



Dave Yost • Auditor of State



**CITY OF ONTARIO  
RICHLAND COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	17
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds .....	20
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds .....	22
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) General Fund.....	24
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) 25% Street Construction Fund .....	25
Statement of Net Assets – Proprietary Funds.....	26
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds .....	27
Statement of Cash Flows – Proprietary Funds .....	28
Statement of Fiduciary Assets and Liabilities – Fiduciary Fund .....	30
Notes to the Basic Financial Statements .....	31
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	63
Schedule of Findings.....	65
Schedule of Prior Audit Findings.....	69

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and 25% Street Construction Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

**Dave Yost**  
Auditor of State

September 30, 2013

## CITY OF ONTARIO, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

The management's discussion and analysis of the City of Ontario's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### **Financial Highlights**

Key financial highlights for 2011 are as follows:

- The total net assets of the City decreased \$206,589. Net assets of governmental activities increased \$78,221 or 0.30% over 2010 and net assets of business-type activities decreased \$284,810 or 1.79% over 2010.
- General revenues accounted for \$5,407,815 or 83.80% of total governmental activities revenue. Program specific revenues accounted for \$1,045,489 or 16.20% of total governmental activities revenue.
- The City had \$6,337,785 in expenses related to governmental activities; \$1,045,489 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$5,292,296 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,407,815.
- The general fund had revenues and other financing sources of \$4,622,284 in 2011. This represents an increase of \$546,633 from 2010 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$3,564,917 in 2011, decreased \$60,517 from 2010. The net increase in fund balance for the general fund was \$1,057,367 or 39.60%.
- The 25% street construction fund had revenues and other financing sources of \$572,462 in 2011. The expenditures of the 25% street construction fund totaled \$1,091,192 in 2011. The net decrease in fund balance for the 25% street construction fund was \$518,730 or 63.02%.
- The capital improvement fund had revenues and other financing sources of \$345,726 in 2011. The expenditures and other financing uses of the capital improvement fund totaled \$95,544 in 2011. The net increase in fund balance for the capital improvement fund was \$250,182 or 19.85%.
- Net assets for the business-type activities, which are made up of the water and sewer enterprise funds, decreased in 2011 by \$284,810. This decrease in net assets was due primarily to the lack of capital contributions received during 2011.

#### **Using this Annual Financial Report**

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

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

## CITY OF ONTARIO, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

#### **Reporting the City as a Whole**

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

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The statement of net assets and the statement of activities answer this question. These statements include all *assets, liabilities, revenues and expenses (excluding fiduciary funds)* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

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

##### *Fund Financial Statements*

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 11.

##### *Governmental Funds*

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

## **CITY OF ONTARIO, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)**

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

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

#### ***Proprietary Funds***

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

#### ***Fiduciary Funds***

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

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31 - 61 of this report.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

**Government-Wide Financial Analysis**

The table below provides a summary of the City's assets, liabilities and net assets at December 31, 2011 and December 31, 2010. Certain amounts have been reclassified in order to conform to 2011 presentation.

	Governmental Activities		Business - type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b><u>Assets</u></b>						
Current and other assets	\$ 9,446,254	\$ 9,097,054	\$ 3,582,670	\$ 3,504,736	\$ 13,028,924	\$ 12,601,790
Capital assets, net	<u>19,375,857</u>	<u>19,900,650</u>	<u>13,007,502</u>	<u>13,511,394</u>	<u>32,383,359</u>	<u>33,412,044</u>
Total assets	<u>28,822,111</u>	<u>28,997,704</u>	<u>16,590,172</u>	<u>17,016,130</u>	<u>45,412,283</u>	<u>46,013,834</u>
<b><u>Liabilities</u></b>						
Long-term liabilities						
outstanding	2,128,170	2,225,991	887,640	942,207	3,015,810	3,168,198
Other liabilities	<u>910,310</u>	<u>1,066,303</u>	<u>34,681</u>	<u>121,262</u>	<u>944,991</u>	<u>1,187,565</u>
Total liabilities	<u>3,038,480</u>	<u>3,292,294</u>	<u>922,321</u>	<u>1,063,469</u>	<u>3,960,801</u>	<u>4,355,763</u>
<b><u>Net assets</u></b>						
Invested in capital						
assets, net of related debt	17,702,355	17,982,710	12,176,694	12,632,771	29,879,049	30,615,481
Restricted	1,464,208	1,639,188	-	-	1,464,208	1,639,188
Unrestricted	<u>6,617,068</u>	<u>6,083,512</u>	<u>3,491,157</u>	<u>3,319,890</u>	<u>10,108,225</u>	<u>9,403,402</u>
Total net assets	<u>\$ 25,783,631</u>	<u>\$ 25,705,410</u>	<u>\$ 15,667,851</u>	<u>\$ 15,952,661</u>	<u>\$ 41,451,482</u>	<u>\$ 41,658,071</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's total assets exceeded liabilities by \$41,451,482. At year-end, net assets were \$25,783,631 and \$15,667,851 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 71.31% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2011, were \$17,702,355 and \$12,176,694 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2011, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$1,464,208, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$6,617,068 may be used to meet the City's ongoing obligations to citizens and creditors.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The table below shows the changes in net assets for 2011 and 2010.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 620,761	\$ 696,111	\$ 1,795,889	\$ 1,768,264	\$ 2,416,650	\$ 2,464,375
Operating grants and contributions	424,728	449,195	-	-	424,728	449,195
Capital grants and contributions	-	17,729	92,940	90,237	92,940	107,966
<b>Total program revenues</b>	<u>1,045,489</u>	<u>1,163,035</u>	<u>1,888,829</u>	<u>1,858,501</u>	<u>2,934,318</u>	<u>3,021,536</u>
General revenues:						
Property taxes	411,536	533,979	-	-	411,536	533,979
Income taxes	4,102,090	4,145,639	-	-	4,102,090	4,145,639
Unrestricted grants	423,671	427,412	-	-	423,671	427,412
Payments in lieu of taxes	193,396	196,011	-	-	193,396	196,011
Interest	104,170	146,490	-	-	104,170	146,490
Increase (Decrease) in fair market value of investments	5,578	(18,181)	-	-	5,578	(18,181)
Miscellaneous	167,374	89,725	7,366	3,449	174,740	93,174
<b>Total general revenues</b>	<u>5,407,815</u>	<u>5,521,075</u>	<u>7,366</u>	<u>3,449</u>	<u>5,415,181</u>	<u>5,524,524</u>
<b>Total revenues</b>	<u>6,453,304</u>	<u>6,684,110</u>	<u>1,896,195</u>	<u>1,861,950</u>	<u>8,349,499</u>	<u>8,546,060</u>
Expenses:						
General government	1,753,638	1,765,423	-	-	1,753,638	1,765,423
Security of persons and property	2,220,967	2,242,169	-	-	2,220,967	2,242,169
Public health and welfare	1,571	1,973	-	-	1,571	1,973
Transportation	2,039,061	1,917,605	-	-	2,039,061	1,917,605
Community environment	28,047	33,085	-	-	28,047	33,085
Leisure time activity	211,974	242,769	-	-	211,974	242,769
Interest and fiscal charges	82,527	85,227	-	-	82,527	85,227
Water	-	-	932,623	900,501	932,623	900,501
Sewer	-	-	1,285,680	1,074,787	1,285,680	1,074,787
<b>Total expenses</b>	<u>6,337,785</u>	<u>6,288,251</u>	<u>2,218,303</u>	<u>1,975,288</u>	<u>8,556,088</u>	<u>8,263,539</u>
Transfers	(37,298)	(232,347)	37,298	232,347	-	-
<b>Change in net assets</b>	<u>78,221</u>	<u>163,512</u>	<u>(284,810)</u>	<u>119,009</u>	<u>(206,589)</u>	<u>282,521</u>
Net assets at beginning of year	<u>25,705,410</u>	<u>25,541,898</u>	<u>15,952,661</u>	<u>15,833,652</u>	<u>41,658,071</u>	<u>41,375,550</u>
<b>Net assets at end of year</b>	<u>\$ 25,783,631</u>	<u>\$ 25,705,410</u>	<u>\$ 15,667,851</u>	<u>\$ 15,952,661</u>	<u>\$ 41,451,482</u>	<u>\$ 41,658,071</u>

