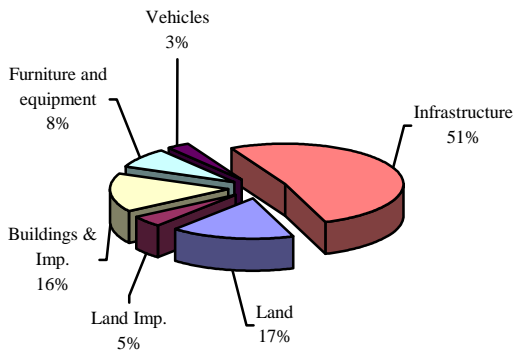
**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2003</u>	<u>(Restated) 2002</u>	<u>2003</u>	<u>(Restated) 2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 2,172,787	\$ 2,172,787	\$ 262,626	\$ 262,626	\$ 2,435,413	\$ 2,435,413
Land improvements	591,602	661,242	34,492	37,777	626,094	699,019
Buildings and improvements	2,012,966	2,095,417	1,324,190	1,378,817	3,337,156	3,474,234
Furniture and equipment	1,150,474	884,285	1,330,522	1,402,451	2,480,996	2,286,736
Vehicles	423,676	390,923	-	-	423,676	390,923
Infrastructure	6,704,244	6,754,790	7,503,461	7,427,463	14,207,705	14,182,253
Construction in progress	<u>137,447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,447</u>	<u>-</u>
Totals	<u>\$ 13,193,196</u>	<u>\$ 12,959,444</u>	<u>\$ 10,455,291</u>	<u>\$ 10,509,134</u>	<u>\$ 23,648,487</u>	<u>\$ 23,468,578</u>

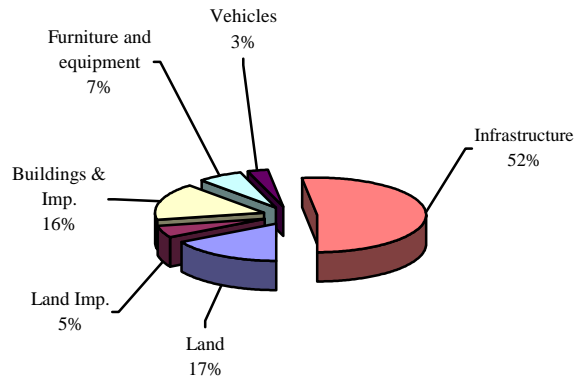
**CITY OF ONTARIO, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**UNAUDITED**

The following graphs show the breakdown of governmental capital assets by category for 2003 and 2002.

**Capital Assets - Governmental Activities 2003**



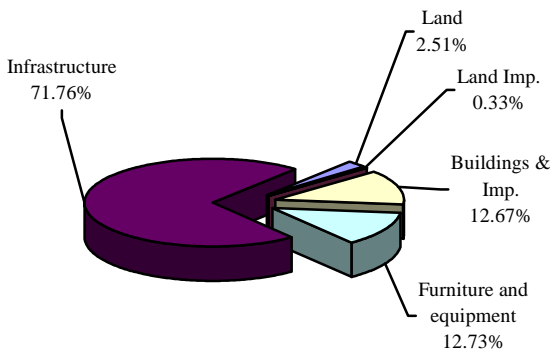
**Capital Assets - Governmental Activities 2002**



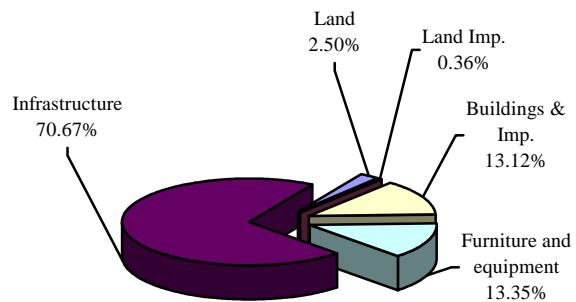
The City's largest capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 51% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2003 and 2002.

**Capital Assets - Business-Type Activities 2003**



**Capital Assets - Business-Type Activities 2002**



The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 71.76% of the City's total business-type capital assets.

See Note 9 to the basic financial statements for additional information on the City's capital assets.

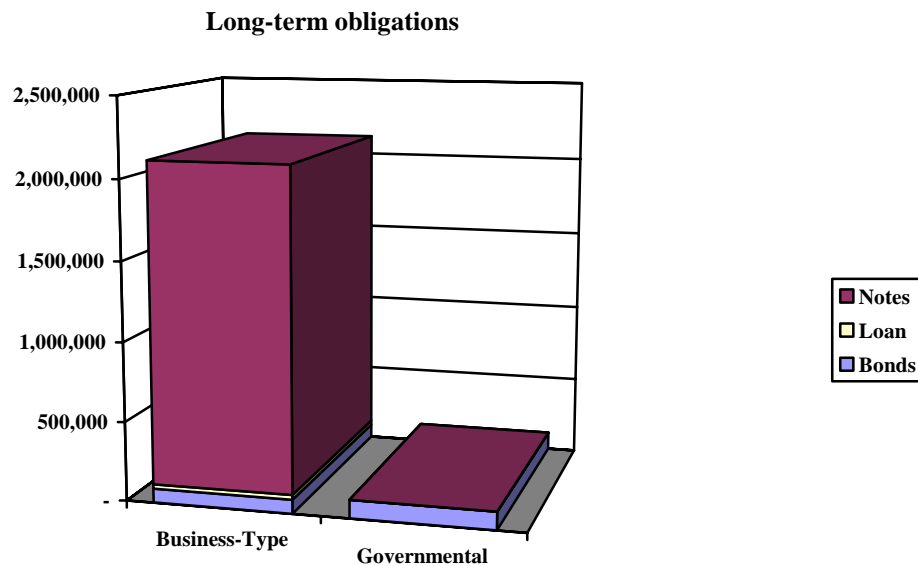
**CITY OF ONTARIO, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**  
**UNAUDITED**

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2003 and 2002:

Governmental Activities		
	2003	2002
Lewis Road Bonds 1997	\$ 14,400	\$ 18,000
Park Land Acquisition Bond 2000	201,000	335,000
<b>Total long-term obligations</b>	<b>\$ 215,400</b>	<b>\$ 353,000</b>
Business-type Activities		
	2003	2002
OPWC Water Treatment Loan 2000	\$ 29,400	\$ 31,237
Water System Improvement Note	2,000,000	2,500,000
Sewer Improvement Bonds 1993	-	9,000
Sewer Improvement Bond 1988	87,803	117,070
<b>Total long-term obligations</b>	<b>\$2,117,203</b>	<b>\$2,657,307</b>

A comparison of the long-term obligations by category is depicted in the chart below.



