



Mary Taylor, CPA
Auditor of State

**CITY OF TORONTO
JEFFERSON COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Toronto
Jefferson County
P.O. Box 189
Toronto, Ohio 43964

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Toronto, Jefferson County, Ohio (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. The financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements exclude certain capital assets and related depreciation for the Water Fund and business type activities. Accounting principles generally accepted in the United States of America require that capital assets and related depreciation be reported, which would increase the assets and net assets and change the expenses in the business type activities and Water Fund. We cannot reasonably determine the amount by which this departure would increase the amounts reported for these capital assets, net assets, fund balances, and expenses.

In our opinion, except for the effects of not reporting certain capital assets and the depreciation for the business type activities and the Water Fund, as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the Water Fund of the City of Toronto, Jefferson County, Ohio as of December 31, 2005 and the respective changes in financial position and where applicable, the cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General, the Fire Truck, the Sewer and the Refuse major funds and the aggregate remaining fund information for the City of Toronto, Jefferson County, Ohio, as of December 31, 2005 and the respective changes in the financial position thereof and the respective budgetary comparison for the General Fund and the Fire Truck Levy Fund, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We did not audit and do not express an opinion on this information. However, we have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. As a result of our limited procedures, we believe Management's Discussion and Analysis does not conform to Government Accounting Standards Board guideline, since as discussed in paragraph three, business type activities' assets and net assets presented in Table I are understated and the expenses presented in Table 2 are understated since there are capital assets a the depreciation thereof that have not been reported.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

January 17, 2008

City of Toronto
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

The discussion and analysis of the City of Toronto's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- General revenues accounted for \$2,247,510 in revenue or 51 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,210,395 or 49 percent of total revenues of \$4,457,905.
- Total program expenses were \$4,214,040; \$2,465,163 in governmental activities and \$1,748,877 in business-type activities.
- In total, net assets increased \$243,865. Net assets of governmental activities increased \$248,736, which represents a 9 percent increase from 2004. Net assets of business-type activities decreased \$4,871 from 2004.
- Outstanding debt increased from \$9,045,424 to \$13,756,697 through the issuance of new debt.

Using this Annual Financial Report

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

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2005 and how they affected the operations of the City as a whole.

Reporting the City of Toronto as a Whole

Statement of Net Assets and the Statement of Activities

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

City of Toronto
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

A question typically asked about the City's finances "How did we do financially during fiscal year 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

- ✓ Governmental Activities - Most of the City's programs and services are reported here, including general government, security of persons and property, community environment, leisure time activities and transportation.
- ✓ Business-Type Activities - These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's Water, Sewer and Refuse Funds are reported as business activities.

Reporting the City of Toronto's Most Significant Funds

Fund Financial Statements

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

Governmental Funds - Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance operations. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Street Maintenance and Repair Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

City of Toronto
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the General Fund and the Street Maintenance and Repair Fund to demonstrate compliance with this budget.

Proprietary Funds - Proprietary funds use the same basis of accounting as business-type activities (water, sewer and refuse); therefore, these statements will essentially match.

The City of Toronto as a Whole

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

Table 1 provides a summary of the City's net assets for 2005 compared to 2004:

(Table 1)
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Assets | | | | | | |
| Current and Other Assets | \$ 1,816,594 | \$ 1,796,544 | \$ 539,706 | \$ 547,925 | \$ 2,356,300 | \$ 2,344,469 |
| Capital Assets | 1,722,187 | 1,803,893 | 14,676,469 | 10,262,541 | 16,398,656 | 12,066,434 |
| Total Assets | 3,538,781 | 3,600,437 | 15,216,175 | 10,810,466 | 18,754,956 | 14,410,903 |
| Liabilities | | | | | | |
| Long-Term Liabilities | 473,629 | 608,163 | 13,601,922 | 8,782,359 | 14,075,551 | 9,390,522 |
| Other Liabilities | 270,167 | 446,025 | 382,876 | 791,859 | 653,043 | 1,237,884 |
| Total Liabilities | 743,796 | 1,054,188 | 13,984,798 | 9,574,218 | 14,728,594 | 10,628,406 |
| Net Assets | | | | | | |
| Invested in Capital | | | | | | |
| Assets Net of Debt | 1,653,293 | 1,551,854 | 1,056,718 | 1,548,471 | 2,710,011 | 3,100,325 |
| Restricted | 635,555 | 866,404 | 0 | 0 | 635,555 | 866,404 |
| Unrestricted (Deficit) | 506,137 | 127,991 | 174,659 | (312,223) | 680,796 | (184,232) |
| Total Net Assets | \$ 2,794,985 | \$ 2,546,249 | \$ 1,231,377 | \$ 1,236,248 | \$ 4,026,362 | \$ 3,782,497 |

Total assets increased by \$4,344,053 with governmental assets decreasing by \$61,656 and business-type assets increasing by \$4,405,709. An increase of \$4,332,131 in total capital assets reflects the construction of a new water treatment plant. This was the majority of the increase in business-type assets. Total liabilities increased by \$4,100,188 with governmental liabilities decreasing \$310,392 and business-type liabilities increasing \$4,410,580. The majority of this increase was \$4,989,907 of loans proceeds from OWDA for the new water treatment plant in business-type activities.

Total net assets increased by \$243,865. This number reflects an increase of \$248,736 in governmental activities and a decrease of \$4,871 in the net assets of the business-type activities.

City of Toronto
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2005. This table presents two fiscal years in side-by-side comparisons, which will enable the reader to draw further conclusion about the City's financial status and possibly project future problems.

(Table 2)
Changes in Net Assets

| | Governmental Activities | Business-Type Activities | Total | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|----------------------------|-----------------------------|-------------------|
| | 2005 | 2005 | 2005 | 2004 | 2004 | 2004 |
| Revenues | | | | | | |
| <i>Program Revenues:</i> | | | | | | |
| Charges for Services and Sales | \$ 132,692 | \$ 1,720,193 | \$ 1,852,885 | \$ 122,231 | \$ 1,602,019 | \$ 1,724,250 |
| Operating Grants and Contributions | 344,640 | 11,870 | 356,510 | 793,132 | 200,000 | 993,132 |
| Capital Grants and Contributions | 0 | 1,000 | 1,000 | 99,997 | 0 | 99,997 |
| <i>General Revenues:</i> | | | | | | |
| Property Taxes | 371,167 | 0 | 371,167 | 326,618 | 0 | 326,618 |
| Income Taxes | 1,548,720 | 0 | 1,548,720 | 1,183,265 | 0 | 1,183,265 |
| Grants and Entitlements | 232,348 | 0 | 232,348 | 361,043 | 0 | 361,043 |
| Investment Earnings | 32,668 | 0 | 32,668 | 5,212 | 0 | 5,212 |
| Gain on Sale of Assets | 0 | 0 | 0 | 2,500 | 0 | 2,500 |
| Miscellaneous | 56,564 | 6,043 | 62,607 | 49,197 | 9,907 | 59,104 |
| Total Revenues | 2,718,799 | 1,739,106 | 4,457,905 | 2,943,195 | 1,811,926 | 4,755,121 |
| Program Expenses | | | | | | |
| General Government | 381,056 | 0 | 381,056 | 330,001 | 0 | 330,001 |
| Security of Persons and Property | 1,412,315 | 0 | 1,412,315 | 1,413,522 | 0 | 1,413,522 |
| Public Health Services | 26,407 | 0 | 26,407 | 38,481 | 0 | 38,481 |
| Leisure Time Activities | 131,740 | 0 | 131,740 | 145,930 | 0 | 145,930 |
| Community and Economic Development | 209,594 | 0 | 209,594 | 286,103 | 0 | 286,103 |
| Transportation | 292,026 | 0 | 292,026 | 271,714 | 0 | 271,714 |
| Interest and Fiscal Charges | 12,025 | 0 | 12,025 | 29,213 | 0 | 29,213 |
| <i>Enterprise Operations:</i> | | | | | | |
| Water | 0 | 843,074 | 843,074 | 0 | 887,347 | 887,347 |
| Sewer | 0 | 516,603 | 516,603 | 0 | 500,194 | 500,194 |
| Refuse | 0 | 389,200 | 389,200 | 0 | 384,467 | 384,467 |
| Total Program Expenses | 2,465,163 | 1,748,877 | 4,214,040 | 2,514,964 | 1,772,008 | 4,286,972 |
| Increase in Net Assets Before Transfers | 253,636 | (9,771) | 243,865 | 428,231 | 39,918 | 468,149 |
| Transfers | (4,900) | 4,900 | 0 | (120,148) | 120,148 | 0 |
| Increase in Net Assets | \$ 248,736 | \$ (4,871) | \$ 243,865 | \$ 308,083 | \$ 160,066 | \$ 468,149 |

City of Toronto
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Governmental Activities

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

The City's income tax is at a rate of 1.5 percent. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100 percent credit up to 1.5 percent for those who pay income tax to another city. City Council could by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

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

Police and fire represent the largest expense of the Governmental Activities. This expense of \$1,412,315 represents 58 percent of the total expenses. These two departments operate out of the General Fund.

The City also maintains a health department (public health services) and a park (leisure time services) within the City. These areas had expenses of \$158,147 in 2005 equaling 7 percent of the total governmental services expenses.

Business-Type Activities

Business-type activities include water, sewer and refuse operations. The revenues are generated primarily from charges for services. In 2005, charges for services of \$1,720,193 accounted for 99 percent of the business-type revenues. The total expenses for the utilities were \$1,748,877. The City had a decrease in net assets of \$4,871 for the business-type activities.