## CITY OF ONTARIO, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

#### **Governmental Activities**

Governmental activities net assets increased \$78,221 in 2011.

Total governmental expenses increased \$49,534 from 2010. The primary increase occurred in transportation. Transfers between the governmental activities and business-type activities represent assets purchased by governmental funds on behalf of the business-type activities. These decreased from 2010 as a result of fewer projects completed in 2011.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,220,967 of the total expenses of the City. These expenses were partially funded by \$237,149 in direct charges to users of the services, \$5,847 in operating grants and contributions. Transportation expenses totaled \$2,039,061. Transportation expenses were partially funded by \$20,804 in direct charges to users of the services, \$418,881 in operating grants and contributions.

The state and federal government contributed to the City \$424,728 in operating grants and contributions. These revenues are restricted to a particular program or purpose. \$418,881 of the operating grants and contributions subsidized transportation programs.

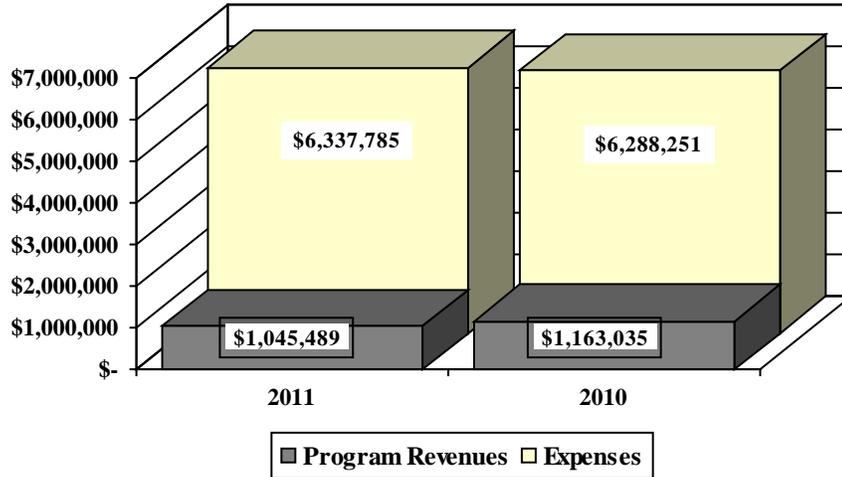
General revenues totaled \$5,407,815, and amounted to 83.80% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,513,626. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$423,671.

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

**CITY OF ONTARIO, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)

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



**Governmental Activities**

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program Expenses:				
General government	\$ 1,753,638	\$ 1,410,729	\$ 1,765,423	\$ 1,339,455
Security of persons and property	2,220,967	1,977,971	2,242,169	1,961,161
Public health and welfare	1,571	(2,434)	1,973	(1,997)
Transportation	2,039,061	1,599,376	1,917,605	1,481,391
Community environment	28,047	28,047	33,085	33,085
Leisure time activity	211,974	196,080	242,769	226,894
Interest and fiscal charges	<u>82,527</u>	<u>82,527</u>	<u>85,227</u>	<u>85,227</u>
<b>Total Expenses</b>	<u><u>\$ 6,337,785</u></u>	<u><u>\$ 5,292,296</u></u>	<u><u>\$ 6,288,251</u></u>	<u><u>\$ 5,125,216</u></u>

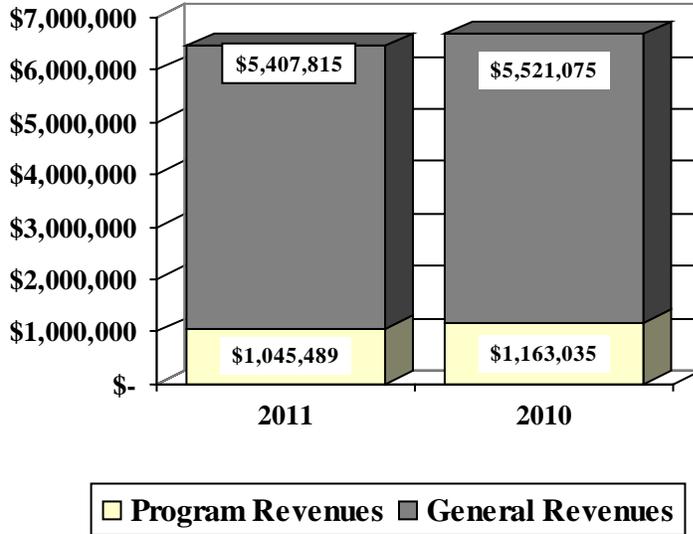
The dependence upon general revenues for governmental activities is apparent, with 83.50% of expenses supported through taxes and other general revenues.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The chart below illustrates the City's general revenues and program revenues for 2011 and 2010.