See Note 11 to the basic financial statements for additional information on the City's debt administration.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
UNAUDITED**

**Economic Conditions and Outlook**

In 2003, many improvements were made to the City park system. New ball fields, dugouts and a field house. 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, sewer and storm sewer systems. In 2003 there was much work on the water distribution and storm sewer system. Water tower was revamped and updated. The City has implemented a replacement 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 current 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.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Shirley Bowman, Auditor, City of Ontario, P.O. Box 166., Ontario, Ohio 44862-0166.

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF ONTARIO, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2003

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 9,856,194	\$ 1,684,996	\$ 11,541,190
Cash and cash equivalents:			
Cash in segregated accounts . . . . .	22,523	-	22,523
Cash with fiscal agent. . . . .	-	26,291	26,291
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	692,433	-	692,433
Real and other taxes . . . . .	450,198	-	450,198
Accounts . . . . .	18,064	345,999	364,063
Special assessments . . . . .	21,818	-	21,818
Accrued interest . . . . .	21,849	-	21,849
Intergovernmental . . . . .	226,130	-	226,130
Loans. . . . .	64,932	-	64,932
Prepayments . . . . .	63,549	-	63,549
Materials and supplies inventory. . . . .	130,855	92,450	223,305
Capital assets:			
Land. . . . .	2,172,787	262,626	2,435,413
Construction in progress . . . . .	137,447	-	137,447
Depreciable capital assets, net . . . . .	10,882,962	10,192,665	21,075,627
Total capital assets, net . . . . .	13,193,196	10,455,291	23,648,487
<b>Total assets. . . . .</b>	<b>24,761,741</b>	<b>12,605,027</b>	<b>37,366,768</b>
<b>Liabilities:</b>			
Accounts payable. . . . .	181,245	45,582	226,827
Contracts payable. . . . .	53,583	-	53,583
Retainage payable . . . . .	-	26,291	26,291
Accrued wages and benefits . . . . .	14,647	18,686	33,333
Intergovernmental payable . . . . .	62,364	11,661	74,025
Deferred revenue. . . . .	415,012	-	415,012
Accrued interest payable. . . . .	60	5,164	5,224
Note payable. . . . .	-	2,000,000	2,000,000
Long-term liabilities:			
Due within one year . . . . .	180,303	37,947	218,250
Due in more than one year . . . . .	263,233	113,538	376,771
<b>Total liabilities . . . . .</b>	<b>1,170,447</b>	<b>2,258,869</b>	<b>3,429,316</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	12,977,796	8,338,088	21,315,884
Restricted for:			
Capital projects. . . . .	6,385,386	-	6,385,386
Debt service . . . . .	210,957	-	210,957
Street construction and repair . . . . .	2,978,438	-	2,978,438
Court computerization . . . . .	15,190	-	15,190
Police pension . . . . .	24,896	-	24,896
Cemetery . . . . .	14,499	-	14,499
Recreation . . . . .	7,442	-	7,442
Law enforcement and education . . . . .	4,293	-	4,293
Other purposes . . . . .	86,059	-	86,059
Unrestricted. . . . .	886,338	2,008,070	2,894,408
<b>Total net assets . . . . .</b>	<b>\$ 23,591,294</b>	<b>\$ 10,346,158</b>	<b>\$ 33,937,452</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
General government . . . . .	\$ 1,380,634	\$ 226,086	\$ -
Security of persons and property. . . . .	1,928,272	311,751	-
Public health and welfare . . . . .	7,235	3,150	-
Transportation . . . . .	1,701,131	94,769	332,467
Community environment. . . . .	54,222	-	-
Leisure time activity. . . . .	218,541	4,521	-
Utility services. . . . .	18,094	-	-
Interest and fiscal charges. . . . .	1,074	5,953	-
<b>Total governmental activities . . . . .</b>	<b>5,309,203</b>	<b>646,230</b>	<b>332,467</b>
<b>Business-type Activities:</b>			
Water . . . . .	769,601	689,484	-
Sewer . . . . .	931,206	996,597	-
<b>Total business-type activities . . . . .</b>	<b>1,700,807</b>	<b>1,686,081</b>	<b>-</b>
<b>Total primary government. . . . .</b>	<b>\$ 7,010,010</b>	<b>\$ 2,332,311</b>	<b>\$ 332,467</b>

**General Revenues:**

Property taxes levied for:	
General purposes. . . . .	
Police pension . . . . .	
Income taxes levied for:	
General purposes. . . . .	
Special revenue . . . . .	
Capital projects . . . . .	
Other purposes . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
<b>Total general revenues. . . . .</b>	
Capital Contributions . . . . .	
Change in net assets. . . . .	
<b>Net assets at beginning of year (restated) . . . . .</b>	
<b>Net assets at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,154,548)	\$ -	\$ (1,154,548)
(1,616,521)	-	(1,616,521)
(4,085)	-	(4,085)
(1,273,895)	-	(1,273,895)
(54,222)	-	(54,222)
(214,020)	-	(214,020)
(18,094)	-	(18,094)
4,879	-	4,879
<u>(4,330,506)</u>	<u>-</u>	<u>(4,330,506)</u>
-	(80,117)	(80,117)
<u>-</u>	<u>65,391</u>	<u>65,391</u>
-	(14,726)	(14,726)
<u>(4,330,506)</u>	<u>(14,726)</u>	<u>(4,345,232)</u>
618,897	-	618,897
69,011	-	69,011
1,473,802	-	1,473,802
988,180	-	988,180
1,040,636	-	1,040,636
-	540,451	540,451
124,815	-	124,815
175,086	43,531	218,617
50,180	3,628	53,808
<u>4,540,607</u>	<u>587,610</u>	<u>5,128,217</u>
<u>(313,097)</u>	<u>313,097</u>	<u>-</u>
(102,996)	885,981	782,985
<u>23,694,290</u>	<u>9,460,177</u>	<u>33,154,467</u>
<u>\$ 23,591,294</u>	<u>\$ 10,346,158</u>	<u>\$ 33,937,452</u>