The City's Funds

Information about the City's governmental funds begins on page 13. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$2,818,951 and expenditures of \$2,667,594. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 20. These funds are accounted for on an accrual basis. All business type funds had operating expenses of \$1,715,043 which was less than operating revenues of \$1,726,236, by \$11,193 or one percent of operating revenues.

City of Toronto
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2005, the City amended its General Fund budget on various occasions. All recommendations for appropriation changes come to Council from the City Auditor. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the General Fund, budget basis revenue was \$1,872,589, over the original budget estimates of \$1,839,300. Of this \$33,289 increase, most was attributable to increased income tax and intergovernmental revenues.

For the General Fund, the final appropriations were \$1,666,882, representing a \$54,979 increase from the original appropriations of \$1,611,903.

Capital Assets and Debt Administration

Capital Assets

At the end of year 2005, the City had \$16,398,656 invested in land, construction in progress, works of art, buildings, land improvements, equipment, vehicles, water and sewer lines. A total of \$1,722,187 of this was for governmental activities with the remainder attributable to business-type activities. Table 3 shows fiscal year 2005 balances compared with 2004.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|---------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Land | \$ 140,000 | \$ 140,000 | \$ 43,904 | \$ 42,904 | \$ 183,904 | \$ 182,904 |
| Construction in Progress | 0 | 0 | 13,233,183 | 8,740,441 | 13,233,183 | 8,740,441 |
| Work of Art | 17,500 | 17,500 | 0 | 0 | 17,500 | 17,500 |
| Buildings | 220,567 | 232,002 | 885,000 | 915,000 | 1,105,567 | 1,147,002 |
| Land Improvements | 395,731 | 420,709 | 0 | 0 | 395,731 | 420,709 |
| Equipment | 70,269 | 74,974 | 0 | 0 | 70,269 | 74,974 |
| Vehicles | 878,120 | 918,708 | 167,282 | 199,296 | 1,045,402 | 1,118,004 |
| Water and Sewer Lines | 0 | 0 | 347,100 | 364,900 | 347,100 | 364,900 |
| Totals | <u>\$ 1,722,187</u> | <u>\$ 1,803,893</u> | <u>\$ 14,676,469</u> | <u>\$ 10,262,541</u> | <u>\$ 16,398,656</u> | <u>\$ 12,066,434</u> |

The \$4,332,222 increase in capital assets was attributable to additional purchases exceeding depreciation expense. The most significant addition in 2005 was the construction of a new water treatment plant. Note 9 provides capital asset activity during the 2005 year.

City of Toronto
Management's Discussion and Analysis (Continued)
For the Year Ended December 31, 2005
(Unaudited)

Debt

The outstanding debt for the City of Toronto as of December 31, 2005 was \$13,756,697 with \$121,133 due within one year. Table 4 summarizes outstanding debt.

(Table 4)
Outstanding Debt, at December 31

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|-------------------|--------------------------|---------------------|----------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Installment Loan | \$ 68,894 | \$ 231,539 | \$ 0 | \$ 0 | \$ 68,894 | \$ 231,539 |
| Police and Fire Pension | 140,623 | 142,986 | 0 | 0 | 140,623 | 142,986 |
| General Obligation Bonds | 0 | 0 | 51,821 | 84,586 | 51,821 | 84,586 |
| OWDA Loans | 0 | 0 | 13,495,359 | 8,565,813 | 13,495,359 | 8,565,813 |
| Note Payable | 0 | 20,500 | 0 | 0 | 0 | 20,500 |
| <i>Total</i> | <u>\$ 209,517</u> | <u>\$ 395,025</u> | <u>\$ 13,547,180</u> | <u>\$ 8,650,399</u> | <u>\$ 13,756,697</u> | <u>\$ 9,045,424</u> |

Additional information concerning the City's debt can be found in Note 16 to the basic financial statements.

Current Financial Issues

Due to only having 1.5 percent wage tax in 2005, the City was not able to complete any capital improvements, such as street improvement and purchasing of any new vehicles.

The City placed itself in a fiscal restrain due to low revenue and increased costs. The City cut out all unnecessary expenses and reduced labor costs to finish the year in the black.

The water plant treatment improvement was not completed as planned due to weather delays, which will cost the City more in overrides. The City was not able to sell water to the county as scheduled. There was a six month delay and the first payment on the loan was extended by six months, until July 1, 2006.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bob Owen, City of Toronto, 308 North Sixth St., Toronto, Ohio 43964, telephone 740-537-4505 or email tauditor@1st.net.

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City of Toronto
Statement of Net Assets
 December 31, 2005

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 371,212 | \$ 202,416 | \$ 573,628 |
| Materials and Supplies Inventory | 3,852 | 40,076 | 43,928 |
| Accrued Interest Receivable | 23,231 | 0 | 23,231 |
| Accounts Receivable | 0 | 217,962 | 217,962 |
| Intergovernmental Receivable | 511,770 | 0 | 511,770 |
| Prepaid Items | 14,758 | 30,500 | 45,258 |
| Taxes Receivable | 760,557 | 0 | 760,557 |
| Loans Receivable | 131,214 | 0 | 131,214 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | 0 | 48,752 | 48,752 |
| Non-Depreciable Capital Assets | 157,500 | 13,277,087 | 13,434,587 |
| Depreciable Capital Assets, net | 1,564,687 | 1,399,382 | 2,964,069 |
| <i>Total Assets</i> | <u>3,538,781</u> | <u>15,216,175</u> | <u>18,754,956</u> |
| Liabilities | | | |
| Accounts Payable | 20,389 | 23,879 | 44,268 |
| Contracts Payable | 0 | 301,823 | 301,823 |
| Intergovernmental Payable | 55,957 | 8,422 | 64,379 |
| Due to Others | 0 | 48,752 | 48,752 |
| Deferred Revenue | 193,821 | 0 | 193,821 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 24,258 | 116,138 | 140,396 |
| Due in More Than One Year | 449,371 | 13,485,784 | 13,935,155 |
| <i>Total Liabilities</i> | <u>743,796</u> | <u>13,984,798</u> | <u>14,728,594</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 1,653,293 | 1,056,718 | 2,710,011 |
| Restricted for Capital Outlay | 21,457 | 0 | 21,457 |
| Restricted for Other Purposes | 614,098 | 0 | 614,098 |
| Unrestricted | 506,137 | 174,659 | 680,796 |
| <i>Total Net Assets</i> | <u>\$ 2,794,985</u> | <u>\$ 1,231,377</u> | <u>\$ 4,026,362</u> |

See accompanying notes to the basic financial statements.

City of Toronto
Statement of Activities
For the Year Ended December 31, 2005

| | Program Revenues | | | | Net (Expense) Revenue and Change | |
|---|---------------------|--------------------------------|------------------------------------|----------------------------------|----------------------------------|--------------------------|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities |
| Governmental Activities: | | | | | | |
| General Government | \$ 381,056 | \$ 54,759 | \$ 6,087 | \$ 0 | \$ (320,210) | \$ 0 |
| Security of Persons and Property | 1,412,315 | 36,444 | 9,643 | 0 | (1,366,228) | 0 |
| Public Health | 26,407 | 2,855 | 0 | 0 | (23,552) | 0 |
| Leisure Time Services | 131,740 | 38,634 | 11,288 | 0 | (81,818) | 0 |
| Community and Economic Development | 209,594 | 0 | 10 | 0 | (209,584) | 0 |
| Transportation | 292,026 | 0 | 317,612 | 0 | 25,586 | 0 |
| Interest and Fiscal Charges | 12,025 | 0 | 0 | 0 | (12,025) | 0 |
| <i>Total Governmental Activities</i> | <u>2,465,163</u> | <u>132,692</u> | <u>344,640</u> | <u>0</u> | <u>(1,987,831)</u> | <u>0</u> |
| Business-Type Activities: | | | | | | |
| Water Fund | 843,074 | 412,214 | 0 | 0 | 0 | (430,860) |
| Sewer Fund | 516,603 | 594,294 | 0 | 0 | 0 | 77,691 |
| Refuse Fund | 389,200 | 713,685 | 11,870 | 1,000 | 0 | 337,355 |
| <i>Total Business-Type Activities</i> | <u>1,748,877</u> | <u>1,720,193</u> | <u>11,870</u> | <u>1,000</u> | <u>0</u> | <u>(15,814)</u> |
| <i>Total - Primary Government</i> | <u>\$ 4,214,040</u> | <u>\$ 1,852,885</u> | <u>\$ 356,510</u> | <u>\$ 1,000</u> | <u>\$ (1,987,831)</u> | <u>\$ (15,814)</u> |
| General Revenues: | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | | 161,966 | |
| Other Purposes | | | | | 209,201 | |
| Income Taxes Levied for: | | | | | | |
| General Purposes | | | | | 1,548,720 | |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 232,348 | |
| Investment Earnings | | | | | 32,668 | |
| Transfers | | | | | (4,900) | 4,900 |
| Miscellaneous | | | | | 56,564 | 6,043 |
| <i>Total General Revenues</i> | | | | | <u>2,236,567</u> | <u>10,943</u> |
| <i>Change in Net Assets</i> | | | | | <u>248,736</u> | <u>(4,871)</u> |
| <i>Net Assets Beginning of Year</i> | | | | | <u>2,546,249</u> | <u>1,236,248</u> |
| <i>Net Assets End of Year</i> | | | | | <u>\$ 2,794,985</u> | <u>\$ 1,231,377</u> |

See accompanying notes to the basic financial statements.

es in Net Assets

Total

\$ (320,210)
(1,366,228)
(23,552)
(81,818)
(209,584)
25,586
(12,025)