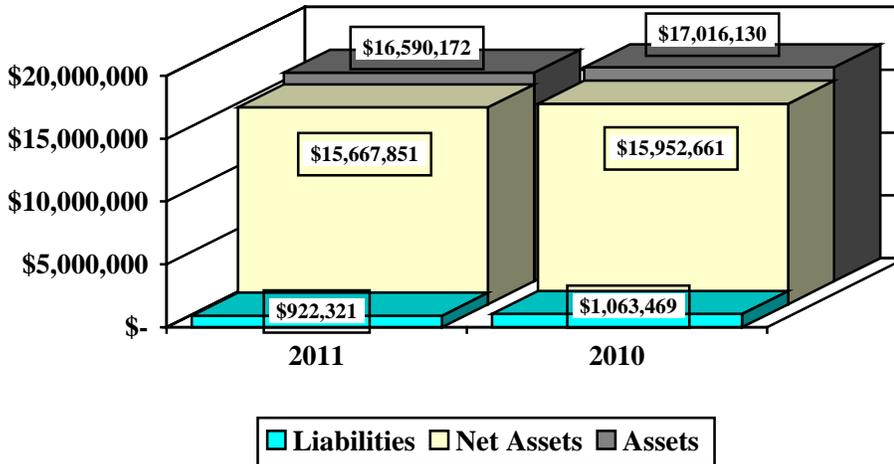
**Governmental Activities - General and Program Revenues**



**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$1,888,829, general revenues of \$7,366, transfers in of \$37,298 and expenses of \$2,218,303 for 2011. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

**Net Assets in Business - type Activities**



**CITY OF ONTARIO, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)

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

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$7,036,267 which is \$599,710 more than last year's total of \$6,436,557.

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and nonmajor governmental funds.

	Fund Balances 12/31/11	Fund Balances 12/31/10	Increase/ (Decrease)
Major funds:			
General	\$ 3,727,477	\$ 2,670,110	\$ 1,057,367
25% Street Construction	304,336	823,066	(518,730)
Capital Improvement	1,510,690	1,260,508	250,182
Other nonmajor governmental funds	1,493,764	1,682,873	(189,109)
Total	\$ 7,036,267	\$ 6,436,557	\$ 599,710

**General Fund**

The City's general fund balance increased \$1,057,367. The table that follows assists in illustrating the revenues of the general fund.

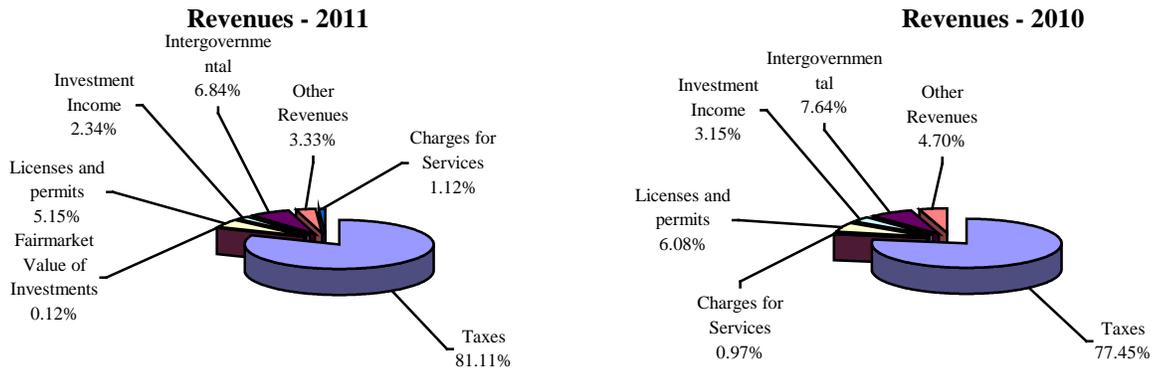
	2011 Amount	2010 Amount	Percentage Change
<b><u>Revenues</u></b>			
Taxes	\$ 3,739,543	\$ 3,149,804	18.72 %
Charges for services	51,469	39,643	29.83 %
Licenses, permits and fees	237,509	247,118	(3.89) %
Investment income	107,670	146,490	(26.50) %
Increase (Decrease) in fair market value of investments	5,578	(18,181)	(130.68) %
Intergovernmental	315,177	310,709	1.44 %
Other	153,410	191,318	(19.81) %
Total	\$ 4,610,356	\$ 4,066,901	13.36 %

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

Tax revenue represents 81.11% of all general fund revenue. An increase in income tax collections receipted into the general fund during 2011 led to tax revenue increasing 18.72% from the prior year. The increase in the fair market value of investments was a result of increasing market values of the federal agency securities. The City intends to hold the federal agency securities to maturity. Investment income decreased 26.50% as a result of decreasing interest rates and decreasing investment balances. All other significant revenue remained comparable to 2010.

The following charts illustrate the general fund revenues for 2011 and 2010.