**CITY OF ONTARIO, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2003

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 595,259	\$ 2,315,210	\$ 5,938,136	\$ 1,007,589	\$ 9,856,194
Cash in segregated accounts . . . . .	-	-	-	22,523	22,523
Receivables (net of allowance for uncollectibles):					
Income taxes. . . . .	242,352	173,108	276,973	-	692,433
Real and other taxes. . . . .	450,198	-	-	-	450,198
Accounts . . . . .	18,064	-	-	-	18,064
Accrued interest . . . . .	21,849	-	-	-	21,849
Special assessments. . . . .	-	-	-	21,818	21,818
Intergovernmental . . . . .	116,733	-	-	109,397	226,130
Loans . . . . .	64,932	-	-	-	64,932
Prepayments. . . . .	63,549	-	-	-	63,549
Materials and supplies inventory . . . . .	1,101	129,754	-	-	130,855
<b>Total assets . . . . .</b>	<b><u>\$ 1,574,037</u></b>	<b><u>\$ 2,618,072</u></b>	<b><u>\$ 6,215,109</u></b>	<b><u>\$ 1,161,327</u></b>	<b><u>\$ 11,568,545</u></b>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 37,820	\$ 136,330	\$ -	\$ 7,095	\$ 181,245
Contracts payable . . . . .	-	-	53,583	-	53,583
Accrued wages and benefits. . . . .	10,192	3,982	-	473	14,647
Intergovernmental payable . . . . .	-	-	-	5,998	5,998
Deferred revenue . . . . .	640,244	57,810	92,496	82,149	872,699
<b>Total liabilities . . . . .</b>	<b><u>688,256</u></b>	<b><u>198,122</u></b>	<b><u>146,079</u></b>	<b><u>95,715</u></b>	<b><u>1,128,172</u></b>
<b>Fund Balances:</b>					
Reserved for encumbrances. . . . .	81,931	62,147	735,188	46,555	925,821
Reserved for prepayments . . . . .	63,549	-	-	-	63,549
Reserved for materials and supplies inventory . . . . .	1,101	129,754	-	-	130,855
Reserved for loans . . . . .	64,932	-	-	-	64,932
Reserved for debt service. . . . .	-	-	-	189,199	189,199
Unreserved, undesignated, reported in:					
General fund. . . . .	674,268	-	-	-	674,268
Special revenue funds. . . . .	-	2,228,049	-	632,592	2,860,641
Capital projects funds. . . . .	-	-	5,333,842	197,266	5,531,108
<b>Total fund balances . . . . .</b>	<b><u>885,781</u></b>	<b><u>2,419,950</u></b>	<b><u>6,069,030</u></b>	<b><u>1,065,612</u></b>	<b><u>10,440,373</u></b>
<b>Total liabilities and fund balances. . . . .</b>	<b><u>\$ 1,574,037</u></b>	<b><u>\$ 2,618,072</u></b>	<b><u>\$ 6,215,109</u></b>	<b><u>\$ 1,161,327</u></b>	<b><u>\$ 11,568,545</u></b>

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, 2003

**Total governmental fund balances** \$ 10,440,373

*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. 13,193,196

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

Property taxes	\$ 29,188
Income taxes	231,240
Special assessments	21,818
Intergovernmental revenues	166,053
Accrued interest	<u>9,388</u>

Total 457,687

Long-term liabilities are not due and payable in the current period and therefore  
are not reported in the funds. The long-term liabilities are as follows:

Compensated absences	(228,136)
Intergovernmental payable	(56,366)
Accrued interest payable	(60)
Bonds payable	<u>(215,400)</u>

(499,962)

**Net assets of governmental activities** \$ 23,591,294

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<b>General</b>	<b>25% Street Construction</b>	<b>Capital Improvement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Municipal income taxes . . . . .	\$ 1,570,913	\$ 1,057,545	\$ 1,151,620	\$ -	\$ 3,780,078
Property and other taxes . . . . .	597,916	-	-	70,273	668,189
Charges for services . . . . .	-	-	-	54,653	54,653
Licenses and permits . . . . .	264,769	-	-	111,581	376,350
Fines and forfeitures . . . . .	-	-	-	202,137	202,137
Intergovernmental . . . . .	199,153	-	-	322,725	521,878
Special assessments . . . . .	-	-	-	5,661	5,661
Investment income . . . . .	73,552	27,960	49,130	15,056	165,698
Rental income . . . . .	5,637	-	1,500	-	7,137
Other . . . . .	30,702	17,496	-	1,982	50,180
<b>Total revenues . . . . .</b>	<b>2,742,642</b>	<b>1,103,001</b>	<b>1,202,250</b>	<b>784,068</b>	<b>5,831,961</b>
<b>Expenditures:</b>					
Current:					
General government . . . . .	1,170,623	-	-	225,306	1,395,929
Security of persons and property . . . . .	1,737,981	-	-	229,242	1,967,223
Public health and welfare . . . . .	-	-	-	7,309	7,309
Transportation . . . . .	101,412	1,172,627	-	242,847	1,516,886
Community environment . . . . .	53,693	-	-	-	53,693
Leisure time activity . . . . .	144,872	-	-	34,425	179,297
Utility services . . . . .	18,094	-	-	-	18,094
Capital outlay . . . . .	-	-	719,103	30,997	750,100
Debt service:					
Principal retirement . . . . .	-	-	134,000	3,600	137,600
Interest and fiscal charges . . . . .	-	-	-	1,092	1,092
<b>Total expenditures . . . . .</b>	<b>3,226,675</b>	<b>1,172,627</b>	<b>853,103</b>	<b>774,818</b>	<b>6,027,223</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(484,033)	(69,626)	349,147	9,250	(195,262)
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	19,695	116,855	136,550
Transfers out . . . . .	(116,855)	-	-	(19,695)	(136,550)
<b>Total other financing sources (uses) . . . . .</b>	<b>(116,855)</b>	<b>-</b>	<b>19,695</b>	<b>97,160</b>	<b>-</b>
Net change in fund balances . . . . .	(600,888)	(69,626)	368,842	106,410	(195,262)
<b>Fund balances at beginning of year . . . . .</b>	<b>1,486,669</b>	<b>2,489,576</b>	<b>5,700,188</b>	<b>959,202</b>	<b>10,635,635</b>
<b>Fund balances at end of year . . . . .</b>	<b>\$ 885,781</b>	<b>\$ 2,419,950</b>	<b>\$ 6,069,030</b>	<b>\$ 1,065,612</b>	<b>\$ 10,440,373</b>