(1,987,831)

(430,860)
77,691
337,355

(15,814)

\$ (2,003,645)

161,966
209,201

1,548,720
232,348
32,668
0
62,607

2,247,510

243,865

3,782,497

\$ 4,026,362

City of Toronto
Balance Sheet
Governmental Funds
December 31, 2005

| | General Fund | Street Maintenance and Repair | All Other Governmental Funds | Total Governmental Funds |
|---|-------------------|----------------------------------|------------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 83,876 | \$ 62,988 | \$ 224,348 | \$ 371,212 |
| Materials and Supplies Inventory | 0 | 3,852 | 0 | 3,852 |
| Accrued Interest Receivable | 23,231 | 0 | 0 | 23,231 |
| Intergovernmental Receivable | 101,594 | 133,019 | 277,157 | 511,770 |
| Prepaid Items | 8,258 | 6,500 | 0 | 14,758 |
| Taxes Receivable | 690,781 | 0 | 69,776 | 760,557 |
| Loans Receivable | 0 | 0 | 131,214 | 131,214 |
| <i>Total Assets</i> | <u>\$ 907,740</u> | <u>\$ 206,359</u> | <u>\$ 702,495</u> | <u>\$ 1,816,594</u> |
| Liabilities | | | | |
| Accounts Payable | 13,173 | 5,659 | 1,557 | 20,389 |
| Intergovernmental Payable | 6,711 | 1,584 | 47,662 | 55,957 |
| Deferred Revenue | 729,756 | 113,762 | 357,277 | 1,200,795 |
| <i>Total Liabilities</i> | <u>749,640</u> | <u>121,005</u> | <u>406,496</u> | <u>1,277,141</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 0 | 0 | 4,987 | 4,987 |
| Reserved for Inventory | 0 | 3,852 | 0 | 3,852 |
| Reserved for Loans Receivable | 0 | 0 | 131,214 | 131,214 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 158,100 | 0 | | 158,100 |
| Special Revenue Funds | 0 | 81,502 | 138,341 | 219,843 |
| Capital Projects Funds | 0 | 0 | 21,457 | 21,457 |
| <i>Total Fund Balances</i> | <u>158,100</u> | <u>85,354</u> | <u>295,999</u> | <u>539,453</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 907,740</u> | <u>\$ 206,359</u> | <u>\$ 702,495</u> | <u>\$ 1,816,594</u> |

See accompanying notes to the basic financial statements.

City of Toronto
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2005*

| | | |
|--|-----------|--------------|
| Total Governmental Fund Balances | | \$ 539,453 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because</i> | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds | | 1,722,187 |
| Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds: | | |
| Property Taxes | \$ 32,557 | |
| Income Tax | 496,291 | |
| Intergovernmental | 478,125 | |
| Total | 1,006,973 | 1,006,973 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | | |
| Loan Payable | (68,894) | |
| Police and Fire Pension | (140,623) | |
| Compensated Absences | (264,111) | |
| Total | (473,628) | (473,628) |
| <i>Net Assets of Governmental Activities</i> | | \$ 2,794,985 |

See accompanying notes to the basic financial statements

City of Toronto
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ending December 31, 2005

| | General Fund | Street Maintenance and Repair | All Other Governmental Funds | Total Governmental Funds |
|---|-------------------|----------------------------------|------------------------------------|--------------------------------|
| Revenues | | | | |
| Property Taxes | \$ 150,009 | \$ 0 | \$ 192,383 | \$ 342,392 |
| Income Taxes | 1,283,646 | 0 | 0 | 1,283,646 |
| Charges for Services | 46,961 | 0 | 38,634 | 85,595 |
| Licenses and Permits | 24,259 | 0 | 0 | 24,259 |
| Fines and Forfeitures | 22,429 | 0 | 409 | 22,838 |
| Intergovernmental | 277,781 | 302,918 | 246,757 | 827,456 |
| Interest | 28,651 | 0 | 4,017 | 32,668 |
| Other | 42,555 | 421 | 13,588 | 56,564 |
| <i>Total Revenues</i> | <u>1,876,291</u> | <u>303,339</u> | <u>495,788</u> | <u>2,675,418</u> |
| Expenditures | | | | |
| General Government | 381,026 | 0 | 30 | 381,056 |
| Security of Persons and Property | 1,170,920 | 0 | 175,084 | 1,346,004 |
| Public Health | 26,407 | 0 | 0 | 26,407 |
| Lesiure Time Services | 0 | 0 | 84,987 | 84,987 |
| Community and Economic Development | 0 | 0 | 209,594 | 209,594 |
| Transportation | 6,052 | 272,128 | 0 | 278,180 |
| Capital Outlay | 0 | 0 | 15,900 | 15,900 |
| Debt Service: | | | | |
| Principal Retirements | 22,772 | 0 | 142,236 | 165,008 |
| Interest and Fiscal Charges | 2,436 | 118 | 9,471 | 12,025 |
| <i>Total Expenditures</i> | <u>1,609,613</u> | <u>272,246</u> | <u>637,302</u> | <u>2,519,161</u> |
| <i>Excess of Revenues Over(Under) Expenditures</i> | <u>266,678</u> | <u>31,093</u> | <u>(141,514)</u> | <u>156,257</u> |
| Other Financing Sources and Uses | | | | |
| Transfers In | 0 | 0 | 143,533 | 143,533 |
| Transfers Out | (148,433) | 0 | 0 | (148,433) |
| <i>Total Other Financing Sources and Uses</i> | <u>(148,433)</u> | <u>0</u> | <u>143,533</u> | <u>(4,900)</u> |
| <i>Net Change in Fund Balance</i> | 118,245 | 31,093 | 2,019 | 151,357 |
| <i>Fund Balance at Beginning of Year - Restated</i> | 39,855 | 53,091 | 293,980 | 386,926 |
| (Increase) in Reserve for Inventory | 0 | 1,170 | 0 | 1,170 |
| <i>Fund Balance at End of Year</i> | <u>\$ 158,100</u> | <u>\$ 85,354</u> | <u>\$ 295,999</u> | <u>\$ 539,453</u> |

See accompanying notes to the basic financial statements.

City of Toronto
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds \$ 151,357

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

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

| | | | |
|---------------------------|----|----------|----------|
| Capital Asset Additions | \$ | 15,900 | |
| Current Year Depreciation | | (97,606) | |
| Total | | (81,706) | (81,706) |

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

| | | | |
|---------------------------|--|-----------|--------|
| Delinquent Property Taxes | | 28,775 | |
| Income Tax | | 265,074 | |
| Intergovernmental | | (250,468) | |
| Total | | 43,381 | 43,381 |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 165,008

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

| | | | |
|----------------------|--|----------|----------|
| Compensated Absences | | (30,474) | |
| Change in Inventory | | 1,170 | |
| Total | | (29,304) | (29,304) |

Change in Net Assets of Governmental Activities \$ 248,736

See accompanying notes to the basic financial statements.

City of Toronto
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2005

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|------------------|------------------|-------------------|----------------------------|
| Revenues | | | | |
| Property Taxes | \$ 163,900 | \$ 163,900 | \$ 150,009 | \$ (13,891) |
| Income Taxes | 1,260,000 | 1,303,628 | 1,303,175 | (453) |
| Charges for Services | 38,000 | 42,115 | 46,961 | 4,846 |
| Licenses and Permits | 29,800 | 29,800 | 24,259 | (5,541) |
| Fines and Forfeitures | 18,600 | 18,600 | 22,429 | 3,829 |
| Intergovernmental | 296,000 | 296,000 | 277,781 | (18,219) |
| Interest | 1,000 | 3,257 | 5,420 | 2,163 |
| Other | 32,000 | 32,000 | 42,555 | 10,555 |
| <i>Total Revenues</i> | <u>1,839,300</u> | <u>1,889,300</u> | <u>1,872,589</u> | <u>(16,711)</u> |
| Expenditures | | | | |
| General Government | 416,323 | 413,678 | 377,223 | 36,455 |
| Security of Persons and Property | 1,169,200 | 1,192,116 | 1,166,145 | 25,971 |
| Public Health | 26,380 | 26,880 | 26,296 | 584 |
| Transportation | 0 | 9,000 | 7,314 | 1,686 |
| Debt Service: | | | | |
| Principal Retirements | 0 | 22,772 | 22,772 | 0 |
| Interest and Fiscal Charges | 0 | 2,436 | 2,436 | 0 |
| <i>Total Expenditures</i> | <u>1,611,903</u> | <u>1,666,882</u> | <u>1,602,186</u> | <u>64,696</u> |
| Excess of Revenues Over Expenditures | <u>227,397</u> | <u>222,418</u> | <u>270,403</u> | <u>47,985</u> |
| Other Financing Sources and Uses | | | | |
| Transfers Out | <u>(183,433)</u> | <u>(148,433)</u> | <u>(148,433)</u> | <u>0</u> |
| Total Other Financing Sources and Uses | <u>(183,433)</u> | <u>(148,433)</u> | <u>(148,433)</u> | <u>0</u> |
| Fund Balance at Beginning of Year | 43,964 | 73,985 | 121,970 | 47,985 |
| Fund Balance at End of Year | <u>\$ 43,964</u> | <u>\$ 73,985</u> | <u>\$ 121,970</u> | <u>\$ 47,985</u> |

See accompanying notes to the basic financial statements.