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

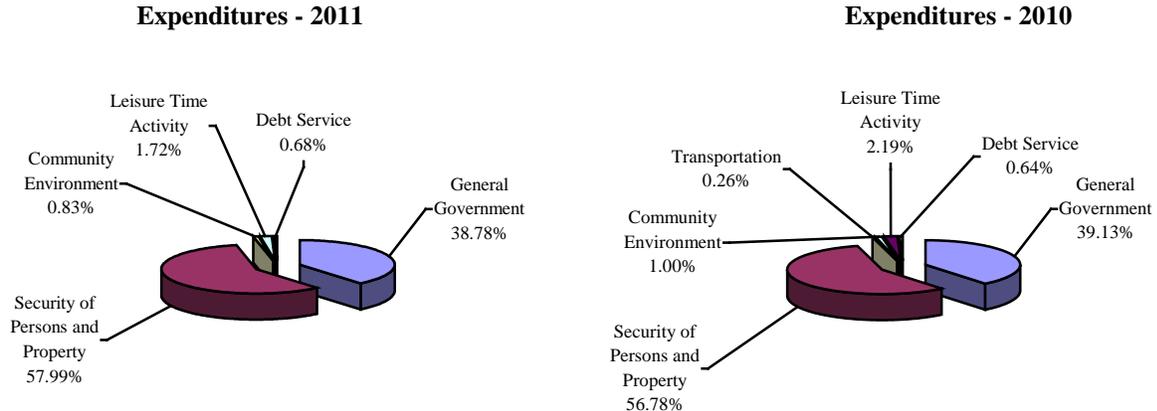
	<u>2011</u> <u>Amount</u>	<u>2010</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 1,303,513	\$ 1,300,765	0.21 %
Security of persons and property	1,948,962	1,887,525	3.25 %
Transportation	-	8,706	(100.00) %
Community environment	28,047	33,085	(15.23) %
Leisure time activity	57,643	72,955	(20.99) %
Debt service	22,711	21,224	7.01 %
<b>Total</b>	<b><u>\$ 3,360,876</u></b>	<b><u>\$ 3,324,260</u></b>	<b>1.10 %</b>

The largest expenditure line items are security of persons and property and general government. These two expenditures account for 96.77% of total general fund expenditures. Total expenditures increased 1.10% during 2011. Increased budgetary controls helped to keep the increase in expenditures to a minimum.

## CITY OF ONTARIO, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)

The following charts illustrate the general fund expenditures for 2011 and 2010.



#### ***25% Street Construction Fund***

The 25% street construction fund had revenues and other financing sources of \$572,462 in 2011. The expenditures of the 25% street construction fund totaled \$1,091,192 in 2011. The net decrease in fund balance for the 25% street construction fund was \$518,730 or 63.02%.

#### ***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of \$345,726 in 2011. The expenditures and other financing uses of the capital improvement fund totaled \$95,544 in 2011. The net increase in fund balance for the capital improvement fund was \$250,182 or 19.85%.

#### ***Budgeting Highlights - General Fund***

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

In the general fund, original budgeted revenues of \$6,230,640 remained the same as the final budgeted revenues. Actual revenues and other financing sources of \$4,607,957 were \$1,622,683 less than final budgeted revenues. Original budgeted expenditures and other financing uses were \$3,411,714 and final budgeted expenditures and other financing uses were \$3,808,580. Actual expenditures and other financing uses of \$3,609,433 were \$199,147 lower than final budgeted expenditures and other financing uses.

#### ***Proprietary Funds***

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

**CITY OF ONTARIO, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of 2011, the City had \$32,383,359 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Of this total, \$19,375,857 was reported in governmental activities and \$13,007,502 was reported in business-type activities. The following table shows 2011 balances compared to 2010:

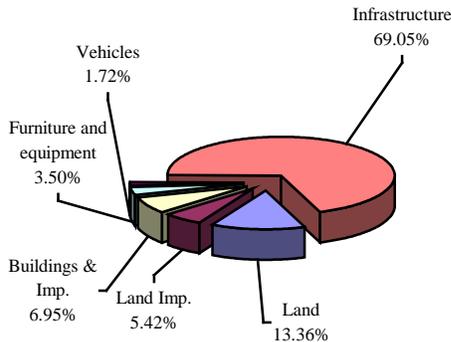
**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business - type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 2,589,154	\$ 2,589,154	\$ 262,626	\$ 262,626	\$ 2,851,780	\$ 2,851,780
Land improvements	1,049,353	1,163,051	8,212	11,497	1,057,565	1,174,548
Buildings and improvements	1,347,469	1,420,663	955,876	1,008,543	2,303,345	2,429,206
Furniture and equipment	677,838	621,250	494,921	591,570	1,172,759	1,212,820
Vehicles	333,809	321,214	-	-	333,809	321,214
Infrastructure	13,378,234	13,785,318	11,285,867	11,637,158	24,664,101	25,422,476
<b>Totals</b>	<b>\$ 19,375,857</b>	<b>\$ 19,900,650</b>	<b>\$ 13,007,502</b>	<b>\$ 13,511,394</b>	<b>\$ 32,383,359</b>	<b>\$ 33,412,044</b>

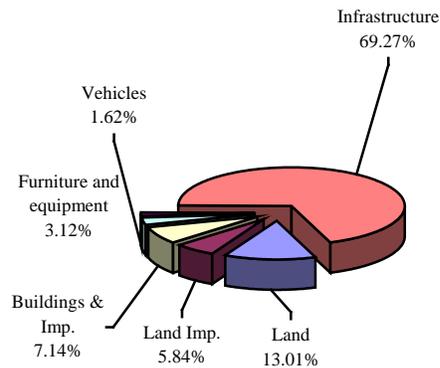
The City's largest governmental activities capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 69.05% of the City's total governmental capital assets.

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.

**Capital Assets - Governmental Activities 2011**



**Capital Assets - Governmental Activities 2010**

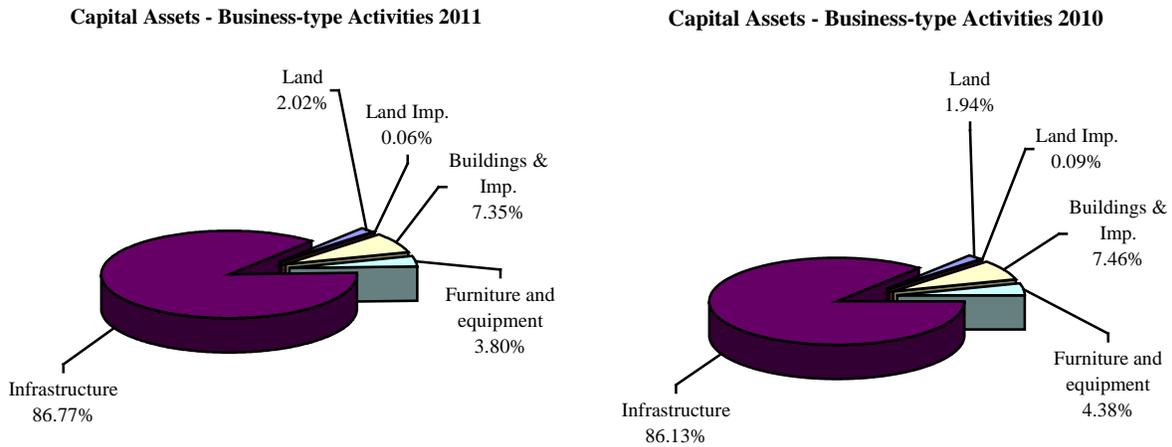


**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(UNAUDITED)**

The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 86.77% of the City's total business-type capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2011 and 2010.