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, 2003**

**Net change in fund balances - total governmental funds** \$ (195,262)

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

Government funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those  
assets are allocated over their estimated useful lives as  
depreciation expense. This is the amount by which capital  
outlays (\$1,095,303) exceeded depreciation expense  
(\$861,280) in the current period. 234,023

Governmental funds only report the disposal of fixed assets  
to the extent proceeds are received from the sale. In the  
statement of activities, a gain or loss is reported for each disposal. (271)

Revenues in the statement of activities that do not provide  
current financial resources are not reported as revenues in  
the funds. (312,657)

Repayment of bond principal is an expenditure  
in the governmental funds, but the repayment reduces long-term  
liabilities on the statement of net assets. 137,600

In the statement of activities, interest is accrued on  
outstanding bonds, whereas in governmental funds, an  
interest expenditure is reported when due. 18

Some expenses reported in the statement of activities, such  
as compensated absences, do not require the use of current  
financial resources and therefore are not reported as expenditures  
in governmental funds. 33,553

**Change in net assets of governmental activities** \$ (102,996)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 1,645,853	\$ 1,645,853	\$ 1,596,861	\$ (48,992)
Property and other taxes . . . . .	616,260	616,260	597,916	(18,344)
Fines, licenses and permits . . . . .	254,921	254,921	247,333	(7,588)
Intergovernmental . . . . .	198,458	198,458	192,551	(5,907)
Investment income . . . . .	104,802	104,802	98,161	(6,641)
Rental income . . . . .	5,810	5,810	5,637	(173)
Loan payment . . . . .	28,175	28,175	27,336	(839)
Other . . . . .	35,546	35,546	34,488	(1,058)
Total revenues. . . . .	<u>2,889,825</u>	<u>2,889,825</u>	<u>2,800,283</u>	<u>(89,542)</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,385,458	1,471,808	1,273,324	198,484
Security of persons and property . . . . .	2,026,181	2,024,301	1,863,713	160,588
Transportation . . . . .	102,400	102,400	86,068	16,332
Community environment . . . . .	60,938	60,938	55,702	5,236
Leisure time activity . . . . .	163,218	168,748	155,367	13,381
Utility services . . . . .	20,958	20,958	18,739	2,219
Total expenditures . . . . .	<u>3,759,153</u>	<u>3,849,153</u>	<u>3,452,913</u>	<u>396,240</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(869,328)</u>	<u>(959,328)</u>	<u>(652,630)</u>	<u>306,698</u>
<b>Other financing uses:</b>				
Transfers out . . . . .	(288,825)	(273,825)	(116,855)	156,970
Total other financing uses . . . . .	<u>(288,825)</u>	<u>(273,825)</u>	<u>(116,855)</u>	<u>156,970</u>
Net change in fund balance . . . . .	(1,158,153)	(1,233,153)	(769,485)	463,668
<b>Fund balance at beginning of year . . . . .</b>	1,067,087	1,067,087	1,067,087	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>177,906</u>	<u>177,906</u>	<u>177,906</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 86,840</u>	<u>\$ 11,840</u>	<u>\$ 475,508</u>	<u>\$ 463,668</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 25% STREET CONSTRUCTION  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 901,419	\$ 901,419	\$ 1,062,044	\$ 160,625
Investment income . . . . .	23,731	23,731	27,960	4,229
Other . . . . .	14,850	14,850	17,496	2,646
Total revenues. . . . .	<u>940,000</u>	<u>940,000</u>	<u>1,107,500</u>	<u>167,500</u>
<b>Expenditures:</b>				
Current:				
Transportation . . . . .	<u>1,300,232</u>	<u>1,552,084</u>	<u>1,265,439</u>	<u>286,645</u>
Total expenditures . . . . .	<u>1,300,232</u>	<u>1,552,084</u>	<u>1,265,439</u>	<u>286,645</u>
Net change in fund balance . . . . .	(360,232)	(612,084)	(157,939)	454,145
<b>Fund balance at beginning of year . . . . .</b>	2,222,303	2,222,303	2,222,303	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>52,369</u>	<u>52,369</u>	<u>52,369</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 1,914,440</u>	<u>\$ 1,662,588</u>	<u>\$ 2,116,733</u>	<u>\$ 454,145</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents . . . . .	\$ 472,120	\$ 1,212,876	\$ 1,684,996
Cash with fiscal agent . . . . .	26,291	-	26,291
Receivables (net of allowance for uncollectibles):			
Accounts . . . . .	127,299	218,700	345,999
Materials and supplies inventory . . . . .	68,651	23,799	92,450
Total current assets . . . . .	<u>694,361</u>	<u>1,455,375</u>	<u>2,149,736</u>
Noncurrent assets:			
Capital assets:			
Land . . . . .	262,626	-	262,626
Depreciable capital assets, net . . . . .	5,323,604	4,869,061	10,192,665
Total capital assets, net . . . . .	<u>5,586,230</u>	<u>4,869,061</u>	<u>10,455,291</u>
Total assets . . . . .	<u>6,280,591</u>	<u>6,324,436</u>	<u>12,605,027</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable. . . . .	12,607	32,975	45,582
Retainage payable. . . . .	26,291	-	26,291
Accrued wages and benefits . . . . .	1,706	16,980	18,686
Compensated absences . . . . .	5,499	1,344	6,843
Intergovernmental payable . . . . .	1,065	10,596	11,661
OPWC loan payable. . . . .	1,837	-	1,837
Notes payable . . . . .	2,000,000	29,267	2,029,267
Accrued interest payable. . . . .	4,666	498	5,164
Total current liabilities . . . . .	<u>2,053,671</u>	<u>91,660</u>	<u>2,145,331</u>
Long-term liabilities:			
OPWC loan payable. . . . .	27,563	-	27,563
Notes payable . . . . .	-	58,536	58,536
Compensated absences . . . . .	20,743	6,696	27,439
Total long-term liabilities . . . . .	<u>48,306</u>	<u>65,232</u>	<u>113,538</u>
Total liabilities . . . . .	<u>2,101,977</u>	<u>156,892</u>	<u>2,258,869</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt. . . . .	3,556,830	4,781,258	8,338,088
Unrestricted . . . . .	621,784	1,386,286	2,008,070
Total net assets . . . . .	<u>\$ 4,178,614</u>	<u>\$ 6,167,544</u>	<u>\$ 10,346,158</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 689,484	\$ 996,597	\$ 1,686,081
Other . . . . .	3,408	220	3,628
Total operating revenues . . . . .	<u>692,892</u>	<u>996,817</u>	<u>1,689,709</u>
<b>Operating expenses:</b>			
Personal services . . . . .	219,208	178,708	397,916
Contract services . . . . .	126,070	561,018	687,088
Materials and supplies . . . . .	102,910	28,204	131,114
Depreciation . . . . .	285,332	155,832	441,164
Total operating expenses. . . . .	<u>733,520</u>	<u>923,762</u>	<u>1,657,282</u>
Operating income (loss) . . . . .	<u>(40,628)</u>	<u>73,055</u>	<u>32,427</u>
<b>Nonoperating revenues (expenses):</b>			
Interest revenue. . . . .	4,302	2,151	6,453
Income tax revenue. . . . .	503,709	36,742	540,451
Interest expense and fiscal charges . . . . .	(36,081)	(7,444)	(43,525)
Premium and accrued interest on notes . . . . .	37,078	-	37,078
Total nonoperating revenues (expenses) . . . . .	<u>509,008</u>	<u>31,449</u>	<u>540,457</u>
Income before capital contributions. . . . .	468,380	104,504	572,884
Capital contributions . . . . .	264,729	48,368	313,097
Changes in net assets . . . . .	733,109	152,872	885,981
<b>Net assets at beginning of year (restated). . . . .</b>	<u>3,445,505</u>	<u>6,014,672</u>	<u>9,460,177</u>
<b>Net assets at end of year. . . . .</b>	<u>\$ 4,178,614</u>	<u>\$ 6,167,544</u>	<u>\$ 10,346,158</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, 2003