City of Toronto
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Maintenance and Repair
For the Year Ended December 31, 2005

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget</u> |
|--|------------------------|---------------------|------------------|---------------------------------------|
| Revenues | | | | |
| Intergovernmental | \$ 237,000 | \$ 289,719 | \$ 303,768 | \$ 14,049 |
| Other | <u>0</u> | <u>2,000</u> | <u>421</u> | <u>(1,579)</u> |
| Total Revenues | <u>237,000</u> | <u>291,719</u> | <u>304,189</u> | <u>12,470</u> |
| Expenditures | | | | |
| Transportation | 269,148 | 303,290 | 261,996 | 41,294 |
| Debt Service: | | | | |
| Principal Retirements | 0 | 20,500 | 20,500 | 0 |
| Interest and Fiscal Charges | <u>0</u> | <u>337</u> | <u>337</u> | <u>0</u> |
| Total Expenditures | <u>269,148</u> | <u>324,127</u> | <u>282,833</u> | <u>41,294</u> |
| Excess of Revenues Over (Under) Expenditures | <u>(32,148)</u> | <u>(32,408)</u> | <u>21,356</u> | <u>53,764</u> |
| Fund Balance (Deficit) at Beginning of Year | (32,148) | (32,408) | 21,356 | 53,764 |
| Fund Balance (Deficit) at End of Year | <u>\$ (32,148)</u> | <u>\$ (32,408)</u> | <u>\$ 21,356</u> | <u>\$ 53,764</u> |

See accompanying notes to the basic financial statements.

City of Toronto
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

| | Business-Type Activities | | | | Totals |
|---|--------------------------|-------------------|-------------------|------------------------|---------------------|
| | Water Fund | Sewer Fund | Refuse Fund | Other Enterprise Funds | |
| Assets | | | | | |
| <i>Current Assets:</i> | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 125,855 | \$ 38,726 | \$ 37,835 | \$ 0 | \$ 202,416 |
| Materials and Supplies Inventory | 38,336 | 1,740 | 0 | 0 | 40,076 |
| Accounts Receivable | 88,892 | 77,259 | 51,811 | 0 | 217,962 |
| Prepaid Items | 10,000 | 9,500 | 11,000 | 0 | 30,500 |
| <i>Total Current Assets</i> | <u>263,083</u> | <u>127,225</u> | <u>100,646</u> | <u>0</u> | <u>490,954</u> |
| <i>Non-Current Assets</i> | | | | | |
| Restricted Equity in Pooled Cash and Cash Equivalents | 0 | 0 | 0 | 48,752 | 48,752 |
| Non-Depreciable Capital Assets | 13,257,087 | 20,000 | 0 | 0 | 13,277,087 |
| Depreciable Capital Assets, net | 385,641 | 938,276 | 75,465 | 0 | 1,399,382 |
| <i>Total Non-Current Assets</i> | <u>13,642,728</u> | <u>958,276</u> | <u>75,465</u> | <u>48,752</u> | <u>14,725,221</u> |
| <i>Total Assets</i> | <u>13,905,811</u> | <u>1,085,501</u> | <u>176,111</u> | <u>48,752</u> | <u>15,216,175</u> |
| Liabilities | | | | | |
| <i>Current Liabilities</i> | | | | | |
| Accounts Payable | 19,855 | 490 | 3,534 | 0 | 23,879 |
| Contracts Payable | 301,823 | 0 | 0 | 0 | 301,823 |
| Intergovernmental Payable | 5,275 | 738 | 2,409 | 0 | 8,422 |
| Due to Others | 0 | 0 | 0 | 48,752 | 48,752 |
| Compensated Absences Payable | 10,415 | 893 | 4,259 | 0 | 15,567 |
| Revenue Bonds Payable | 0 | 13,750 | 0 | 0 | 13,750 |
| OWDA Loans Payable | 0 | 66,391 | 0 | 0 | 66,391 |
| <i>Total Current Liabilities</i> | <u>337,368</u> | <u>82,262</u> | <u>10,202</u> | <u>48,752</u> | <u>478,584</u> |
| <i>Long-Term Liabilities:</i> | | | | | |
| Compensated Absences Payable- net of current portion | 26,356 | 1,789 | 11,028 | 0 | 39,173 |
| Revenue Bonds Payable- net of current portion | 0 | 7,096 | 10,546 | 0 | 17,642 |
| OWDA Loans Payable- net of current portion | 13,187,255 | 241,714 | 0 | 0 | 13,428,969 |
| <i>Total Long-Term Liabilities</i> | <u>13,213,611</u> | <u>250,599</u> | <u>21,574</u> | <u>0</u> | <u>13,485,784</u> |
| <i>Total Liabilities</i> | <u>13,550,979</u> | <u>332,861</u> | <u>31,776</u> | <u>48,752</u> | <u>13,964,368</u> |
| Net Assets | | | | | |
| Invested in Capital Assets, Net of Related Debt | 455,473 | 558,638 | 42,607 | 0 | 1,056,718 |
| Unrestricted | (100,641) | 194,002 | 81,298 | 0 | 174,659 |
| <i>Total Net Assets</i> | <u>\$ 354,832</u> | <u>\$ 752,640</u> | <u>\$ 123,905</u> | <u>\$ 0</u> | <u>\$ 1,231,377</u> |

See accompanying notes to the basic financial statements.

City of Toronto
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

| | Business-Type Activities | | | |
|---|--------------------------|-------------------|-------------------|---------------------|
| | Water Fund | Sewer Fund | Refuse Fund | Totals |
| Operating Revenue | | | | |
| Charges for Services | \$ 713,685 | \$ 594,294 | \$ 412,214 | \$ 1,720,193 |
| Other | 5,858 | 36 | 149 | 6,043 |
| <i>Total Operating Revenues</i> | <u>719,543</u> | <u>594,330</u> | <u>412,363</u> | <u>1,726,236</u> |
| Operating Expenses | | | | |
| Personal Services | 376,752 | 58,695 | 143,106 | 578,553 |
| Fringe Benefits | 115,471 | 31,478 | 47,864 | 194,813 |
| Contractual Services | 239,272 | 354,363 | 176,557 | 770,192 |
| Materials and Supplies | 83,642 | 6,838 | 1,191 | 91,671 |
| Depreciation | 22,974 | 38,197 | 18,643 | 79,814 |
| <i>Total Operating Expenses</i> | <u>838,111</u> | <u>489,571</u> | <u>387,361</u> | <u>1,715,043</u> |
| <i>Operating Income (Loss)</i> | <u>(118,568)</u> | <u>104,759</u> | <u>25,002</u> | <u>11,193</u> |
| Non-Operating Revenues (Expenses) | | | | |
| Intergovernmental | 11,870 | 0 | 0 | 11,870 |
| Interest and Fiscal Charges | (4,963) | (27,032) | (1,839) | (33,834) |
| <i>Total Non-Operating Revenues (Expenses)</i> | <u>6,907</u> | <u>(27,032)</u> | <u>(1,839)</u> | <u>(21,964)</u> |
| <i>Income (Loss) Before Contributions and Transfers</i> | <u>(111,661)</u> | <u>77,727</u> | <u>23,163</u> | <u>(10,771)</u> |
| Capital Contributions | 1,000 | 0 | 0 | 1,000 |
| Transfers In | 0 | 0 | 4,900 | 4,900 |
| <i>Change in Net Assets</i> | <u>(110,661)</u> | <u>77,727</u> | <u>28,063</u> | <u>(4,871)</u> |
| <i>Net Assets at Beginning of Year</i> | <u>465,493</u> | <u>674,913</u> | <u>95,842</u> | <u>1,236,248</u> |
| <i>Net Assets at End of Year</i> | <u>\$ 354,832</u> | <u>\$ 752,640</u> | <u>\$ 123,905</u> | <u>\$ 1,231,377</u> |

See accompanying notes to the basic financial statements.