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

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2011 and 2010:

	Governmental activities	
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 1,805,000	\$ 1,880,000
Lease-purchase agreement	5,817	10,983
Capital leases payable	<u>29,578</u>	<u>41,890</u>
Total long-term obligations	<u>\$ 1,840,395</u>	<u>\$ 1,932,873</u>
	Business-type activities	
	<u>2011</u>	<u>2010</u>
OPWC loans	<u>\$ 830,808</u>	<u>\$ 878,623</u>
Total long-term obligations	<u>\$ 830,808</u>	<u>\$ 878,623</u>

See Note 14 to the basic financial statements for additional information on the City's long-term obligations.

## **CITY OF ONTARIO, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2011 (UNAUDITED)**

#### **Economic Conditions and Outlook**

During 2009, the City took a hard hit with the loss of General Motors Stamping Plant which was its largest employer. As the City adjusted from the loss of income it has been able to complete projects that were put into action in earlier years.

Rock Road and Shelby Ontario road resurfacing was completed at a cost of \$300,000. The City will also be crack sealing 4<sup>th</sup> Street. US 30 Sanitary Sewer I/I Reduction Project Phase 2 was completed at a cost of \$750,000. The bid work is complete for the Home Road lift station which was completed in 2011 as well.

During 2010, the City Council passed an ordinance to limit the credit for an income tax paid to another municipality to one-half of one percent. This change increased income tax revenues by approximately 67% in 2011.

#### **Contacting the City's Financial Management**

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

**CITY OF ONTARIO, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2011

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and investments . . . . .	\$ 6,592,217	\$ 2,863,486	\$ 9,455,703
Cash in segregated accounts . . . . .	25,191	-	25,191
Receivables (net of allowance for uncollectibles):			
Income taxes . . . . .	1,449,946	-	1,449,946
Real and other taxes . . . . .	454,376	-	454,376
Accounts . . . . .	22,669	625,572	648,241
Special assessments . . . . .	18,348	-	18,348
Accrued interest . . . . .	3,222	-	3,222
Intergovernmental . . . . .	295,190	-	295,190
Payment in lieu of taxes . . . . .	193,396	-	193,396
Prepayments . . . . .	57,967	-	57,967
Materials and supplies inventory . . . . .	180,983	93,612	274,595
Unamortized bond issue costs . . . . .	152,749	-	152,749
Capital assets:			
Land and construction in progress . . . . .	2,589,154	262,626	2,851,780
Depreciable capital assets, net . . . . .	16,786,703	12,744,876	29,531,579
Total capital assets, net . . . . .	<u>19,375,857</u>	<u>13,007,502</u>	<u>32,383,359</u>
Total assets . . . . .	<u>28,822,111</u>	<u>16,590,172</u>	<u>45,412,283</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	32,771	13,746	46,517
Accrued wages and benefits payable . . . . .	88,049	14,017	102,066
Intergovernmental payable . . . . .	170,314	6,918	177,232
Accrued interest payable . . . . .	5,395	-	5,395
Claims payable . . . . .	4,115	-	4,115
Unearned revenue . . . . .	609,666	-	609,666
Long-term liabilities:			
Due within one year . . . . .	154,618	20,426	175,044
Due in more than one year . . . . .	1,973,552	867,214	2,840,766
Total liabilities . . . . .	<u>3,038,480</u>	<u>922,321</u>	<u>3,960,801</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	17,702,355	12,176,694	29,879,049
Restricted for:			
Debt service . . . . .	267,070	-	267,070
Transportation improvement projects . . . . .	1,091,591	-	1,091,591
Court computerization . . . . .	14,433	-	14,433
Cemetery . . . . .	24,494	-	24,494
Other purposes . . . . .	66,620	-	66,620
Unrestricted . . . . .	6,617,068	3,491,157	10,108,225
Total net assets . . . . .	<u>\$ 25,783,631</u>	<u>\$ 15,667,851</u>	<u>\$ 41,451,482</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental activities:</b>				
General government . . . . .	\$ 1,753,638	\$ 342,909	\$ -	\$ -
Security of persons and property . . .	2,220,967	237,149	5,847	-
Public health and welfare . . . . .	1,571	4,005	-	-
Transportation . . . . .	2,039,061	20,804	418,881	-
Community environment . . . . .	28,047	-	-	-
Leisure time activity . . . . .	211,974	15,894	-	-
Interest and fiscal charges . . . . .	82,527	-	-	-
Total governmental activities . . . . .	<u>6,337,785</u>	<u>620,761</u>	<u>424,728</u>	<u>-</u>
<b>Business-type activities:</b>				
Water . . . . .	932,623	846,125	-	-
Sewer . . . . .	<u>1,285,680</u>	<u>949,764</u>	<u>-</u>	<u>92,940</u>
Total business-type activities . . . . .	<u>2,218,303</u>	<u>1,795,889</u>	<u>-</u>	<u>92,940</u>
Total primary government . . . . .	<u>\$ 8,556,088</u>	<u>\$ 2,416,650</u>	<u>\$ 424,728</u>	<u>\$ 92,940</u>

