CITY OF TORONTO

JEFFERSON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003

Auditor of State
Betty Montgomery

CITY OF TORONTO
JEFFERSON COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Toronto, Jefferson County, Ohio, (the City) as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

As discussed in Note 2, the general-purpose financial statements referred to above do not include the General Fixed Asset Account Group. Accounting principles generally accepted in the Unites States of America require that this account group be included in the general-purpose financial statements. The amount that should be recorded in the account group is not known. Additionally, the City has not recorded fixed assets in its Proprietary Fund Type and, accordingly, has not recorded depreciation expense for those assets. Accounting principles generally accepted in the Unites States of America require that those assets be capitalized and depreciated, which would increase the assets, retained earnings, and expenses in the Proprietary Fund Type. The amounts that should be recorded in the Proprietary Fund Type are not known.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the general-purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the Unites States of America, the financial position of the General Fixed Asset Account Group or the Proprietary Fund Type of the City of Toronto, Jefferson County, Ohio as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended.

In addition, in our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Fund Type and General Long-term Debt Account Group of the City of Toronto, Jefferson County, Ohio as of December 31, 2003, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States.

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In accordance with *Government Auditing Standards*, we have issued our report dated August 12, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the City, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements.

Betty Montgomery

Betty Montgomery
Auditor of State

August 12, 2004

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CITY OF TORONTO

Combined Balance Sheet
All Fund Types and Account Groups

For the Year Ended December 31, 2003

	Governmental Fund Type		
	General	**Special Revenue**	**Capital Projects**
ASSETS AND OTHER DEBITS			
Assets			
Equity in Pooled Cash			
and Cash Equivalents	$ 59,284	$ 363,190	$ 72,138
Receivables:			
Taxes	504,823	230,268	0
Accounts	0	0	0
Intergovernmental	128,846	318,326	3,227
Mortgage Loans	0	151,832	0
Materials and Supplies Inventory	0	8,500	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	0	0
Other Debits			
Amount to be Provided for Retirement of			
General Long-Term Obligations	0	0	0
Total Assets and Other Debits	$ 692,953	$ 1,072,116	$ 75,365
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts Payable	$ 8,958	$ 1,008	$ 0
Contracts Payable	0	0	24,603
Compensated Absences Payable	0	0	0
Intergovernmental Payable	10,727	2,778	0
Deferred Revenue	561,137	482,523	3,227
Notes Payable	0	0	0
Payable from Restricted Assets:			
Customer Deposits	0	0	0
Police and Fire Pension Liability	0	0	0
OWDA Loans Payable	0	0	0
Capital Leases Payable	0	0	0
General Obligation Bonds Payable	0	0	0
Total Liabilities	580,822	486,309	27,830
Fund Equity and Other Credits			
Retained Earnings	0	0	0
Fund Balance:			
Reserved for Encumbrances	33,260	227,787	67,351
Reserved for Loans	0	151,832	0
Reserved for Inventory	0	8,500	0
Unreserved, Undesignated	78,871	197,688	(19,816)
Total Fund Equity (Deficit) and Other Credits	112,131	585,807	47,535
Total Liabilities, Fund Equity and Other Credits	$ 692,953	$ 1,072,116	$ 75,365

The notes to the general purpose financial statements are an integral part of this statement.

Proprietary Fund Type: Enterprise	General Long-Term Obligations	Totals (Memorandum Only)
$ 41,600	$ 0	$ 536,212
0	0	735,091
183,215	0	183,215
0	0	450,399
0	0	151,832
43,737	0	52,237
48,521	0	48,521
0	779,918	779,918
$ 317,073	$ 779,918	$ 2,937,425
$ 22,850	$ 0	$ 32,816
0	0	24,603
74,031	228,231	302,262
8,798	45,169	67,472
0	0	1,046,887
0	329,288	329,288
48,521	0	48,521
0	145,250	145,250
1,349,936	0	1,349,936
122,738	31,980	154,718
115,993	0	115,993
1,742,867	779,918	3,617,746
(1,425,794)	0	(1,425,794)
0	0	328,398
0	0	151,832
0	0	8,500
0	0	256,743
(1,425,794)	0	(680,321)
$ 317,073	$ 779,918	$ 2,937,425

CITY OF TORONTO

Combined Statement of Revenues, Expenditures,
and Changes in Fund Balance
All Governmental Fund Types