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>			
Cash received from customers . . . . .	\$ 664,931	\$ 987,264	\$ 1,652,195
Cash received from other operations. . . . .	3,408	220	3,628
Cash payments for personal services . . . . .	(223,069)	(156,327)	(379,396)
Cash payments for contract services . . . . .	(132,639)	(533,333)	(665,972)
Cash payments for materials and supplies . . . . .	(97,871)	(29,444)	(127,315)
	<u>214,760</u>	<u>268,380</u>	<u>483,140</u>
Net cash provided by operating activities. . . . .			
<b>Cash flows from noncapital financing activities:</b>			
Cash received from income taxes . . . . .	503,709	36,742	540,451
Net cash provided by noncapital financing activities . . . . .	<u>503,709</u>	<u>36,742</u>	<u>540,451</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets . . . . .	(62,784)	(11,440)	(74,224)
Principal retirement on OPWC loan . . . . .	(1,837)	-	(1,837)
Principal retirement on notes . . . . .	(2,500,000)	(29,267)	(2,529,267)
Principal retirement on bonds . . . . .	-	(9,000)	(9,000)
Proceeds of note . . . . .	2,000,000	-	2,000,000
Interest and fiscal charges. . . . .	(38,950)	(7,666)	(46,616)
Premium/accrued interest on note. . . . .	37,078	-	37,078
	<u>(566,493)</u>	<u>(57,373)</u>	<u>(623,866)</u>
Net cash used in capital and related financing activities . . . . .			
<b>Cash flows from investing activities:</b>			
Interest received. . . . .	4,302	2,151	6,453
	<u>4,302</u>	<u>2,151</u>	<u>6,453</u>
Net cash provided by investing activities. . . . .			
Net increase in cash and cash equivalents . . . . .	156,278	249,900	406,178
<b>Cash and cash equivalents at beginning of year . . .</b>	342,133	962,976	1,305,109
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 498,411</u>	<u>\$ 1,212,876</u>	<u>\$ 1,711,287</u>

- - continued

**CITY OF ONTARIO, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss) . . . . .	\$ (40,628)	\$ 73,055	\$ 32,427
Adjustments:			
Depreciation . . . . .	285,332	155,832	441,164
Changes in assets and liabilities:			
Increase in materials and supplies inventory . . . . .	(4,953)	(5,530)	(10,483)
Increase in accounts receivable . . . . .	(29,944)	(18,716)	(48,660)
Decrease in special assessments . . . . .	-	9,383	9,383
Increase in accounts payable . . . . .	3,423	31,975	35,398
Increase (decrease) in accrued wages and benefits . . . . .	(5,350)	13,074	7,724
Increase in retainage payable . . . . .	5,391	-	5,391
Increase (decrease) in due to other governments . . . . .	(5,314)	6,928	1,614
Increase in compensated absences payable . . . . .	6,803	2,379	9,182
Net cash provided by operating activities . . . . .	<u>\$ 214,760</u>	<u>\$ 268,380</u>	<u>\$ 483,140</u>

Non cash item: The City had capital contributions at \$313,097 for water and sewer lines from the capital improvement fund.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2003

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ <u>31,724</u>
<b>Liabilities:</b>	
Deposits held and due to others. . . . .	\$ <u>31,724</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, 2003

#### NOTE 1 - DESCRIPTION OF THE CITY

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.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (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. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

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. The BFS of the reporting entity include only those of the City (the primary government).

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

The City's BFS 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 activities.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

#### C. Fund Accounting

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

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

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

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

***Capital Improvements Fund*** - The capital improvements fund receives 40 percent of the City's income tax revenues for the construction and maintenance of capital items.



## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

***Proprietary Funds*** - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

***Enterprise Funds*** - The 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*** - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

***Water Fund*** - This fund accounts for the provision of water treatment and distribution to its residential 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 custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds.

#### **D. Measurement Focus and Basis of Accounting**

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of 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 financial 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 net assets. The statement of 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.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**E. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and agency funds also use the 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 fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 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 from income taxes is recognized in the period in which the income is earned (See Note 7). 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 a 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, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

**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, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Special assessments not received within the available period and 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.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

#### **F. 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 set 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 amount 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 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.

#### **G. Cash and Cash Equivalents**

Cash balances of the City's funds, except cash held by a fiscal agent and in segregated accounts, are pooled and invested in investments maturing within ten years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

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 in 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 deposits.