**General revenues:**

Property taxes levied for:	
General purposes . . . . .	
Police pension . . . . .	
Income taxes levied for:	
General purposes . . . . .	
Special revenue . . . . .	
Capital projects . . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Payments in lieu of taxes . . . . .	
Investment earnings . . . . .	
Increase in fair market value of investment . . . . .	
Miscellaneous . . . . .	
Total general revenues . . . . .	
Transfers . . . . .	
Change in net assets . . . . .	
<b>Net assets at beginning of year . . . . .</b>	
<b>Net assets at end of year . . . . .</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,410,729)	\$ -	\$ (1,410,729)
(1,977,971)	-	(1,977,971)
2,434	-	2,434
(1,599,376)	-	(1,599,376)
(28,047)	-	(28,047)
(196,080)	-	(196,080)
(82,527)	-	(82,527)
(5,292,296)	-	(5,292,296)
-	(86,498)	(86,498)
-	(242,976)	(242,976)
-	(329,474)	(329,474)
(5,292,296)	(329,474)	(5,621,770)
354,402	-	354,402
57,134	-	57,134
3,350,764	-	3,350,764
533,105	-	533,105
218,221	-	218,221
423,671	-	423,671
193,396	-	193,396
104,170	-	104,170
5,578	-	5,578
167,374	7,366	174,740
5,407,815	7,366	5,415,181
(37,298)	37,298	-
78,221	(284,810)	(206,589)
25,705,410	15,952,661	41,658,071
\$ 25,783,631	\$ 15,667,851	\$ 41,451,482

**CITY OF ONTARIO, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2011

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and investments . . . . .	\$ 3,507,454	\$ 196,463	\$ 1,481,936	\$ 1,406,364	\$ 6,592,217
Cash in segregated accounts . . . . .	-	-	-	25,191	25,191
Receivables (net of allowance for uncollectibles):					
Income taxes . . . . .	1,063,294	289,989	96,663	-	1,449,946
Real and other taxes . . . . .	383,788	-	-	70,588	454,376
Accounts . . . . .	21,487	-	-	1,182	22,669
Accrued interest . . . . .	3,174	-	-	48	3,222
Special assessments . . . . .	-	-	-	18,348	18,348
Intergovernmental . . . . .	125,460	-	5,631	164,099	295,190
Payments in lieu of taxes . . . . .	-	-	-	193,396	193,396
Prepayments . . . . .	57,967	-	-	-	57,967
Materials and supplies inventory . . . . .	28,897	57,956	-	94,130	180,983
Total assets. . . . .	<u>\$ 5,191,521</u>	<u>\$ 544,408</u>	<u>\$ 1,584,230</u>	<u>\$ 1,973,346</u>	<u>\$ 9,293,505</u>
<b>Liabilities:</b>					
Accounts payable. . . . .	\$ 22,511	\$ -	\$ -	\$ 10,260	\$ 32,771
Accrued wages and benefits payable . . . . .	72,334	15,072	-	643	88,049
Intergovernmental payable . . . . .	111,049	7,381	1,000	50,884	170,314
Claims payable . . . . .	4,115	-	-	-	4,115
Deferred revenue . . . . .	902,433	217,619	72,540	159,731	1,352,323
Unearned revenue . . . . .	351,602	-	-	258,064	609,666
Total liabilities . . . . .	<u>1,464,044</u>	<u>240,072</u>	<u>73,540</u>	<u>479,582</u>	<u>2,257,238</u>
<b>Fund balances:</b>					
Nonspendable . . . . .	86,864	57,956	-	94,130	238,950
Restricted. . . . .	-	-	-	1,222,873	1,222,873
Committed . . . . .	-	246,380	1,510,690	213,523	1,970,593
Unassigned (deficit). . . . .	3,640,613	-	-	(36,762)	3,603,851
Total fund balances . . . . .	<u>3,727,477</u>	<u>304,336</u>	<u>1,510,690</u>	<u>1,493,764</u>	<u>7,036,267</u>
Total liabilities and fund balances. . . . .	<u>\$ 5,191,521</u>	<u>\$ 544,408</u>	<u>\$ 1,584,230</u>	<u>\$ 1,973,346</u>	<u>\$ 9,293,505</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2011

<b>Total governmental fund balances</b>		\$	7,036,267
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			19,375,857
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Real and other taxes receivable	\$	30,821	
Income taxes receivable		1,088,098	
Special assessments receivable		18,348	
Intergovernmental receivable		215,056	
Total		215,056	1,352,323
Unamortized bond issuance costs are not recognized in the governmental funds.			152,749
Unamortized bond discounts are not recognized in the governmental funds.			14,144
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Accrued interest payable		(5,395)	
Compensated absences payable		(301,919)	
Capital lease payable		(29,578)	
Lease purchase agreement payable		(5,817)	
General obligation bonds payable		(1,805,000)	
Total		(1,805,000)	(2,147,709)
<b>Net assets of governmental activities</b>		\$	25,783,631

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<b>General</b>	<b>25% Street Construction</b>	<b>Capital Improvement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Income taxes . . . . .	\$ 3,401,743	\$ 558,033	\$ 266,955	\$ -	\$ 4,226,731
Real and other taxes . . . . .	337,800	-	-	53,755	391,555
Charges for services . . . . .	51,469	-	-	19,899	71,368
Licenses, permits and fees . . . . .	237,509	-	-	318,319	555,828
Intergovernmental. . . . .	315,177	-	56,095	433,715	804,987
Special assessments. . . . .	-	-	-	5,888	5,888
Payments in lieu of taxes . . . . .	-	-	-	193,396	193,396
Investment income . . . . .	107,670	-	-	3,167	110,837
Contributions and donations. . . . .	-	-	-	3,875	3,875
Other. . . . .	153,410	1,842	194	1,996	157,442
Increase in fair market value of investments. . . . .	5,578	-	-	-	5,578
<b>Total revenues . . . . .</b>	<b>4,610,356</b>	<b>559,875</b>	<b>323,244</b>	<b>1,034,010</b>	<b>6,527,485</b>
<b>Expenditures:</b>					
Current:					
General government. . . . .	1,303,513	-	-	434,916	1,738,429
Security of persons and property . . . . .	1,948,962	-	-	268,785	2,217,747
Public health and welfare . . . . .	-	-	-	1,571	1,571
Transportation . . . . .	-	1,091,192	-	494,179	1,585,371
Community environment. . . . .	28,047	-	-	-	28,047
Leisure time activity. . . . .	57,643	-	-	40,727	98,370
Capital outlay. . . . .	-	-	80,525	5,550	86,075
Debt service:					
Principal retirement . . . . .	17,478	-	-	75,000	92,478
Interest and fiscal charges. . . . .	5,233	-	-	68,097	73,330
<b>Total expenditures . . . . .</b>	<b>3,360,876</b>	<b>1,091,192</b>	<b>80,525</b>	<b>1,388,825</b>	<b>5,921,418</b>
Excess (deficiency) of revenues over (under) expenditures. . . . .	1,249,480	(531,317)	242,719	(354,815)	606,067
<b>Other financing sources (uses):</b>					
Sale of capital assets . . . . .	11,928	-	-	-	11,928
Transfers in . . . . .	-	12,587	22,482	165,706	200,775
Transfers (out) . . . . .	(204,041)	-	(15,019)	-	(219,060)
<b>Total other financing sources (uses) . . . . .</b>	<b>(192,113)</b>	<b>12,587</b>	<b>7,463</b>	<b>165,706</b>	<b>(6,357)</b>
Net change in fund balances. . . . .	1,057,367	(518,730)	250,182	(189,109)	599,710
<b>Fund balances at beginning of year . . . . .</b>	<b>2,670,110</b>	<b>823,066</b>	<b>1,260,508</b>	<b>1,682,873</b>	<b>6,436,557</b>
<b>Fund balances at end of year. . . . .</b>	<b>\$ 3,727,477</b>	<b>\$ 304,336</b>	<b>\$ 1,510,690</b>	<b>\$ 1,493,764</b>	<b>\$ 7,036,267</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Net change in fund balances - total governmental funds** \$ 599,710