For the Year Ended December 31, 2003

	Governmental Fund Types			
	General	**Special Revenue**	**Capital Projects**	**Totals (Memorandum Only)**
Revenues				
Taxes	$ 1,275,769	$ 206,094	$ 4,726	$ 1,486,589
Charges for Services	34,665	35,893	0	70,558
Fines, Licenses and Permits	55,837	13,951	0	69,788
Intergovernmental	221,937	553,218	493,311	1,268,466
Interest	6,632	4,620	4,047	15,299
Other	21,719	7,859	0	29,578
Total Revenues	1,616,559	821,635	502,084	2,940,278
Expenditures				
Current:				
General Government	367,084	0	0	367,084
Security of Persons and Property	1,153,835	176,159	0	1,329,994
Public Health Services	28,287	9,011	0	37,298
Transportation	11,549	216,847	0	228,396
Community Environment	13,335	462,471	0	475,806
Leisure Time Activities	0	90,616	0	90,616
Capital Outlay	0	0	518,865	518,865
Debt Service:				
Principal Retirement	0	2,173	780,374	782,547
Interest and Fiscal Charges	0	6,242	24,299	30,541
Total Expenditures	1,574,090	963,519	1,323,538	3,861,147
Excess of Revenues (Under) Expenditures	42,469	(141,884)	(821,454)	(920,869)
Other Financing Sources (Uses)				
Proceeds from Sale of Notes	0	0	329,288	329,288
Operating Transfers In	0	172,727	71,766	244,493
Operating Transfers Out	(271,896)	0	0	(271,896)
Total Other Financing Sources (Uses)	(271,896)	172,727	401,054	301,885
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(229,427)	30,843	(420,400)	(618,984)
Fund Balances at Beginning Of Year (Restated)	341,558	550,944	467,935	1,360,437
(Decrease) in Reserve for Inventory	0	4,020	0	4,020
Fund Balance at End of Year	$ 112,131	$ 585,807	$ 47,535	$ 745,473

The notes to the general purpose financial statements are an integral part of this statement.

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CITY OF TORONTO

Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Non-GAAP Basis)
All Governmental Fund Types

For the Year Ended December 31, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**	**Revised Budget**	**Actual**	**Variance Favorable (Unfavorable)**
Revenues:						
Taxes	$ 1,130,389	$ 1,282,256	$ 151,867	$ 222,680	$ 206,094	$ (16,586)
Charges for Services	5,300	34,665	29,365	48,000	35,893	(12,107)
Fines, Fees, and Permits	57,500	55,837	(1,663)	8,800	13,951	5,151
Intergovernmental	258,260	271,955	13,695	497,300	504,629	7,329
Interest	6,000	6,632	632	1,200	449	(751)
Revolving Loans	0	0	0	18,800	14,662	(4,138)
Mortgage Loans	0	0	0	3,667	6,543	2,876
Other	13,000	21,719	8,719	9,333	7,859	(1,474)
Total Revenues	1,470,449	1,673,064	202,615	809,780	790,080	(19,700)
Expenditures:						
Current:						
General Government	385,344	368,333	17,011	0	0	0
Security of Persons and Property	1,130,328	1,178,324	(47,996)	726,358	329,528	396,830
Public Health and Welfare	33,654	28,466	5,188	14,150	8,764	5,386
Transportation	12,337	12,211	126	252,375	220,054	32,321
Community Environment	16,118	13,335	2,783	682,093	532,338	149,755
Leisure Time Activities	0	0	0	103,539	93,188	10,351
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	2,173	2,173	0
Interest and Fiscal Charges	0	0	0	6,242	6,242	0
Total Expenditures	1,577,781	1,600,669	(22,888)	1,786,930	1,192,287	594,643
Excess of Revenue (Under) Expenditures	(107,332)	72,395	179,727	(977,150)	(402,207)	574,943
Other Financing Sources (Uses):						
Note Proceeds	0	0	0	396,879	0	(396,879)
Operating Transfers In	37,525	0	(37,525)	172,727	172,727	0
Operating Transfers Out	0	(271,896)	(271,896)	0	0	0
Other Financing Sources (Uses)	37,525	(271,896)	(309,421)	569,606	172,727	(396,879)
Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses	(69,807)	(199,501)	(129,694)	(407,544)	(229,480)	178,064
Fund Balance at Beginning of Year	203,985	203,985	0	202,450	202,450	0
Prior Year's Encumbrances Appropriated	16,395	16,395	0	162,088	162,088	0
Fund Balances at End of Year	$ 150,573	$ 20,879	$ (129,694)	$ (43,006)	$ 135,058	$ 178,064

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF TORONTO

Combined Statement of Revenues, Expenditures,
and Changes in Fund Balance
All Governmental Fund Types