City of Toronto
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

| | Business-Type Activities | | | | |
|--|--------------------------|-------------------|------------------|-------------------------------|---------------------|
| | Water Fund | Sewer Fund | Refuse Fund | All Other Enterprise Funds | Totals |
| Increase (Decrease) in Cash and Cash Equivalents | | | | | |
| Cash flows from Operating Activities | | | | | |
| Cash Received from Customers | \$ 709,967 | \$ 582,511 | \$ 404,333 | \$ 0 | \$ 1,696,811 |
| Other Operating Receipts | 5,858 | 36 | 149 | 14,300 | 20,343 |
| Cash Payments to Suppliers for Goods and Services | (77,453) | (6,700) | (1,330) | 0 | (85,483) |
| Cash Payments to Employees | (496,020) | (89,689) | (200,517) | 0 | (786,226) |
| Cash Payments for Contractual Services | (642,183) | (349,928) | (164,881) | (14,589) | (1,171,581) |
| <i>Net Cash Provided by (Used for) Operating Activities</i> | <u>(499,831)</u> | <u>136,230</u> | <u>37,754</u> | <u>(289)</u> | <u>(326,136)</u> |
| Cash Flows from Noncapital Financing Activities | | | | | |
| Contributions | 1,000 | 0 | 0 | 0 | 1,000 |
| Intergovernmental Receipts | 11,870 | 0 | 0 | 0 | 11,870 |
| Transfers In | 0 | 0 | 4,900 | 0 | 4,900 |
| <i>Net Cash Provided by Noncapital Financing Activities</i> | <u>12,870</u> | <u>0</u> | <u>4,900</u> | <u>0</u> | <u>17,770</u> |
| Cash Flows from Capital and Related Financing Activities | | | | | |
| Proceeds from Loans | 4,989,907 | 0 | 0 | 0 | 4,989,907 |
| Acquisition of Capital Assets | (4,493,742) | 0 | 0 | 0 | (4,493,742) |
| Principal Payments on Debt | (63,671) | (73,541) | (19,584) | 0 | (156,796) |
| Interest Payments | (4,963) | (27,031) | (1,839) | 0 | (33,833) |
| <i>Net Cash (Used for) Capital and Related Financing Activities</i> | <u>427,531</u> | <u>(100,572)</u> | <u>(21,423)</u> | <u>0</u> | <u>305,536</u> |
| <i>Net Increase (Decrease) in Cash and Cash Equivalents</i> | (59,430) | 35,658 | 21,231 | (289) | (2,830) |
| <i>Cash and Cash Equivalents at Beginning of Year</i> | <u>185,285</u> | <u>3,068</u> | <u>16,604</u> | <u>49,041</u> | <u>253,998</u> |
| <i>Cash and Cash Equivalents at End of Year</i> | <u>\$ 125,855</u> | <u>\$ 38,726</u> | <u>\$ 37,835</u> | <u>\$ 48,752</u> | <u>\$ 251,168</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | | | | | |
| Operating Income (Loss) | \$ (118,568) | \$ 104,759 | 25,002 | 0 | 11,193 |
| Adjustments: | | | | | |
| Depreciation | 22,974 | 38,197 | 18,643 | 0 | 79,814 |
| (Increase) Decrease in Assets: | | | | | |
| Accounts Receivable | (3,718) | (11,783) | (7,881) | 0 | (23,382) |
| Internal Balances | 0 | 0 | 0 | 0 | 0 |
| Prepaid Items | 7,113 | 9,150 | 10,994 | 0 | 27,257 |
| Materials and Supplies Inventory | 1,324 | 190 | 0 | 0 | 1,514 |
| Increase (Decrease) in Liabilities: | | | | | |
| Accounts Payable | 14,252 | (4,772) | 538 | 0 | 10,018 |
| Contracts Payable | (419,491) | 0 | 0 | 0 | (419,491) |
| Customer Deposits | 0 | 0 | 0 | (289) | (289) |
| Compensated Absences Payable | (4,854) | 418 | (9,113) | 0 | (13,549) |
| Claims Payable | 0 | 0 | (429) | 0 | (429) |
| Intergovernmental Payable | 1,137 | 71 | 0 | 0 | 1,208 |
| <i>Net Cash Provided by Operating Activities</i> | <u>\$ (499,831)</u> | <u>\$ 136,230</u> | <u>\$ 37,754</u> | <u>\$ (289)</u> | <u>\$ (326,136)</u> |

See accompanying notes to the basic financial statements.

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements
December 31, 2005

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

The City of Toronto (the City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City Council is composed of eight members, four of whom are elected by their respective electors within their designated wards. Three councilmen at large and a council president are elected by the City at large. The City provides the following services: police and fire protection, water, wastewater and sanitation utilities, parks and recreation, health services, street maintenance, building inspection and development. Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

Reporting Entity

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

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

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

The City is involved with the Ohio Mid-Eastern Governments Association and Jefferson-Belmont Joint Solid Waste Authority, which are defined as jointly governed organizations. Additional information concerning the jointly governed organizations is presented in Note 18.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

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

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Street Maintenance & Repair Special Revenue Fund - The street maintenance and repair special revenue fund is used to account for property taxes levied in the City for the street maintenance.

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

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

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

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

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

Refuse Fund – The refuse fund accounts for the provision of trash disposal for the residents and commercial users located within the City.

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

C. Measurement Focus

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

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Basis of Accounting

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

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

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

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

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

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

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

E. Pooled Cash and Cash Equivalents

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

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

Investment procedures are restricted by the provisions of the Ohio Revised Code and the City's investment policy. Interest revenue credited to the General Fund during 2005 amounted to \$28,651, which includes \$24,249 assigned from other City funds.

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

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the payment and an expenditure/expense is reported in the year in which services are consumed.

G. Materials and Supplies Inventory

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

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Customer deposits have been restricted in the enterprise funds because the deposit remains the property of the customer. The restricted asset account is balanced by a customer deposit payable liability account.

I. Capital Assets

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

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

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

| Description | Governmental Activities Estimated Lives | Business-Type Activities Estimated Lives |
|-------------------|---|--|
| Buildings | 25-50 Years | 50 Years |
| Land Improvements | 15-50 Years | N/A |
| Equipment | 10-25 Years | N/A |
| Vehicles | 8-40 Years | 10-20 Years |
| Infrastructure | N/A | 50 Years |

The City's infrastructure consists of water and sewer lines. The City does not record general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets.

J. Interfund Balances

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future (employees with ten or more years of service). The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the City's termination policy.

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, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, capital leases, and long-term loans are recognized as a liability on the government fund financial statements when due.

M. Fund Balance Reserves

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

N. Net Assets

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

Net assets restricted for other purposes include recreation, street construction and repair, and the operation of the police department.

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Operating Revenues and Expenses

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

P. Interfund Activity

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

R. Estimates

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

S. Budgetary Data

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

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

For fiscal year 2005, the City has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also established and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have a significant effect on the financial statements of the City. Refer to Note 5 for additional documentation concerning GASB Statement No. 40.

Restatement of Fund Balance Due to the implementation of GASB Technical Bulletin No. 2004-2 beginning fund balance was restated to reflect the change in intergovernmental payables. There was no impact on the 2004 Fire Truck Levy Major Fund. It is not a major fund in 2005 and therefore included with all other governmental funds. There was no impact on the Street Fund, which was reported with all other governmental funds in 2004. As a result, nonmajor governmental funds decreased by \$47,427 as follows:

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE
(Continued)

| | General | Street Maintenance & Repair | All Other Governmental | Total |
|---|---------------|-----------------------------------|---------------------------|----------------|
| Fund Balances, 12/31/04 | \$ 39,855 | \$ 53,091 | \$ 341,407 | \$ 434,353 |
| Correction of Intergovernmental Payable GASB Bulletin No. 2004-2 | 0 | 0 | (47,427) | (47,427) |
| <i>Fund Balance at Beginning of Year -Restated</i> | <u>39,855</u> | <u>53,091</u> | <u>293,980</u> | <u>386,926</u> |

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the and fire truck levy major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund and the Street Maintenance and Repair Fund.

Net Change in Fund Balance

| | General | Street Maintenance & Repair |
|----------------------|-------------------|--------------------------------|
| GAAP Basis | \$ 118,245 | \$ 31,091 |
| Revenue accruals | (3,702) | 850 |
| Expenditure accruals | 8,262 | (10,498) |
| Encumbrances | <u>(835)</u> | <u>(87)</u> |
| Budget Basis | <u>\$ 121,970</u> | <u>\$ 21,356</u> |

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the purchase date in any amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

8. Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the City's name. During 2005, the City and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the City's deposits was \$242,021. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of December 31, 2005, \$149,179 of the City's bank balance of \$349,179 was exposed to custodial risk as discussed above, while \$200,000 was covered by Federal Deposit Insurance Corporation.

Investments

As of December 31, 2005, the City had the following investments and maturities:

| Investment Type | Fair Value | Investment Maturities | | | |
|-----------------------|------------|-----------------------|----------------|-----------------|-----------------|
| | | 6 Months or Less | 7 to 12 Months | 13 to 18 Months | 19 to 24 Months |
| Repurchase Agreements | \$ 380,359 | \$ 380,359 | \$ 0 | \$ 0 | \$ 0 |

The City has no investment policy in place at this time.

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk. The City's repurchase agreement is an unrated investment.

Concentration of Credit Risk. The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the City at December 31, 2005:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Percent of Total</u> |
|------------------------|-------------------|-------------------------|
| Repurchase Agreement | <u>\$ 380,359</u> | <u>100%</u> |

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property, and tangible personal property located in the City. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) and for 2005 taxes.

2005 real property taxes were levied after October 1, 2004 on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2005.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes which became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2005 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the values as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value.

The full tax rate for all City operations for the year ended December 31, 2005 was \$5.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 6 - PROPERTY TAXES (Continued)

| | |
|----------------------------|-----------------------------|
| Real Property | \$ 46,086,260 |
| Tangible Personal Property | 23,230,790 |
| Public Utilities | <u>3,060,830</u> |
| Total | <u><u>\$ 72,377,880</u></u> |

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

NOTE 7 - RECEIVABLES

Receivables at December 31, 2005 consisted of taxes, accounts (billings for user charged services including unbilled utility services), loans, and intergovernmental receivables arising from grants and shared revenues. All receivables are deemed collectible in full.

The governmental funds reflect housing loans receivable of \$11,623. The housing loans receivable are for financing the sale of City property to individuals as a home mortgage. The loans were issued at 4-5 percent interest. The loans are to be repaid over a period of ten years. Also, included in the governmental funds are revolving loans of \$119,591. These business revolving loans were issued to local downtown business owners to improve their facades and sidewalks. The loans were issued at 4-5 percent interest. They are to be repaid over periods ranging from ten to twelve years.

NOTE 8 - INCOME TAX

The City levies a municipal income tax of 1.5 percent on gross salaries, wages and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a credit up to 1.5 percent for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individuals are required to pay their estimated tax quarterly and file a declaration annually. Income tax revenues are credited to the general fund.