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

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

Capital asset additions	\$ 752,704	
Current year depreciation	(1,277,497)	
<b>Total</b>	<b>(524,793)</b>	<b>(524,793)</b>

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

Real and other taxes	4,897	
Income taxes	(124,641)	
Licenses, permits and fees	(3,500)	
Special assessments	(12,323)	
Intergovernmental revenues	49,458	
<b>Total</b>	<b>(86,109)</b>	<b>(86,109)</b>

Repayment of bond, lease-purchase and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 92,478

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in more interest being reported on the statement of activities:

Decrease in accrued interest	118	
Amortization of bond issuance costs	(8,526)	
Amortization of discount on bond issuance	(789)	
<b>Total</b>	<b>(9,197)</b>	<b>(9,197)</b>

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 6,132

**Change in net assets of governmental activities** \$ 78,221

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Income taxes . . . . .	\$ 4,614,584	\$ 4,614,584	\$ 3,424,408	\$ (1,190,176)
Real and other taxes. . . . .	453,425	453,425	334,840	(118,585)
Charges for services. . . . .	69,697	69,697	51,469	(18,228)
Licenses, permits and fees. . . . .	321,473	321,473	237,398	(84,075)
Intergovernmental. . . . .	434,349	434,349	298,967	(135,382)
Investment income. . . . .	145,887	145,887	107,733	(38,154)
Other . . . . .	191,225	191,225	141,214	(50,011)
Total revenues. . . . .	6,230,640	6,230,640	4,596,029	(1,634,611)
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,333,066	1,483,921	1,327,025	156,896
Security of persons and property. . . . .	1,974,793	2,074,855	1,992,769	82,086
Community environment . . . . .	32,648	32,632	28,105	4,527
Leisure time activity . . . . .	71,207	71,172	58,289	12,883
Total expenditures . . . . .	3,411,714	3,662,580	3,406,188	256,392
Excess of revenues over expenditures . . . . .	2,818,926	2,568,060	1,189,841	(1,378,219)
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	-	-	11,928	11,928
Transfers (out) . . . . .	-	(146,000)	(203,245)	(57,245)
Total other financing sources (uses) . . . . .	-	(146,000)	(191,317)	(45,317)
Net change in fund balances. . . . .	2,818,926	2,422,060	998,524	(1,423,536)
<b>Fund balance at beginning of year. . . . .</b>	2,474,192	2,474,192	2,474,192	-
<b>Prior year encumbrances appropriated. . . . .</b>	24,283	24,283	24,283	-
<b>Fund balance at end of year. . . . .</b>	\$ 5,317,401	\$ 4,920,535	\$ 3,496,999	\$ (1,423,536)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 25% STREET CONSTRUCTION FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Income taxes . . . . .	\$ 897,206	\$ 897,206	\$ 567,955	\$ (329,251)
Other . . . . .	2,910	2,910	1,842	(1,068)
Total revenues . . . . .	<u>900,116</u>	<u>900,116</u>	<u>569,797</u>	<u>(330,319)</u>
<b>Expenditures:</b>				
Current:				
Transportation . . . . .	<u>809,111</u>	<u>1,136,811</u>	<u>1,089,683</u>	<u>47,128</u>
Total expenditures . . . . .	<u>809,111</u>	<u>1,136,811</u>	<u>1,089,683</u>	<u>47,128</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>91,005</u>	<u>(236,695)</u>	<u>(519,886)</u>	<u>(283,191)</u>
<b>Other financing sources:</b>				
Transfers in . . . . .	<u>19,884</u>	<u>19,884</u>	<u>12,587</u>	<u>(7,297)</u>
Total other financing sources . . . . .	<u>19,884</u>	<u>19,884</u>	<u>12,587</u>	<u>(7,297)</u>
Net change in fund balances . . . . .	110,889	(216,811)	(507,299)	(290,488)
<b>Fund balance at beginning of year . . . . .</b>	694,756	694,756	694,756	-
<b>Prior year encumbrances appropriated . . .</b>	9,006	9,006	9,006	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 814,651</u>	<u>\$ 486,951</u>	<u>\$ 196,463</u>	<u>\$ (290,488)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2011