For the Year Ended December 31, 2003

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Revenues				
Taxes	$ 1,275,769	$ 206,094	$ 4,726	$ 1,486,589
Charges for Services	34,665	35,893	0	70,558
Fines, Licenses and Permits	55,837	13,951	0	69,788
Intergovernmental	221,937	553,218	493,311	1,268,466
Interest	6,632	4,620	4,047	15,299
Other	21,719	7,859	0	29,578
Total Revenues	1,616,559	821,635	502,084	2,940,278
Expenditures				
Current:				
General Government	367,084	0	0	367,084
Security of Persons and Property	1,153,835	176,159	0	1,329,994
Public Health Services	28,287	9,011	0	37,298
Transportation	11,549	216,847	0	228,396
Community Environment	13,335	462,471	0	475,806
Leisure Time Activities	0	90,616	0	90,616
Capital Outlay	0	0	518,865	518,865
Debt Service:				
Principal Retirement	0	2,173	780,374	782,547
Interest and Fiscal Charges	0	6,242	24,299	30,541
Total Expenditures	1,574,090	963,519	1,323,538	3,861,147
Excess of Revenues (Under) Expenditures	42,469	(141,884)	(821,454)	(920,869)
Other Financing Sources (Uses)				
Proceeds from Sale of Notes	0	0	329,288	329,288
Operating Transfers In	0	172,727	71,766	244,493
Operating Transfers Out	(271,896)	0	0	(271,896)
Total Other Financing Sources (Uses)	(271,896)	172,727	401,054	301,885
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(229,427)	30,843	(420,400)	(618,984)
Fund Balances at Beginning Of Year (Restated)	341,558	550,944	467,935	1,360,437
(Decrease) in Reserve for Inventory	0	4,020	0	4,020
Fund Balance at End of Year	$ 112,131	$ 585,807	$ 47,535	$ 745,473

The notes to the general purpose financial statements are an integral part of this statement.

CITY OF TORONTO

Combined Statement of Revenues, Expenses,
and Changes in Retained Earnings
All Proprietary Fund Types

For the Year Ended December 31, 2003

	Proprietary Fund Type
	Enterprise
Operating Revenue:	
Charges for Services	$ 1,446,791
Other Revenue	1,287
Total Operating Revenues	1,448,078
Operating Expenses:	
Personal Services	768,430
Contractual Service	736,681
Materials and Supplies	102,150
Total Operating Expenses	1,607,261
Operating Loss	(159,183)
Non-Operating Revenues (Expenses):	
Taxes	17,942
Interest and Fiscal Charges	(59,772)
Total Non-Operating Revenues (Expense)	(41,830)
Income Before Operating Transfers	(201,013)
Operating Transfers In	27,403
Net Loss	(173,610)
Retained Earnings at Beginning of Year	(1,252,184)
Retained Earnings at End of Year	#REF!

The notes to the general purpose financial statements are an integral part of this statement,

CITY OF TORONTO

Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2003

		Enterprise
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS:		
Cash Flows from Operating Activities:		
Cash Received from Customers	$	1,421,737
Cash Payments for Employee Services and Benefits		(747,715)
Cash Payments to Suppliers for Goods and Services		(872,417)
Customer Deposits Received (Applied-Refunded)		894
Other Operating Receipts		1,287
Net Cash Provided by Operating Activities		(196,214)
Cash Flows from Non-Capital and Related Financing Activities:		
Cash Received from Intergovernmental Sources		17,942
Operating Transfers In		27,403
Net Cash Used In Non-Capital and Related Financing Activities		45,345
Cash Flows from Capital and Related Financing Activities:		
Proceeds of OWDA Loan		133,775
Principal Paid on OWDA Loan		(49,895)
Interest Paid on OWDA Loan		(40,201)
Principal Paid on Capital Leases		(54,796)
Interest Paid on Capital Leases		(13,838)
Principal Paid on Bonds		(30,107)
Interest Paid on Bonds		(5,733)
Net Cash Used for Capital and Related Financing Activities		(60,795)
Net Increase in Cash and Cash Equivalents		(211,664)
Cash and Cash Equivalents at Beginning of Year		301,785
Cash and Cash Equivalents at End of Year	$	90,121
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Loss	$	(159,183)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		0
Change in Assets and Liabilities:		
Decrease in Accounts Receivable		(25,054)
Decrease in Materials and Supplies Inventory		(754)
Increase in Accounts Payable		(32,799)
Increase in Contracts Payable		0
Increase in Accrued Wages		0
Increase in Compensated Absences Payable		20,665
Increase in Intergovernmental Payable		17
Increase in Customer Deposits Payable		894
Net Cash Provided by Operating Activities	$	(196,214)

The notes to the general purpose financial statements are an integral part of this statement.

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NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

The City of Toronto 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.

A. Reporting Entity

The City utilizes the standards of the Governmental Accounting Standards Board Statement 14 for determining the reporting entity.

The financial reporting entity consists of a) the primary government, b) component units, which are legally separate organizations which are fiscally dependent on the City or for which the City is financially accountable, and c) governmental organizations for which the primary government is not financially accountable, but for which the nature and significance of their financial relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. 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 that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes. No separate government units meet the criteria for inclusion as a component unit.