NOTE 9 - CAPITAL ASSETS

A summary of changes in capital assets during 2005 follows:

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 9 – CAPITAL ASSETS (Continued)

| | Balance 1/1/2005 | Additions | Deletions | Balance 12/31/2005 |
|--|---------------------|-------------|-----------|-----------------------|
| Governmental Activities | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Land | \$ 140,000 | \$ 0 | \$ 0 | \$ 140,000 |
| Work of Art | 17,500 | 0 | 0 | 17,500 |
| <i>Total Capital Assets Not Being Depreciated</i> | 157,500 | 0 | 0 | 157,500 |
| <i>Capital Assets, Being Depreciated:</i> | | | | |
| Buildings | 538,000 | 0 | 0 | 538,000 |
| Land Improvements | 1,000,000 | 15,900 | 0 | 1,015,900 |
| Equipment | 111,279 | 0 | 0 | 111,279 |
| Vehicles | 1,187,426 | 0 | 0 | 1,187,426 |
| <i>Total Capital Assets, Being Depreciated</i> | 2,836,705 | 15,900 | 0 | 2,852,605 |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Buildings | 305,998 | 11,435 | 0 | 317,433 |
| Land Improvements | 579,291 | 40,878 | 0 | 620,169 |
| Equipment | 36,305 | 4,705 | 0 | 41,010 |
| Vehicles | 268,718 | 40,588 | 0 | 309,306 |
| <i>Total Accumulated Depreciation</i> | 1,190,312 | 97,606 | 0 | 1,287,918 |
| <i>Total Capital Assets Being Depreciated, Net</i> | 1,646,393 | (81,706) | 0 | 1,564,687 |
| <i>Total Governmental Activities Capital Assets, Net</i> | \$ 1,803,893 | \$ (81,706) | \$ 0 | \$ 1,722,187 |

Depreciation expense was charged to governmental functions as follows:

| | |
|----------------------------------|---------------|
| Security of Persons and Property | \$ 35,994 |
| Leisure Time Activities | 46,753 |
| Transportation | 14,859 |
| Total | \$ 97,606 |

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 9 - CAPITAL ASSETS (Continued)

| | Balance 1/1/2005 | Additions | Deletions | Balance 12/31/2005 |
|--|----------------------|---------------------|-------------|-----------------------|
| Business-Type Activities | | | | |
| <i>Capital Assets Not Being Depreciated:</i> | | | | |
| Land | \$ 42,904 | \$ 1,000 | \$ 0 | \$ 43,904 |
| Construction in Progress | 8,740,441 | 4,492,742 | 0 | 13,233,183 |
| <i>Total Capital Assets Not Being Depreciated</i> | <u>8,783,345</u> | <u>4,493,742</u> | <u>0</u> | <u>13,277,087</u> |
| <i>Capital Assets, Being Depreciated:</i> | | | | |
| Buildings | 1,500,000 | 0 | 0 | 1,500,000 |
| Vehicles | 344,398 | 0 | 0 | 344,398 |
| Water Lines | 890,000 | 0 | 0 | 890,000 |
| Sewer Lines | 105,199 | 0 | 0 | 105,199 |
| <i>Total Capital Assets Being Depreciated</i> | <u>2,839,597</u> | <u>0</u> | <u>0</u> | <u>2,839,597</u> |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Buildings | 585,000 | 30,000 | 0 | 615,000 |
| Vehicles | 145,102 | 32,014 | 0 | 177,116 |
| Water Lines | 525,100 | 17,800 | 0 | 542,900 |
| Sewer Lines | 105,199 | 0 | 0 | 105,199 |
| <i>Total Accumulated Depreciation</i> | <u>1,360,401</u> | <u>79,814</u> | <u>0</u> | <u>1,440,215</u> |
| <i>Total Capital Assets Being Depreciated, Net</i> | <u>1,479,196</u> | <u>(79,814)</u> | <u>0</u> | <u>1,399,382</u> |
| <i>Total Business-Type Capital Assets, Net</i> | <u>\$ 10,262,541</u> | <u>\$ 4,413,928</u> | <u>\$ 0</u> | <u>\$ 14,676,469</u> |

NOTE 10 - RISK MANAGEMENT

Risk Pool Membership

The City belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool ("APEEP"). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 10 - RISK MANAGEMENT (Continued)

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective local government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2004, latest information available.

| | |
|--------------------------|----------------------|
| <u>Casualty Coverage</u> | <u>2004</u> |
| Assets | \$ 30,547,049 |
| Liabilities | <u>(16,989,918)</u> |
| Retained Earnings | <u>\$ 13,557,131</u> |
| | |
| <u>Property Coverage</u> | |
| Assets | \$ 3,652,970 |
| Liabilities | <u>(544,771)</u> |
| Retained Earnings | <u>\$ 3,108,199</u> |

There was no reduction in insurance coverage, as compared to the prior year and insurance was sufficient to cover settlements in 2003, 2004 and 2005.

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

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City of Toronto participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that 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 (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salaries; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004 and 2003 were \$75,899, \$79,510 and \$75,018, respectively. 91 percent has been contributed for 2005 and 100 percent for 2004 and 2003.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters were \$63,508 and \$44,048 for the year ended December 31, 2005, \$63,533 and \$44,163 for the year ended December 31, 2004, \$63,310 and \$41,961 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 72 percent and 73 percent has been contributed for 2005.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2005, the unfunded liability of the City was \$140,623, payable in semi-annual payments through the year 2035. This is an accounting liability of the City which will not vary. The liability is presented as "Police and Fire Pension Payable" in the governmental activities columns of the statement of net assets.

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1 percent and 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 376,109. The City's actual employer contributions for 2005, which were used to fund postemployment benefits were \$31,789. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2005, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care cost paid from the

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
December 31, 2005

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$41,888 for police and \$21,008 for fire. The OP&F's total health care expenses for the year ended December 31, 2004 (the latest information available) were \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

NOTE 13 - OTHER EMPLOYEE BENEFITS

A. Additional Insurance

The City provides life insurance and accidental death and dismemberment insurance to employees, excluding part-time elected officials and appointed part-time officials. The policy is in the amount of \$15,000 life insurance and \$15,000 accidental death and dismemberment.

The City offers two different health care plans with employees having the option of which plan to choose. The City contracts with Health America for hospitalization insurance for all employees, excluding part-time elected and part-time appointed officials. The City pays 100 percent of the total monthly premiums of \$947.14 family health care, \$423.11 single health care, \$715.06 employee plus children health care and \$981.61 employee plus spouse health care through Health America. The City also contracts with Ohio AFSCME Eye Care in which the City pays 100 percent of the total monthly premium of \$187.50 for family or single eye and hearing care for AFSCME members. Premiums are paid from the same funds that pay the employees' salaries.

B. Compensated Absences

The criteria for determining vested vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation time based on the length of service. Typically, vacation can not be carried over, however, unforeseen circumstances may come into play and the superintendent may elect to permit an employee to carryover minimal vacation time. Sick leave is accumulated at a rate of 4.6 hours per each 80 hours worked. For employees that work less than a 40 hour work week, the sick leave accumulation is prorated based on 4.6 hours per 80 hours worked. All accumulated, unused vacation time and personal days are paid upon separation if the employee has acquired at least one year of service with the City. Upon separation, AFSCME members are paid for a maximum of 440 hours of accumulated sick time provided they have five years of service with the City. Police are paid one-half of accumulated sick time with no maximum provided they have five years of service with the City. Upon separation, firefighters are paid for a maximum of 480 hours of accumulated sick time provided they have five years of service with the City. As of December 31, 2005, the liability for unpaid compensated absences was \$318,851.

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 14 – TRANSFERS

The City made the following transfers during 2005:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-------------------|---------------------|----------------------|
| General | \$ 0 | \$ 148,433 |
| New City Building | 0 | 0 |
| Police Pension | 89,600 | 0 |
| Recreation | 5,000 | 0 |
| Fire Pension | 48,933 | 0 |
| Sewer | 0 | 0 |
| Refuse | 4,900 | 0 |
| Total | <u>\$ 148,433</u> | <u>\$ 148,433</u> |

The General Fund transferred \$148,433 to various other governmental and business-type funds to distribute income tax revenue.

NOTE 15 - CONTRACTUAL COMMITMENTS

As of December 31, 2005, the City had contractual commitments for the following projects:

| | <u>Contractual Commitment</u> | <u>Expended</u> | <u>Balance 12/31/2005</u> |
|--------------------------|-----------------------------------|----------------------|-------------------------------|
| Water Treatment Plant: | | | |
| Arcadis FPS | \$ 1,695,000 | \$ 1,520,144 | \$ 174,856 |
| PSI | 94,000 | 83,391 | 10,609 |
| Jack Gibson Contractor | 9,309,853 | 8,237,893 | 1,071,960 |
| Cattrell Co. | 2,175,000 | 2,108,274 | 66,726 |
| Water Treatment Lagoons: | | | |
| Jack Gibson Contractor | 778,634 | 718,752 | 59,882 |
| PSI | 4,000 | 3,189 | 811 |
| Total | <u>\$ 14,056,487</u> | <u>\$ 12,671,643</u> | <u>\$ 1,384,844</u> |

NOTE 16 - LONG-TERM OBLIGATIONS

The original issue date, maturity date, interest rate and original issuance amount for the City's debt follows:

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

| Debt Issue | Interest Rate | Original Issue Amount | Date of Maturity |
|---|---------------|-----------------------|------------------|
| Governmental Activities | | | |
| Fire Truck Installment Loan - 2004 | 2.99% | \$ 383,816 | June 1, 2009 |
| Business-Type Activities | | | |
| Sewer Treatment Plant OWDA Loan - 1985 | 7.00% | 3,428,887 | January 1, 2010 |
| Water Treatment Plant OWDA Loan - 2001 | 3.26% | 14,014,179 | July 1, 2025 |
| Water Treatment Lagoons OWDA Loan - 2005 | 1.00% | 790,155 | January 1, 2026 |
| Vehicle Acquisition General Obligation Bonds - 2002 | 4.25% | 160,684 | May 30, 2007 |