During 2003, investments were limited to certificates of deposit, overnight repurchase agreements and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold at December 31, 2003.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be distributed to specific funds. Interest revenue earned and credited to the general fund during 2003 amounted to \$73,552, which includes \$59,759 assigned from other funds of the City.

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investment account at year-end is provided in Note 4.

**H. Inventory**

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

**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2003, 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.

**J. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. 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 capital assets is also capitalized for business-type activities.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

All reported 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>
Land improvements	20 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 15 years
Vehicles	8 years
Infrastructure	15 - 50 years

**K. 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.

**L. 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, 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.

**M. Interfund Balances**

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

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**N. 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 BFS.

**O. Fund Balance Reserves**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, prepayments, loans, debt service and materials and supplies inventory in the governmental fund financial statements.

**P. Estimates**

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

**Q. Contributions of Capital**

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

**R. 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 the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**S. Operating Revenues and Expenses**

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

**T. 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.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Prior Period Adjustment**

In the prior year, the City elected to “phase in” the retroactive reporting of infrastructure capital assets. In the current year, a prior period adjustment is required in the governmental and business-type activities to report the retroactive infrastructure capital assets and to correct errors and omissions previously reported. The City also restated their beginning long-term obligations to properly state Park Land Acquisition Bond liability as of January 1, 2003. The prior period adjustments had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets as previously reported	\$ 17,729,176
Adjustment for retroactive infrastructure	6,337,784
Adjustment for errors and omissions	(272,170)
Adjustment for long-term liability	(100,500)
Restated net assets as of January 1, 2003	<u>\$ 23,694,290</u>

	<u>Water</u>	<u>Sewer</u>	<u>Business-type Activities</u>
Net assets as previously reported	\$ 2,381,921	\$ 2,440,480	\$ 4,822,401
Adjustment for retroactive infrastructure	-	3,473,772	3,553,799
Adjustment for errors and omissions	1,063,584	100,420	1,083,977
Restated net assets as of January 1, 2003	<u>\$ 3,445,505</u>	<u>\$ 6,014,672</u>	<u>\$ 9,460,177</u>

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the City are classified by State statute 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 the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must 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 in 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 monies may be deposited or invested in the following:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington;
3. Repurchase agreements in the securities enumerated above;
4. Interim deposits in the eligible institutions applying for interim moneys;
5. Bonds and other obligations of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. High grade commercial paper for a period not to exceed 180 days in an amount not to exceed twenty-five percent of the City's interim monies available for investment; and
8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio; and
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this state, as to which there is no default of principal, interest, or coupons.
3. Obligations of the City.



**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer.

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

*Cash with Fiscal Agent:* The City has a retainage account for the various construction projects throughout the City. The amount at December 31, 2003 was \$26,291.

*Deposits:* At year-end, the carrying amount of the City's deposits was \$6,782,758 and the bank balance was \$6,844,802. Of the bank balance:

1. \$648,814 was covered by federal depository insurance; and
2. \$6,195,988 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

	Category 3	Carrying/ Fair Value
Repurchase agreements	\$ 3,580,000	\$ 3,580,000
Investment in STAR Ohio	-	1,258,970
Total investments	\$ 3,580,000	\$ 4,838,970

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and <u>Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9	\$11,621,728	\$ -
Investments of the cash management pool:		
STAR Ohio	(3,580,000)	3,580,000
Repurchase agreements	<u>(1,258,970)</u>	<u>1,258,970</u>
GASB Statement No. 3	<u>\$ 6,782,758</u>	<u>\$4,838,970</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2003, consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers from</u>		<u>Total</u>
	<u>General</u>	<u>Capital Improvement</u>	
Non-major funds	<u>\$ 116,855</u>	<u>\$ 19,695</u>	<u>\$136,550</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers are allowable in accordance with Section 5705.14, 5705.15, and 5705.16 of the Ohio Revised Code.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1999. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts 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.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 6 - PROPERTY TAXES - (Continued)**

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2003 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real property tax	\$ 169,164,360
Public utility property	5,312,700
Tangible personal property	<u>71,250,560</u>
Total assessed valuation	<u>\$ 245,727,620</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2003. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

**NOTE 7 - LOCAL INCOME TAX**

The City levies a municipal income tax of 1 percent on substantially all income earned 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 improvement fund, and the 25% street construction and water and sewer fund. Total income tax revenue for 2003 totaled \$4,320,529.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2003, consisted of taxes, accrued interest, loans, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, shared revenue. Receivables have been recorded to the extent that they are measurable at December 31, 2003, as well as intended to finance fiscal 2003 operations.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 8 - RECEIVABLES - (Continued)**

A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental Activities:**

Income taxes	\$692,433
Real and other taxes	450,198
Accounts	18,064
Special assessments	21,818
Intergovernmental	226,130
Accrued interest	21,849
Loans	64,932

**Business-type Activities:**

Accounts	345,999
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

**NOTE 9 - CAPITAL ASSETS**

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to reporting of errors and omissions in the prior year and to “phase in” the retroactive reporting of infrastructure in governmental activities and business-type activities.

	<u>Balance</u> <u>12/31/02</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>12/31/02</u>
<b><u>Governmental Activities:</u></b>			
Land	\$ 2,172,787	\$ -	\$ 2,172,787
Land improvements	2,050,455	(836,082)	1,214,373
Building and improvements	3,111,400	(10,848)	3,100,552
Furniture and equipment	1,664,003	(106,842)	1,557,161
Vehicles	1,115,372	(136,660)	978,712
Infrastructure	419,899	8,827,971	9,247,870
Less: accumulated depreciation	<u>(3,640,086)</u>	<u>(1,671,925)</u>	<u>(5,312,011)</u>
Total	<u>\$ 6,893,830</u>	<u>\$ 6,065,614</u>	<u>\$ 12,959,444</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 9 - CAPITAL ASSETS - (Continued)**

	<u>Balance</u>	<u>Adjustments</u>	<u>Restated</u>
	<u>12/31/02</u>		<u>Balance</u>
			<u>12/31/02</u>
<b><u>Business-type Activities:</u></b>			
Land	\$ 262,626	\$ -	\$ 262,626
Land improvements	54,622	-	54,622
Building and improvements	762,501	1,177,909	1,940,410
Furniture and equipment	2,278,134	(158,016)	2,120,118
Infrastructure:			
Sewer lines	1,892,237	4,060,027	5,952,264
Water	3,716,763	(20,021)	3,696,742
Less: accumulated depreciation	<u>(3,095,525)</u>	<u>(422,123)</u>	<u>(3,517,648)</u>
Total	<u>\$ 5,871,358</u>	<u>\$ 4,637,776</u>	<u>\$ 10,509,134</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 9 - CAPITAL ASSETS - (Continued)**