The City provides various services including police, parks and recreation, cemetery, planning, zoning, street construction, maintenance and repair, water, sewer and sanitation 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.

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 significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to Generally Accepted Accounting Principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City applies the Financial Accounting Standards Board Statements and Interpretations issued prior to November 30, 1989 to proprietary activities provided they do not conflict with Governmental Accounting Standards Board Statements and Interpretations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its' operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental and proprietary.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

General Fund - This fund is the operating fund of the City and is used to account for 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.

Special Revenue Funds – Special revenue funds are established to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Fund Type

Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business and quasi-business activities, where net income and capital maintenance are measured, are accounted for through proprietary funds. The following is the City's proprietary fund type:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Enterprise Funds - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Account Groups

To make a clear distinction between long-term liabilities related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account group is used:

General Fixed Asset Account Group (GFAAG) – The City records the purchase of fixed assets used in governmental and proprietary fund type operations as expenditures in the various funds and does not account for such purchases as capital expenditures. Generally accepted accounting principles prescribe that all such expenditures be accounted for in the General Fixed Assets Group or in the Proprietary Funds, and accordingly, the failure to properly record such assets is not in accordance with generally accepted accounting principles.

General Long-Term Obligations Account Group (GLTOAG) - This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds, including special assessment debt for which the City is obligated in some manner except that which is accounted for in proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its' measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Balance Sheet. Fund equity (i.e., net total assets) is comprised of retained earnings components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All governmental fund types are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is thirty days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied (See Note 7). Revenue from grants 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: investment earnings, federal and state grants and subventions (including gasoline tax, motor vehicle license tax, local government, estate tax, and homestead and rollback), fines and forfeitures, and charges for current services.

The City reports deferred revenues on its Combined Balance Sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2003, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year, and the costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Ordinance, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the fund/function level. Any budgetary modifications at this level require the approval of City Council. Any budgetary modifications at the object level may be made by the City Auditor as long as total fund/function appropriations remain unchanged.

Tax Budget
Prior to July 15, the City Auditor submits to the City Council a proposed operating budget for the year commencing the following January. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20, of each year, for the period January 1 to December 31 of the following year.

Estimated Resources
The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its' budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the annual Appropriation Ordinance. On or about January 1, the Certificate of Estimated Resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official Certificate of Estimated Resources issued during 2003.

Appropriations
A temporary Appropriation Ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. The Appropriation Ordinance fixes spending authority at the fund/function level. The Appropriation Ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations at the object level within a fund/function may be modified during the year by the City Auditor; however, City Council must pass any appropriation ordinance changes to total fund/function level appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances
As part of the formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

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

D. Cash and Cash Equivalents

Cash received by the City is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase investments. 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" on the Combined Balance Sheet. During 2003, investments were limited to certificates of deposit and money market funds. These investments are stated at cost which approximates market. Investment procedures are restricted by the provisions of the Ohio Revised Code.

Interest revenue credited to the general fund during 2003 amounted to $6,632, which includes $4,831 assigned from other City funds.

For purposes of the Combined Statement of Cash Flows and for presentation on the Combined Balance Sheet, investments with an original maturity of three months or less and investments from the cash management pool are considered to be cash equivalents. Investments with an original maturity of more than three months are considered to be investments.

E. Inventory

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. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

F. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Water and Sewer Funds are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

H. Compensated Absences

GASB Statement 16, Accounting for Compensated Absences, specifies the methods used to accrue liabilities for leave benefits. Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to services already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. 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 had identified as probable of receiving payment in the future. 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.

For governmental funds, the City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In the proprietary funds the entire amount of compensated absences is reported as a fund liability.

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements, or shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as capital grant revenue.

J. Fund Equity

Reserves represent those portions of fund equity not available for appropriation or legally segregated for a specific future use. Fund balances are reserved for encumbrances, inventories of materials and supplies and loans receivable. Undesignated fund balance indicates the portion of fund equity which is available for appropriation in future periods.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonrecurring or nonroutine permanent transfers or equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be paid with current resources. However, compensated absences and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available financial resources. Payments made more than sixty days after year end are generally considered not to have been paid with current available resources. Special Assessment bonds and capital leases are recognized as a liability of the general long-term obligations account group until due.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

M. Preparation of the Financial Statements

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

N. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis), All Governmental Fund Types are presented on the budgetary basis to provide a comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (Continued)

3. Outstanding year end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance for governmental fund types.

4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather that on the balance sheet (GAAP basis).