Changes in long-term obligations during the year ended December 31, 2005, consisted of the following:

| | Outstanding 12/31/2004 | Additions | Reductions | Outstanding 12/31/2005 | Amounts Due In One Year |
|------------------------------------|-----------------------------------|---------------------|---------------------|-----------------------------------|------------------------------------|
| Governmental Activities | | | | | |
| Installment Loan | \$ 231,539 | \$ 0 | \$ (162,645) | \$ 68,894 | \$ 18,098 |
| Compensated Absences | 233,638 | 30,473 | 0 | 264,111 | 3,695 |
| Police and Fire Pension Payable | 142,986 | 0 | (2,363) | 140,623 | 2,464 |
| Total Governmental Activities | <u>\$ 608,163</u> | <u>\$ 30,473</u> | <u>\$ (165,008)</u> | <u>\$ 473,628</u> | <u>\$ 24,257</u> |
| Business-Type Activities | | | | | |
| Sewer Treatment Plant OWDA Loan | \$ 368,465 | \$ 0 | \$ (60,361) | \$ 308,104 | \$ 66,391 |
| Water Treatment Plant OWDA Loan | 8,197,348 | 4,263,947 | 0 | 12,461,295 | 0 |
| Water Treatment OWDA Plant Lagoons | 0 | 725,960 | 0 | 725,960 | 0 |
| General Obligation Bonds | 84,586 | 0 | (32,765) | 51,821 | 34,180 |
| Capital Lease | 63,671 | 0 | (63,671) | 0 | 0 |
| Compensated Absences | 68,289 | 0 | (13,549) | 54,740 | 15,567 |
| Total Business-Type Activities | <u>\$ 8,782,359</u> | <u>\$ 4,989,907</u> | <u>\$ (170,346)</u> | <u>\$ 13,601,920</u> | <u>\$ 116,138</u> |

The installment loan and police and fire pension liability will be paid from property taxes receipted into the police fire truck levy, police pension and fire pension special revenue funds. The governmental activities capital lease will be paid from the capital improvements fund. In the business-type activities, the general obligation bonds, OWDA loans, and capital lease will be paid from revenues derived from charges for services in the water, sewer and refuse funds. Compensated absences will be paid from the fund from which the employees' salaries are paid.

The City entered into contractual agreements with the Ohio Water Development Authority (OWDA) to construct a new water treatment plant. As of December 31, 2005, the City had received \$11,981,950 from OWDA. In addition to the draw down, the City has incurred capitalized interest of \$479,345 as of December 31, 2005. The City is not obligated to start repaying this loan until the project is complete, which could take 5-10 years. The City will not have an amortization schedule until the project is complete, therefore, the loan is not included in the following amortization schedule.

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 16 - LONG-TERM OBLIGATIONS (Continued)

In 2005 the City was awarded a new loan from the Ohio Water Development Authority (OWDA) in the amount of \$790,155. The proceeds of this loan are being used to construct water treatment plant lagoons. As of December 31, 2005, the City had received \$721,940 from OWDA. In addition to the draw down, the City has incurred capitalized interest of \$4,020. The City is not obligated to start repaying this loan until the project is complete. The City will not have an amortization schedule until the project is complete, therefore, the loan is not included in the following amortization schedule.

The City's overall legal debt margin was \$6,445,115 at December 31, 2005.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

| Year | Governmental Activities | | | | | |
|-----------|-------------------------|-------------------|------------------|-----------------|-------------------|-------------------|
| | Police and Fire Pension | | Installment Loan | | Totals | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 2,464 | \$ 5,950 | \$ 18,098 | \$ 1,902 | \$ 20,562 | \$ 7,852 |
| 2007 | 2,570 | 5,844 | 18,636 | 1,364 | 21,206 | 7,208 |
| 2008 | 2,680 | 5,734 | 19,191 | 809 | 21,871 | 6,543 |
| 2009 | 2,795 | 5,619 | 12,969 | 192 | 15,764 | 5,811 |
| 2010 | 2,916 | 5,499 | | | 2,916 | 5,499 |
| 2011-2015 | 16,568 | 25,507 | 0 | 0 | 16,568 | 25,507 |
| 2016-2020 | 20,445 | 21,627 | 0 | 0 | 20,445 | 21,627 |
| 2021-2025 | 25,229 | 16,847 | 0 | 0 | 25,229 | 16,847 |
| 2026-2030 | 31,132 | 10,944 | 0 | 0 | 31,132 | 10,944 |
| 2031-2035 | 33,824 | 3,670 | 0 | 0 | 33,824 | 3,670 |
| | <u>\$ 140,623</u> | <u>\$ 107,241</u> | <u>\$ 68,894</u> | <u>\$ 4,267</u> | <u>\$ 209,517</u> | <u>\$ 111,508</u> |

| Year | Business-Type Activities | | | | | |
|------|--------------------------|-----------------|-------------------|------------------|-------------------|------------------|
| | General Obligation Bonds | | OWDA Loans | | Totals | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2006 | \$ 34,180 | \$ 1,666 | \$ 66,391 | \$ 21,567 | \$ 100,571 | \$ 23,233 |
| 2007 | 17,641 | 285 | 73,023 | 16,920 | 90,664 | 17,205 |
| 2008 | 0 | 0 | 80,318 | 11,808 | 80,318 | 11,808 |
| 2009 | 0 | 0 | 88,372 | 6,154 | 88,372 | 6,154 |
| | <u>\$ 51,821</u> | <u>\$ 1,951</u> | <u>\$ 308,104</u> | <u>\$ 56,449</u> | <u>\$ 359,925</u> | <u>\$ 58,400</u> |

NOTE 17 – NOTE PAYABLE

Note activity for the year ended December 31, 2005, consisted of the following

CITY OF TORONTO, OHIO
Notes to the Basic Financial Statements (Continued)
 December 31, 2005

NOTE 17 – NOTE PAYABLE (Continued)

| | <u>Outstanding 12/31/2004</u> | <u>Issued</u> | <u>Retired</u> | <u>Outstanding 12/31/2005</u> |
|--------------------------------|-----------------------------------|---------------|------------------|-----------------------------------|
| Governmental Activities | | | | |
| Backhoe Purchase - 1.67% | | | | |
| Matured 5/11/05 | <u>\$ 20,500</u> | <u>\$ 0</u> | <u>\$ 20,500</u> | <u>\$ 0</u> |

The note is backed by the full faith and credit of the City. The note liability is reflected in the fund which received the proceeds.

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. Ohio Mid-Eastern Governments Association

Ohio Mid-Eastern Governments Association (OMEGA) is a ten county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. City membership is voluntary. The Mayor of the City of Toronto serves as the City's representative on the board, however the City is not active. Each member currently pays a per capita membership fee based upon the most recent United States census. During 2005, no fees were paid to OMEGA. The continued existence of OMEGA is not dependent on the City's continued participation and no equity interest exists. OMEGA has no outstanding debt.

B. Jefferson-Belmont Joint Solid Waste Authority

Jefferson-Belmont Joint Solid Waste Authority (the Authority) was established by State statutes and is operated to provide solid waste services to Jefferson and Belmont counties. The Authority is governed by a fourteen member board of directors of which the Mayor of the City of Toronto is a member. The Authority is not dependent on the City of Toronto for its continued existence, no debt exists, and the City does not maintain an equity interest. The City does not make any monetary contributions to the Authority.

NOTE 19 - CONTINGENCIES

A. Grants

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2005.

B. Litigation

The City of Toronto is not party to any litigation.



Mary Taylor, CPA

Auditor of State

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

City of Toronto
Jefferson County
416 Clark St.
P.O. Box 189
Toronto, Ohio 43964

To the City Council:

We have audited the financial statements of the governmental activities, the business activities, each major fund and the aggregate remaining fund information of City of Toronto, Jefferson County, Ohio (the City) as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 17, 2008. We qualified our report on the business type activities and the Water Fund because certain capital assets and depreciation were not reported. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertion in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-004 and 2005-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-004 listed above to be a material weakness. In a separate letter to the City's management dated January 17, 2008, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2005-001 through 2005-003. In a separate letter to the City's management dated January 17, 2008, we reported other matters related to noncompliance we deemed immaterial.

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

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

Mary Taylor, CPA
Auditor of State

January 17, 2008

**CITY OF TORONTO
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-001

Finding for Recovery

The contract between the City of Toronto and Local 2229 of the International Association of Firefighters provides specific benefits including \$700.00 per year for the maintenance of the uniforms which they are required to wear. The Association of Firefighters negotiated and came to an agreement that the clothing allowance should be included as part of their regular rate for purposes of calculating overtime compensation. In 2005, the \$700.00 was added to the base rate twice for the calculation of overtime compensation only. An additional \$.51 was paid for each overtime hour worked. The additional \$.51 is calculated below:

$$\begin{aligned} \$700 \text{ (Additional Clothing Allowance)} / 2080 \text{ (Regular hours worked per year)} &= \$.34 \text{ per hour} \\ \$.34 \text{ per hour} \times 1.5 \text{ (overtime premium)} &= \$.51 \text{ per hour} \end{aligned}$$

The firefighters listed below were overcompensated for overtime hours worked during 2004:

| Firefighter | Overtime Hours Worked | Additional Compensation |
|--------------------|----------------------------------|------------------------------------|
| Laurence C. Mosti | 452 | \$230.52 |
| Michael P. Costlow | 347 | \$176.49 |
| Frank E. McEwen | 509 | \$259.59 |
| William E. Perkins | 409 | \$208.59 |
| William C. Scheel | 354 | \$180.54 |

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen No-80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty. Gen. No. 80-074.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, findings for recovery for public money illegally expended are hereby issued against Robert Owen, City Auditor, and his surety company, Western Surety Company, and Firefighters Laurence C. Mosti, Michael P. Costlow, Frank E. McEwen, William E. Perkins, William C. Scheel, jointly and severally, in the amounts of \$230.52, \$176.49, \$259.59, \$208.59 and \$180.54, respectively, and in favor of the General Fund of the City of Toronto.