**B.** Capital asset activity for the year ended December 31, 2003, was as follows:

<b><u>Governmental Activities:</u></b>	Restated Balance <u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/03</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,172,787	\$ -	\$ -	\$ 2,172,787
Construction in Progress	<u>-</u>	<u>137,447</u>	<u>-</u>	<u>137,447</u>
Total capital assets, not being depreciated	<u>2,172,787</u>	<u>137,447</u>	<u>-</u>	<u>2,310,234</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,214,373	-	(329)	1,214,044
Buildings and improvements	3,100,552	-	-	3,100,552
Furniture and equipment	1,557,161	532,762	-	2,089,923
Vehicles	978,712	94,810	(53,964)	1,019,558
Infrastructure	<u>9,247,870</u>	<u>330,284</u>	<u>-</u>	<u>9,578,154</u>
Total capital assets, being depreciated	<u>16,098,668</u>	<u>957,856</u>	<u>(54,293)</u>	<u>17,002,231</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(553,131)	(69,369)	58	(622,442)
Buildings and improvements	(1,005,135)	(82,451)	-	(1,087,586)
Furniture and equipment	(672,876)	(266,573)	-	(939,449)
Vehicles	(587,789)	(62,057)	53,964	(595,882)
Infrastructure	<u>(2,493,080)</u>	<u>(380,830)</u>	<u>-</u>	<u>(2,873,910)</u>
Total accumulated depreciation	<u>(5,312,011)</u>	<u>(861,280)</u>	<u>54,022</u>	<u>(6,119,269)</u>
Total capital assets, being depreciated, net	<u>10,786,657</u>	<u>96,576</u>	<u>(271)</u>	<u>10,882,962</u>
Governmental activities capital assets, net	<u>\$12,959,444</u>	<u>\$ 234,023</u>	<u>\$ (271)</u>	<u>\$13,193,196</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 9 - CAPITAL ASSETS - (Continued)**

<b><u>Business-type Activities:</u></b>	Restated Balance <u>12/31/02</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/03</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Total capital assets, not being depreciated	<u>262,626</u>	<u>-</u>	<u>-</u>	<u>262,626</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	54,622	-	-	54,622
Buildings and improvements	1,940,410	-	-	1,940,410
Furniture and equipment	2,120,118	88,608	-	2,208,726
Infrastructure:				
Sewer lines	5,952,264	-	-	5,952,264
Water lines	<u>3,696,742</u>	<u>298,713</u>	<u>-</u>	<u>3,995,455</u>
Total capital assets, being depreciated	<u>13,764,156</u>	<u>387,321</u>	<u>-</u>	<u>14,151,477</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(16,845)	(3,285)	-	(20,130)
Buildings and improvements	(561,593)	(54,627)	-	(616,220)
Furniture and equipment	(717,667)	(160,537)	-	(878,204)
Infrastructure:				
Sewer lines	(1,234,650)	(119,650)	-	(1,354,300)
Water lines	<u>(986,893)</u>	<u>(103,065)</u>	<u>-</u>	<u>(1,089,958)</u>
Total accumulated depreciation	<u>(3,517,648)</u>	<u>(441,164)</u>	<u>-</u>	<u>(3,958,812)</u>
Total capital assets, being depreciated, net	<u>10,246,508</u>	<u>(53,843)</u>	<u>-</u>	<u>10,192,665</u>
Business-type activities capital assets, net	<u>\$10,509,134</u>	<u>\$ (53,843)</u>	<u>\$ -</u>	<u>\$10,455,291</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 9 - CAPITAL ASSETS - (Continued)**

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

**Governmental activities:**

General government	\$ 48,999
Security of persons and property	103,204
Transportation	636,997
Community environment	1,031
Leisure time activity	<u>71,049</u>
 Total depreciation expense - governmental activities	 <u>\$ 861,280</u>

**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 OBLIGATIONS**

The City's long term obligations at December 31, 2003 were as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
<b>Governmental Activities</b>			
Lewis Road Bonds - 1997	2.500%	\$ 36,000	12/01/07
Park Land Acquisition Bond - 2000	0.000%	536,000	12/01/06
<b>Business-Type Activities</b>			
OPWC Water Treatment Loan - 2000	0.000%	36,749	01/01/20
Sewer Improvement Bonds - 1993	4.250%	83,000	12/01/03
Sewer Improvement Bonds - 1988	6.810%	556,080	12/01/06



**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

The balance of the City's governmental long-term obligations at December 31, 2002 has been restated. The Park Land Acquisition Bond liability increased from \$234,500 to \$335,000 due to an error in the payment schedule in the prior years. The effect on the total governmental activities long-term obligations at January 1, 2003 was an increase of \$100,500 from \$438,534 to \$539,034. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

	Restated			Amounts	
	Balance			Balance	Due in
<b><u>Governmental activities:</u></b>	<u>01/01/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/03</u>	<u>One Year</u>
Lewis Road Bonds 1997	\$ 18,000	\$ -	\$ (3,600)	\$ 14,400	\$ 3,600
Park Land Acquisition Bond 2000	335,000	-	(134,000)	201,000	134,000
Compensated Absences	<u>186,034</u>	<u>76,709</u>	<u>(34,607)</u>	<u>228,136</u>	<u>42,703</u>
Total governmental activities	<u>\$ 539,034</u>	<u>\$ 76,709</u>	<u>\$ (172,207)</u>	<u>\$ 443,536</u>	<u>\$ 180,303</u>
<b><u>Business-Type Activities:</u></b>					
OPWC Water Treatment Loan 2000	\$ 31,237	\$ -	\$ (1,837)	\$ 29,400	\$ 1,837
Sewer Improvement Bonds 1993	9,000	-	(9,000)	-	-
Sewer Improvement Note	117,070	-	(29,267)	87,803	29,267
Compensated absences	<u>25,100</u>	<u>14,023</u>	<u>(4,841)</u>	<u>34,282</u>	<u>6,843</u>
Total business-type activities	<u>\$ 182,407</u>	<u>\$ 14,023</u>	<u>\$ (44,945)</u>	<u>\$ 151,485</u>	<u>\$ 37,947</u>

The 1997 Lewis Road bond will be paid from the debt service fund, and the park land acquisition bond will be paid from the capital improvement capital projects fund.