5. Adjustments necessary to convert the results of operations at the end of the year on the Budget basis to the GAAP basis are as follows:

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP basis	$ (229,427)	$ 30,843	$ (420,400)
Net adjustment for revenue accruals	56,505	(31,555)	0
Net adjustments for expenditure accruals	11,826	(666)	24,603
Encumbrances	(38,405)	(228,102)	(91,954)
Budget basis	$ (199,501)	$ (229,480)	$ (487,751)

NOTE 4 – RESTATEMENT OF FUND BALANCE

It was determined that the deferred revenue should not have been recorded when the mortgage loans were set up in the Special Revenue Housing Loan Fund and Special Revenue CDBG Revolving Loan Fund. The fund balances were adjusted by $40,498 for the Housing Loan Fund and $151,073 for the Revolving Loan Fund.

The restatements to the opening fund balances are as follows:

Fund	Balance as Previously Stated at 12/31/2002	Adjustments	Restated Balance at 1/1/2003
Governmental Funds:			
Special Revenue	$ 359,373	$ 191,571	$ 550,944

NOTE 5 – ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balances/Retained Earnings

The following funds had a deficit fund balance as of December 31, 2003:

	Balance
Special Revenue:	
Fire Pension	$ 2,521
Police Pension	5,334
Total Special Revenue	7,855
Capital Projects:	
Issue II	24,603

The following funds had a deficit retained earnings balance as of December 31, 2003:

Enterprise:	
Water Treatment Improvement	$ 906,162
Refuse	102,240
Sewer	417,392
Total Enterprise	$1,425,794

The deficit balances were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances, however, this is done when cash is needed rather than when accruals occur.

B. Failure to Certify Expenditures

Contrary to Ohio Revised Code Section 5705.41(D), the City did not properly certify or record the amount against the applicable appropriation accounts for all expenditures.

C. Expenditures Exceeding Appropriations

Fund	Amount Appropriated	Budgetary Expenditures	Variance
General Fund	$ 1,577,781	$ 1,872,565	$ (294,784)
Community Housing Improvement Program Fund	293,425	327,061	(33,636)
Issue II	554,000	577,265	(23,265)

NOTE 6 - 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.

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

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 State 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 in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,

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

1. Bonds of the State of Ohio

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

2. Bonds on any municipal corporation, village, county, township or other political subdivision of this State, as to which there is no default of principal, interest or coupons; or

3. Obligations of the City.

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

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

Deposits: At year-end, the carrying amount of the City's deposits was $398,748, and the bank balance was $468,903. Of the bank balance:

1. $290,991 was covered by federal depository insurance.

2. $177,912 was uninsured and uncollateralized. Although the collateral for the securities was held by the pledging financial institution's trust department in the City's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

Investments: The City's investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name.

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	$ 185,985	$ 185,985	$ 185,985

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, *"Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting."*

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

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	$ 584,733	$ 0
Investments which are part of a cash management pool:		
Repurchase Agreement	(185,985)	185,985
GASB Statement No. 3	$ 398,748	$ 185,985

The City is reporting "Restricted Assets: Equity in Pooled Cash and Cash Equivalents" in the amount of $48,521 for the amount of water, sewer and refuse customer deposits.

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the City. Real property taxes were levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date, and were collected in 2003. Assessed values for real property are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2003 attached as a lien on December 31, 2002, were levied after October 1, 2002 and are collected with real property taxes. Public utility property taxes are assessed on tangible personal property at 88% of true value. 2003 tangible personal property taxes are levied after October 1, 2002, on the value listed as of December 31, 2002 and are collected in 2003. Tangible personal property assessments are 25% of true value.

The assessed value upon which the 2003 taxes were collected was $72,915,053. Real estate represented 60% ($43,374,550) of this total, tangible personal property represented 36% ($26,540,323), and public utilities tangible personal property represented 4% ($3,000,180). The full tax rate for all City operations applied to taxable property for the year ended December 31, 2003 was $5.50 per $1,000 of assessed valuation.

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

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

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

NOTE 7 - PROPERTY TAXES (Continued)

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which became measurable as of December 31, 2003. Total property tax collections for the next fiscal year are measurable amounts, however, since these tax collections will not be received during the available period nor are they intended to finance 2003 operations, the receivable is offset by a credit to deferred revenue.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2003 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 special revenue funds reflect housing loans receivable of $17,706. 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% interest. The loans are to be repaid over a period of ten years. Also, included in the Special Revenue Funds are revolving loans of $134,126. These business revolving loans were issued to local downtown business owners to improve their facades and sidewalks. The loans were issued at 4-5% interest. They are to be repaid over periods ranging from ten to twelve years.