Robert Owen shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Laurence C. Mosti, Michael P. Costlow, Frank E. McEwen, William E. Perkins and William C. Scheel.

Officials' Response

The City corrected this inaccurate payroll practice in early 2006. In addition the department head has been instructed to more accurately prepare and submit his bi-monthly payroll. At this time the City Council has not decided what if any remedial action will be ordered or approved.

FINDING NUMBEER 2005-002

Finding for Recovery

The contract between the City of Toronto and the Police Chief, Section 9, states that the Police Chief shall be entitled to paid vacation as provided in Article 12 of the Collective Bargaining Agreement between the City of Toronto and Fraternal Order of Police

Article 12, section 7 of the Collective Bargaining Agreement between the City of Toronto and the Fraternal Order of Police states that an employee shall have the option of taking three weeks pay in lieu of regular vacation time off. The City shall pay the first two weeks taken in lieu of at the time and one half overtime rate. The City shall pay for the third week taken in lieu of at the straight time rate. If an employee elects to exercise this option, he/she must take all three weeks in pay.

Chief Danny A Mosti elected to exercise this option and took three weeks pay in lieu of regular vacation time off. The vacation pay was miscalculated, resulting in overpayments. The overpayments are documented below:

| | 2005 |
|--------------------------------------|-------------|
| Yearly Salary | \$54,462.88 |
| Weekly Rate (Yearly Salary/52) | \$1,047.36 |
| Weekly Rate @ Time and One Half | \$1,571.04 |
| Two Weeks @ Time and One Half | \$3,142.08 |
| One Week at Straight Time | \$1,047.36 |
| Vacation Pay as Provided by Contract | \$4,189.44 |
| Amount Paid for Vacation | \$4,296.24 |
| Overpayment | \$106.79 |

Additionally, Section 6 of the Contract between the City of Toronto and the Police Chief states that for each of the ten recognized holidays on which the Chief works a minimum of eight hours, he shall be entitled to an additional 1/260 of his annual salary and an additional 1/520 of his annual salary. In 2005, additional payments were made for ten holidays. Only eight of the holidays, however, were worked for the minimum eight hours required by the Contract. The overcompensation is detailed below.

| | 2005 |
|---|-------------|
| Yearly Salary | \$54,462.88 |
| 1/260 of Yearly Salary | \$209.47 |
| 1/520 of Yearly Salary | \$104.74 |
| Amount provided by contract for each holiday worked | \$314.21 |
| Amount due for eight holidays worked | \$2,513.67 |
| Amount paid for ten holiday worked | \$3,142.10 |
| Overpayment | \$628.43 |

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen No-80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Atty. Gen. No. 80-074.

FINDING NUMBER 2005-002 – (Continued)

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended may be hereby issued against Danny A. Mosti, Robert Owen, City Auditor and his surety company, Western Surety Company, in the amount of \$735.22, and in favor of the City of Toronto General Fund, in the amount of \$735.22.

Robert Owen shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Danny A. Mosti.

Officials' Response

The City payroll is scheduled for 24 bimonthly pay periods. The police chief has calculated his vacation buy-back by dividing his annual salary into 24 pay periods. The 2 week portion of his buy back is 1/24 of his annual salary which is multiplied by 1.5. The third week of his buy back is 1/48 of his annual salary.

The Auditors calculated the 2-week portion of his buy back by dividing his annual salary by 26 then multiplying this figure by 1.5. The third week of his buy back was calculated by the Auditors as 1/52 of the chief's annual salary not 1/48. Thus the Auditor's salary figure is smaller than the police chief's calculation. The police chief has been paid by the City using the 1/24 and 1/48 method as far back as anyone in the City can recall. In December 2007, the Council passed an Ordinance codifying this calculation formula. Thus the City stands by its vacation buy back calculation.

Auditors' Analysis

Pursuant to Ordinance 2006-12, which establishes the salary and compensation for the City Police Chief for the calendar year 2005, states in Section 10 (E) that the Police Chief shall have the option of taking three weeks pay in lieu of regular vacation time off. The City shall pay for the first two weeks taken in lieu of at the time and one-half overtime rate. The City shall pay for the third week taken in lieu of at the straight time rate. If the Police Chief elects to exercise this option, he must take all three weeks in pay. Further, Section 10 (D) of Ordinance 2006-12 states that one week shall be defined as five working days.

Using this information to calculate the sell back allowance, a year was divided by 52, as there are 52 weeks in a year, rather than 48 weeks as used by the City to calculate the sell back allowance.

FINDING NUMBER 2005-003

Material Noncompliance

Ohio Revised Code Section 5705.41 (D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are "then and now" certificates, blanket certificates and super blanker certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively of the Ohio Revised Code.

FINDING NUMBER 2005-003 – (Continued)

1. **Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the City may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of Council, if such expenditure is otherwise valid.

2. **Blanket Certificates** - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The City may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket may be outstanding at a particular time for any line item appropriation.

The City did not certify or record the amount against the applicable appropriation accounts for 54% of the tested expenditures in the General Fund, and 36% of Other Governmental Funds tested expenditures. The City did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending in negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the City's funds exceeding budgetary spending limitations, the Auditor should certify that the funds are or will be available prior to obligation by the City. When prior certification is not possible, "then and now" certification should be used.

The City should certify purchases to which section Ohio Revised Code § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code § 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Ohio Revised Code § 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response

The City Auditor has sent out a letter instructing the City department heads of the purchase procedures to be used by them in order to comply with this regulation. The City Auditor's office will also utilize "Then and Now Certificates" when appropriate in an effort to reduce noncompliance with ORC 5705.41(D).

FINDING NUMBER 2004-004

Material Weakness

The City has not maintained documentation to support the valuation of capital assets that should have been capitalized and depreciated, where applicable, in the Business type activities. Accordingly, the City's financial statements omit certain capital assets and depreciation expense related to the Water Fund, which is reported in the business type activities. Accounting principles generally accepted in the United States require the capitalization and depreciation, where applicable of capital assets. The omission of the information resulted in a qualified opinion on the City's basic financial statements.

The City should create and approve a comprehensive written policy governing the identification, disposition, and depreciation of capital assets. In addition, the City should outline procedures for the identification, capitalization and depreciation of general infrastructure required to be reported under Governmental Accounting Standards Board (GASB) Statement No. 34. The policy should also include application and monitoring controls over the purchase, sale, and movement of capital assets within the City and periodic physical inventory requirements. This policy would then provide a consistent approach needed by management to exercise proper control over the acquisition, disposal and maintenance of the City's property, plant, and equipment.

Officials' Response

The City did report and did provide documentation of the City's Water Fund's land, vehicles, water lines and the construction in progress for the new water plant. The City did not have information on the old water plant that was being replaced; however, it was the opinion of the City Management that any remaining value and related depreciation expense on the old water plant was not material since its use was very close to being over.

The City is in the process of formalizing their capital asset policy which is expected to be completed in the year 2008.

Auditors' Analysis

We did not receive a complete inventory of capital assets for the City's Water Fund.

FINDING NUMBER 2004-005

Reportable Condition

All public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of specific objectives for a public office. Internal control is a process affected by an entity's governing board, management and other personnel, designed to provide reasonable assurance regarding the achievement of specific objectives, including the effectiveness and efficiency of operations, compliance with contracts and safeguarding assets. When designing a system of internal controls, management must consider procedures to ensure that all transactions are authorized in accordance with management's policies and that assets will be safeguarded.

The City enters into labor agreements with three unions and signs specific contracts with other City employees. An effective internal control system would ensure that all employees are compensated as provided by the appropriate contract. However, several employees were overpaid due to the absence of specific controls to ensure that the City would compensate employees according to their contracts.

FINDING NUMBER 2004-005 – (Continued)

The City should implement procedures to ensure that all payroll standing data is accurately input according to the terms of the appropriate contract. Procedures should also be in place to assure that current payroll information, including hours worked, overtime hours, leave taken and holiday time, is input correctly to assure that employees are compensated accurately.

Officials' Response

The City immediately corrected the error relating to clothing allowance being included twice in overtime compensation resulting in the overpayments that you identified.

**CITY OF TORONTO
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain |
|----------------|---|------------------|--|
| 2004-001 | Findings for Recovery issued against five employees of the fire department for overcompensation | No | Reported as Finding 2005-001 |
| 2004-002 | Finding for Recovery issued against the police chief for overcompensation | No | Reported is Finding 2005-002 |
| 2004-003 | ORC 5705.41(D) Expenditures were not properly certified and posted the applicable appropriation accounts | No | Reported as Finding 2005-003 |
| 2004-004 | Material Weakness: The City does maintain complete documentation to support valuation of capital assets | No | Reported as Finding 2005-004 |
| 2004-005 | Reportable Condition The City does not have internal control procedures to assures that employees are paid in accordance with contracts | No | Reported as Finding 2005-005. |



Mary Taylor, CPA
Auditor of State

CITY OF TORONTO

JEFFERSON 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
MARCH 20, 2008**