The OPWC Water Treatment Loan and the Sewer Improvement Note will all be paid from the capital improvement capital projects fund. The sewer improvement bond 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 first payment on the bonds was made in May of 2001 and the final was to be made in May of 2004. However, one individual did not redeem their bonds in both 2001 and 2002. The bonds will be redeemed in the next three years.

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

The Sewer Improvement Note was issued during June 1988. The note was intended to equalize 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 Improvement Bond was 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.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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

As of December 31, 2003, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$25,724,996 and the unvoted legal debt margin was \$13,433,615. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2003 are as follows:

Year Ending December 31	Lewis Road Bonds			Park Land Acquisition Bond
	Principal	Interest	Total	Principal
2004	\$ 3,600	\$ 720	\$ 4,320	\$ 134,000
2005	3,600	540	4,140	33,500
2006	3,600	360	3,960	33,500
2007	<u>3,600</u>	<u>180</u>	<u>3,780</u>	<u>-</u>
Total	<u>\$ 14,400</u>	<u>\$ 1,800</u>	<u>\$ 16,200</u>	<u>\$ 201,000</u>

Year Ending December 31	OPWC Water Treatment Loan	Sewer Improvement Note		
	Principal	Principal	Interest	Total
2004	\$ 1,837	\$ 29,267	\$ 5,481	\$ 34,748
2005	1,837	29,268	3,488	32,756
2006	1,837	29,268	1,495	30,763
2007	1,837	-	-	-
2008	1,837	-	-	-
2009 - 2013	9,186	-	-	-
2014 - 2018	9,191	-	-	-
2019	<u>1,838</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 29,400</u>	<u>\$ 87,803</u>	<u>\$ 10,464</u>	<u>\$ 98,267</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 12 - NOTES PAYABLE**

A summary of the note transactions for the year ended December 31, 2003, follows:

<b>Business-Type Activities</b>	<u>Balance</u> <u>01/01/03</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/03</u>
1.537% Water System Improvement Note	\$ 2,500,000	\$ -	\$ (2,500,000)	\$ -
1.40% Water System Improvement Note	<u>-</u>	<u>2,000,000</u>	<u>-</u>	<u>2,000,000</u>
	<u>\$ 2,500,000</u>	<u>\$ 2,000,000</u>	<u>\$ (2,500,000)</u>	<u>\$ 2,000,000</u>

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 water system improvement note is backed by the full faith and credit of the City and matures within one year. The note liability is reflected in the fund which received the proceeds.

**NOTE 13 - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2003, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
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	932,002
Electronic Equipment/Media Coverage	500	109,638
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.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

#### **NOTE 13 - RISK MANAGEMENT - (Continued)**

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.

#### **NOTE 14 - DEFINED BENEFIT PENSION PLANS**

##### **A. Ohio Public Employees Retirement System**

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per 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 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2002 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 8.55% was the portion used to fund pension obligations for 2003. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 11.70% was the portion used to fund pension obligations for 2003. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2003, 2002, and 2001 were \$142,796, \$102,513, and \$106,401, respectively; 97.6% has been contributed for 2003 and 100% for 2002 and 2001. \$3,452, representing the unpaid contribution for 2003, is recorded as a liability within the respective funds.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**B. Ohio Police and Fire Pension Fund**

Full-time uniformed employees of the City participate in the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. The 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 Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2003, 2002, and 2001 were \$116,600, \$86,814, and \$91,129, respectively; 58.60% has been contributed for 2003 and 100% for the years 2002 and 2001. \$48,282, representing the unpaid contributions for 2003, is recorded as a liability within the respective funds.

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

OPERS provides postretirement health care coverage to age and service retirants with 10 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, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for local government employers was 13.55% of covered payroll and 5.00% was the portion that was used to fund health care. For both the public safety and law enforcement divisions the 2003 employer rate was 16.70% of covered payroll and 5.00% was the portion used to fund health care.

The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. The City's contribution actually made to fund postemployment benefits was \$52,292.

OPEB are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. OPEB's are advance funded on an actuarially determined basis.

As of December 31, 2002 (the latest information available), the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively, at December 31, 2002 (the latest information available). The number of benefit recipients eligible for OPEB at December 31, 2002 (the latest information available) was 402,041.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

**NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Additional information on the OPERS, including historical trend information showing the progress in accumulating sufficient assets to pay benefits when due is available in the OPERS December 31, 2003, Comprehensive Annual Financial Report.

**B. Ohio Police and Fire Pension Fund**

The 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, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. 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 number of participants eligible to receive health care benefits as of December 31, 2002 (the latest information available), is 13,174 for police officers and 10,239 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters was \$46,290. OP&F's total health care expense for the year ending December 31, 2002 (the latest information available), was \$122.299 million, which was net of member contributions of \$6.875 million.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 16 - 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 Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is 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/expenses 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).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

	<b>Net Change in Fund Balance</b>	
	<u>General</u>	<u>25% Street Construction</u>
Budget basis	\$ (769,485)	\$(157,939)
Net adjustment for revenue accruals	(57,641)	(4,499)
Net adjustment for expenditure accruals	106,487	(105,665)
Adjustment for encumbrances	<u>119,751</u>	<u>198,477</u>
GAAP basis	<u>\$ (600,888)</u>	<u>\$ (69,626)</u>

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 17 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2003.

**B. Litigation**

The City is currently not involved in litigation that the City's legal counsel anticipates a loss.



# JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

333 County Line Road West  
Westerville, Ohio 43082

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## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Members of Council and Mayor  
City of Ontario  
555 Stumbo Road  
Ontario, Ohio 44906

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County (the “City”) as of and for the year ended December 31, 2003, and have issued our report thereon dated September 16, 2005. During the year ended December 31, 2003, the City restated capital assets for errors and omissions and the retroactive reporting of infrastructure capital assets. In addition, the City’s long-term obligations were restated to properly report the Park Land Acquisition Bonds as disclosed in Note 3. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated September 16, 2005.

Members of Council and Mayor  
City of Ontario

Compliance and Other Matters

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 grant agreements, 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*.

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



Julian & Grube, Inc.  
September 16, 2005



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**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  
NOVEMBER 10, 2005**