A summary of intergovernmental receivables follows:

General Fund:	
Estate tax	$ 105
Homestead and rollback	6,726
Local government	117,273
FEMA	4,742
	$128,846
Special Revenue Funds:	
Gasoline tax	60,720
Motor vehicle license tax and fees	39,616
Homestead and rollback	8,628
Community Development Block Grant (CDBG)	209,362
	318,326
Capital Projects Fund:	
Ohio Department of Transportation Grant (ODOT)	3,227
Total intergovernmental receivables	$450,399

NOTE 9 – INCOME TAX

The City levies a municipal income tax of 1.5% 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% 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. Income tax collections amounted to $1,125,792 during 2003.

NOTE 10 - RISK MANAGEMENT

Risk Pool Membership
The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage 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 members' deductibles.

Casualty Coverage
PEP retains casualty risks up to $250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding $250,000, 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 with an annual aggregate of $1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, 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. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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 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.

Casualty Coverage	2003	2002
Assets	$25,288,098	$20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained earnings	$12,415,113	$11,624,228

Property Coverage	2003	2002
Assets	$3,158,813	$2,565,408
Liabilities	(792,061)	(655,318)
Retained earnings	$2,366,752	$1,910,090

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employee Retirement System

The City 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% 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.

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 OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional 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 salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 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, 2003, 2002, and 2001 were $118,889, $106,146, and $77,472 respectively; 91 percent has been contributed for 2003 and 100 percent for 2002 and 2001.

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 pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information 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.

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

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 the years ended December 31, 2003, 2002, and 2001 were $167,041; $164,094, and $156,159 respectively, equal to the required contributions for each year. The full amount has been contributed for 2002 and 2001. Seventy percent has been contributed for 2003 with the remainder being reported as a liability.

C. Medicare System

All employees hired after April 1, 1986 are required to contribute to Medicare at a rate of 1.45% of their covered salary. The City of Toronto is required to contribute 1.45% also. It is paid bi-weekly with the employee's federal withholding by bank transfer within three working days of the pay date. There is a liability reported under intergovernmental payables in each fund for Medicare on the accrued wages only. All other contributions were paid for the year.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. 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 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 2003 local government employer contribution rate was 13.31 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 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, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were $43,870. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $18.7 billion and $8.7 billion, respectively.

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

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

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

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 service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F 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 rate 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 2003. 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 2003 that were used to fund postemployment benefits were $31,457 for police and $18,555 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was $141,028,006, which was net of member contributions of $12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 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.

NOTE 13 - OTHER EMPLOYEE BENEFITS (Continued)

The City offers two different health care plans with employees having the option of which plan to choose. The City contracts with Health America and Anthem for hospitalization insurance for all employees, excluding part-time elected and part-time appointed officials. The City pays 100% of the total monthly premiums of $893.27 family health care, $299.76 single health care, $680.47 employee plus children health care and $695.45 employee plus spouse health care through Health America. The City also pays 100% of the total monthly premiums of $847.50 family health care and $231.15 single health care through Anthem. The City also contracts with Ohio AFSCME Eye Care in which the City pays 100% of the total monthly premium of $123.25 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 employee may be permitted 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, 2003, the liability for unpaid compensated absences was $302,262.

NOTE 14 - CONTRACTUAL COMMITMENTS

As of December 31, 2003, the City had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/03
Franklin Street Project:			
JDO Engineering	$33,900	$29,865	$4,035
Parella/Pannunzio	552,680	531,266	21,414
	$586,580	$561,131	$25,449

NOTE 15 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the City during the year ended December 31, 2003 consisted of the following:

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

	Outstanding 12/31/2002	Additions	Reductions	Outstanding 12/31/2003
Enterprise Funds Obligations				
General Obligation Bonds:				
2002 Vehicle Acquisitio Bonds-4.25%	$ 146,100	$ 0	$ (30,107)	$ 115,993
1985 OWDA Loan - 9.9%	473,238	0	(49,895)	423,343
2001 OWDA Loan - 3.2%	792,818	133,775	0	926,593
Compensated Absences	53,366	20,665	0	74,031
Capital lease	177,534	0	(54,796)	122,738
Total Enterprise Funds	1,643,056	154,440	(134,798)	1,662,698
General Long Term Obligations				
2003 New City Building Note - 2.8%	750,000	329,288	(750,000)	329,288
Capital Lease	62,354	0	(30,374)	31,980
Compensated Absences	225,532	2,699	0	228,231
Intergovernmental Payable	49,143	0	(3,974)	45,169
Police & Fire Pension Payable	147,422	0	(2,172)	145,250
Total Long Term Obligations	1,234,451	331,987	(786,520)	779,918
Grand Total	$ 2,877,507	$ 486,427	$ (921,318)	$ 2,442,616

General obligation bonds, the OWDA loan, and the Enterprise fund capital lease will be paid from revenues derived from charges for services in the Enterprise funds. Compensated absences will be paid from the fund from which the employees' salaries are paid. The General Long Term Obligation lease will be paid from the Capital Improvements Fund revenues.

In 2001, the City entered into an agreement with the Ohio Water Development Authority (OWDA) to construct a new water treatment plant. The total cost of the project is estimated to be $11 million. As of December 31, 2003, the City had received $926,593 from OWDA. In addition to the draw down, the City has incurred capitalized interest of $43,818 as of December 31, 2003. 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.

The City entered into a contract note with Sky Bank for the purchase and remodeling of the new city building.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

NOTE 15 - LONG-TERM OBLIGATIONS (Continued)

Year	Acquisition Bonds	OWDA	Accrued Pension Liability	New City Building	Total
2004	$ 35,842	$ 42,256	$ 8,415	$ 332,319	$ 418,832
2005	35,842	85,332	8,415	0	129,589
2006	35,842	87,055	8,415	0	131,312
2007	17,921	88,951	8,415	0	115,287
2008	0	91,034	8,415	0	99,449
2009-2013	0	140,591	42,073	0	182,664
2014-2018	0	0	42,073	0	42,073
2019-2023	0	0	42,073	0	42,073
2024-2028	0	0	42,073	0	42,073
2029-2033	0	0	42,073	0	42,073
2034-2035	0	0	12,247	0	12,247
	125,447	535,219	264,687	332,319	1,257,672
Less: amount representing interest	(9,454)	(111,877)	(119,437)	(3,031)	(240,768)
	$ 115,993	$ 423,342	$ 145,250	$ 329,288	$ 1,016,904

NOTE 16 – CAPITALIZED LEASES

The City entered into a lease purchase agreement with Municipal Services Group, Inc. in 2000 for the purchase of four vehicles. Repayment will be made from tax receipts, local government monies and utility receipts.

The City entered into a lease purchase agreement with Public-Finance Company, Inc. in 2002 for the purchase of water meters. Repayment will be made from utility receipts.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003:

		Vehicle Lease	Water Meter Lease	Total
Year ending	2004	$ 33,672	$ 68,633	$ 102,305
	2005	0	68,633	68,633
		33,672	137,266	170,938
Less: amount representing interest		(1,692)	(14,528)	(16,220)
Present value of minimum lease payments		$ 31,980	$ 122,738	$ 154,718

NOTE 17 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's enterprise fund account for the provision of water, waste water, electric, utility deposits, and electric reserves for debt. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise funds of the City of Toronto as of and for the year December 31, 2003:

	Water Fund	Sewer Fund	Refuse Fund	Guaranteed Deposit	Total Funds
Operating Revenues	$ 613,862	$ 546,339	$ 287,877	$ 0	$ 1,448,078
Operating Expenses	708,481	502,983	395,797	0	1,607,261
Operating Income (Loss)	(94,619)	43,356	(107,920)	0	(159,183)
Taxes	0	0	17,942	0	17,942
Transfers In	1,600	5,811	19,992	0	27,403
Interest and Fiscal Charges	(13,838)	(42,507)	(3,427)	0	(59,772)
Net Income (Loss)	(106,857)	6,660	(73,413)	0	(173,610)
Net Working Capital	187,052	57,127	(7,275)	0	236,904
Total Assets	200,916	66,525	1,111	48,521	317,073
Long Term Liabilites to be Paid from Fund Revenues	1,093,214	474,519	94,965	48,521	1,711,219
Total Equity	(906,162)	(417,392)	(102,240)	0	(1,425,794)
Encumbrances Outstanding at December 31, 2003	12,675	849	343	0	13,867

NOTE 18 - JOINTLY GOVERNED ORGANIZATIONS

A. 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 2003, 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 is 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, 2003.

B. Litigation:

The City of Toronto is not party to any litigation.

CITY OF TORONTO
JEFFERSON COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003

FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	EXPENDITURES
U.S. Department of Housing and Urban Development			
Passed through the Ohio Department Development:			
Community Development Block Grant Entitlement Grants	14.228	A-C-02-185-1	$76,718
Home Investment Partnership Program	14.239	B02-MC-39-0020	189,226
Total U.S. Department of Housing and Urban Development			265,944
U.S. Department of Transportation:			
Passed-Through Ohio Department of Transportation:			
Highway Planning and Construction	20.205	JEF-CR46-2.38	394,648
Total U.S. Department of Transportation			394,648
Total Federal Awards Expenditures			**$660,592**

The accompanying notes to this schedule are an integral part of this schedule.

CITY OF TORONTO
JEFFERSON COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARD EXPENDITURES
DECEMBER 31, 2003

SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Award Expenditures (the Schedule) summarizes activity of the City's Federal Award Programs. The Schedule has been prepared using the cash basis of accounting.

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Auditor of State
Betty Montgomery

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

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

To the City Council:

We have audited the financial statements of the City of Toronto, Jefferson County, Ohio (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated August 12, 2004, wherein we noted the City did not include the General Fixed Asset Account Group in the general-purpose financial statements or capitalize and depreciate fixed assets in the Proprietary Fund Type in conformity with accounting principles generally accepted in the United States. Except for the matters noted above in the first sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain instances of noncompliance, which we have reported to management of the City in a separate letter dated August 12, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2002-003.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we consider reportable condition 2003-003, to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the City in a separate letter dated August 12, 2004.

This report is intended solely for the information and use of the audit committee, management, the City Council federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

August 12, 2004

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To The City Council:

Compliance

We have audited the compliance of the City of Toronto, Jefferson County, Ohio,(the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United State of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular Ap-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Toronto complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of law, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, City Council, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

August 12, 2004

CITY OF TORONTO
JEFFERSON COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
DECEMBER 31, 2003

1. SUMMARY OF AUDITOR=S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Adverse
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material non-compliance at the financial statement level (GAGAS)?**	Yes
(d)(1)(iv)	**Were there any material internal control weakness conditions reported for major federal programs?**	No
(d)(1)(iv)	**Were there any other reportable internal control weakness conditions reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs= Compliance Opinion**	Unqualified
(d)(1)(vi)	**Are there any reportable findings under ' .510?**	No
(d)(1)(vii)	**Major Programs (list):**	20.205 Highway Planning Grant
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 300,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee?**	No

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

Finding Number	**2003-001**

Ohio Revised Code § 5705.41(D) provides that no subdivision shall make any contract or give any expenditure of money unless the certificate of the fiscal officer 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 contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This section also provides two "exceptions" to the above requirement:

A. 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 contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Council 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, is such is otherwise valid.

B. If the amount involved is less than $1,000 ($3,000 effective April 7, 2003) the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the City, if such expenditure is otherwise valid.

The City did not properly certify or record the amount against the applicable appropriation accounts for 15% of tested expenditures in the Special Revenue Fund Type. The City did not utilize the certification exceptions described above for those expenditures lacking prior or simultaneous certification.

Failure to certify the availability of funds and encumbered appropriations could result in overspending and negative cash balances. The City should obtain approved purchase orders which include the fiscal officer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized prior to making the commitment.

Finding Number	**2003-002**

Ohio Rev. Code Section 5705.09 requires each subdivision to establish a special fund for each class of revenue derived from a source other than general property tax, which the law requires to be used for a particular purpose.

During 2003, the City did not establish a Highway Planning Grant Fund, a Community Development Block Grant (CDBG) Fund and a Home Investment (HOME) Fund to record the corresponding receipt and expenditure activity associated with these federal grants. As a result, individual federal grant activity could not be readily identified. The City should create a separate fund to account for each state and federal grant and refer to Auditor of State Bulletin 2000-08 for additional guidance.

A separate fund should be maintained for each federal program to provide reasonable assurance that the City is managing federal awards in compliance with laws, regulations and the provisions of grant agreements that could have a material effect on each of its federal programs.

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
DECEMBER 31, 2003
(Continued)

Finding Number	**2003-003**

The City has not maintained documentation to support the valuation of fixed assets that should have been capitalized and depreciated, where applicable, in the General Fixed Asset Account Group and Proprietary Fund Type. Accordingly, the City's financial statements omit the General Fixed Asset Account Group and the fixed assets and depreciation expense related to the Proprietary Fund Type. Accounting principles generally accepted in the United States require the capitalization and depreciation, where applicable of fixed assets in the General Fixed Asset Account Group and the Proprietary Fund Type.

The City should create and approve a comprehensive written policy governing the identification, disposition, and depreciation of fixed 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 for the period ended December 31, 2004. The policy should also include application and monitoring controls over the purchase, sale, and movement of fixed 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.

The City should also obtain assistance, if necessary, in determining the estimated historical costs of their fixed assets and general infrastructure assets acquired since 1980.

CITY OF TORONTO
JEFFERSON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 ' .315 (b)
DECEMBER 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-001	Ohio Revised Code § 5705.41 (D), Failure to properly certify	No	Reissued as Finding 2003-001
2002-002	Ohio Revised Code § §5705.41(B) Budgetary expenditures exceeded appropriations	Yes	
2002-003	Failure to post estimated resources to the accounting systems.	Yes	
2002-004	City's financial statements omitted General Fixed Asset Account Group and Proprietary fixed assets	No	Reissued as Finding 2003-003.

Auditor of State
Betty Montgomery

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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
NOVEMBER 9, 2004