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents . . . . .	\$ 1,994,113	\$ 869,373	\$ 2,863,486
Receivables (net of allowance for uncollectables):			
Accounts . . . . .	278,409	347,163	625,572
Materials and supplies inventory . . . . .	61,712	31,900	93,612
Total current assets . . . . .	<u>2,334,234</u>	<u>1,248,436</u>	<u>3,582,670</u>
Noncurrent assets:			
Capital assets:			
Land . . . . .	262,626	-	262,626
Depreciable capital assets, net . . . . .	4,592,671	8,152,205	12,744,876
Total capital assets, net . . . . .	<u>4,855,297</u>	<u>8,152,205</u>	<u>13,007,502</u>
Total assets . . . . .	<u>7,189,531</u>	<u>9,400,641</u>	<u>16,590,172</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable . . . . .	13,746	-	13,746
Accrued wages and benefits . . . . .	7,542	6,475	14,017
Intergovernmental payable . . . . .	3,906	3,012	6,918
Compensated absences payable - current . . . . .	1,801	2,686	4,487
OPWC loans payable - current . . . . .	918	15,021	15,939
Total current liabilities . . . . .	<u>27,913</u>	<u>27,194</u>	<u>55,107</u>
Long-term liabilities:			
Compensated absences payable . . . . .	35,671	16,674	52,345
OPWC loans payable . . . . .	13,784	801,085	814,869
Total long-term liabilities . . . . .	<u>49,455</u>	<u>817,759</u>	<u>867,214</u>
Total liabilities . . . . .	<u>77,368</u>	<u>844,953</u>	<u>922,321</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	4,840,595	7,336,099	12,176,694
Unrestricted . . . . .	2,271,568	1,219,589	3,491,157
Total net assets . . . . .	<u>\$ 7,112,163</u>	<u>\$ 8,555,688</u>	<u>\$ 15,667,851</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 846,125	\$ 949,764	\$ 1,795,889
Other . . . . .	7,366	-	7,366
<b>Total operating revenues . . . . .</b>	<b>853,491</b>	<b>949,764</b>	<b>1,803,255</b>
<b>Operating expenses:</b>			
Personal services . . . . .	299,911	216,254	516,165
Contract services . . . . .	123,642	776,032	899,674
Materials and supplies . . . . .	215,329	20,644	235,973
Utilities . . . . .	5,753	-	5,753
Depreciation . . . . .	281,231	272,750	553,981
Other . . . . .	6,757	-	6,757
<b>Total operating expenses . . . . .</b>	<b>932,623</b>	<b>1,285,680</b>	<b>2,218,303</b>
<b>Operating (loss) . . . . .</b>	<b>(79,132)</b>	<b>(335,916)</b>	<b>(415,048)</b>
<b>Nonoperating revenues (expenses):</b>			
Intergovernmental . . . . .	-	92,940	92,940
<b>Loss before contributions and transfers . . . . .</b>	<b>(79,132)</b>	<b>(242,976)</b>	<b>(322,108)</b>
Transfer in . . . . .	1,647	45,882	47,529
Transfer out . . . . .	(29,244)	-	(29,244)
Capital contributions . . . . .	-	19,013	19,013
<b>Change in net assets . . . . .</b>	<b>(106,729)</b>	<b>(178,081)</b>	<b>(284,810)</b>
<b>Net assets at beginning of year . . . . .</b>	<b>7,218,892</b>	<b>8,733,769</b>	<b>15,952,661</b>
<b>Net assets at end of year . . . . .</b>	<b>\$ 7,112,163</b>	<b>\$ 8,555,688</b>	<b>\$ 15,667,851</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers . . . . .	\$ 840,806	\$ 903,464	\$ 1,744,270
Cash received from other operations . . . . .	7,366	-	7,366
Cash payments for personal services . . . . .	(307,766)	(214,932)	(522,698)
Cash payments for contract services . . . . .	(118,548)	(872,744)	(991,292)
Cash payments for materials and supplies. . . . .	(203,480)	(17,354)	(220,834)
Cash payments for other expenses . . . . .	(6,757)	-	(6,757)
Net cash provided by (used in) operating activities . . . . .	211,621	(201,566)	10,055
<b>Cash flows from noncapital financing activities:</b>			
Cash received from transfers in. . . . .	1,647	45,882	47,529
Net cash provided by noncapital financing activities . . . . .	1,647	45,882	47,529
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets. . . . .	(31,076)	-	(31,076)
Principal retirement on OPWC loans . . . . .	(32,000)	(45,059)	(77,059)
OPWC grant . . . . .	-	92,940	92,940
Net cash provided by (used in) capital and related financing activities . . . . .	(63,076)	47,881	(15,195)
Net increase (decrease) in cash and cash equivalents . . . . .	150,192	(107,803)	42,389
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<b>1,843,921</b>	<b>977,176</b>	<b>2,821,097</b>
<b>Cash and cash equivalents at end of year. . . . .</b>	<b>\$ 1,994,113</b>	<b>\$ 869,373</b>	<b>\$ 2,863,486</b>

-- Continued

**CITY OF ONTARIO, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>			
Operating loss . . . . .	\$ (79,132)	\$ (335,916)	\$ (415,048)
Adjustments:			
Depreciation . . . . .	281,231	272,750	553,981
Changes in assets and liabilities:			
Decrease in materials and supplies inventory . . . . .	12,784	3,290	16,074
(Increase) in accounts receivable . . . . .	(5,319)	(46,300)	(51,619)
Increase (decrease) in accounts payable . . . . .	9,912	(1,137)	8,775
(Decrease) in contracts payable . . . . .	-	(95,575)	(95,575)
Increase (decrease) in accrued wages and benefits . . . . .	(909)	596	(313)
Increase in intergovernmental payable . . . . .	178	354	532
Increase (decrease) in compensated absences payable . . . . .	(7,124)	372	(6,752)
Net cash provided by (used in) operating activities . . . . .	<u>\$ 211,621</u>	<u>\$ (201,566)</u>	<u>\$ 10,055</u>

**Non-cash transactions:**

During 2011, the sewer fund received \$19,013  
 in capital contributions from governmental funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
DECEMBER 31, 2011**

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	\$ 45,795
Total assets . . . . .	<u>\$ 45,795</u>
<b>Liabilities:</b>	
Deposits held and due to other. . . . .	\$ 45,795
Total liabilities . . . . .	<u>\$ 45,795</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

#### **NOTE 1 - DESCRIPTION OF THE CITY**

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

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

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) guidance issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided it does not conflict with or contradict GASB pronouncements. The City has elected not to apply the FASB guidance issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

##### **A. Reporting Entity**

For financial reporting purposes, the City's financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Component units are legally separate organizations for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific burdens on the City. The City may also be financially accountable for governmental organizations with a separately elected Governing Board, a Governing Board appointed by another government, or a jointly appointed Board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Based upon the application of these criteria, the City has no component units.

The primary government provides the following services to its citizens: water and sewer utilities, park operations (leisure time activities), street maintenance and repairs, police protection and a mayor's court. The financial statements of the reporting entity include only those of the City (the primary government).

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

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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

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

**C. Fund Accounting**

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

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

*General fund* - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

*25% street construction fund* - The 25% street construction fund receives income tax revenues for constructing, maintaining and repairing City streets.

*Capital improvement fund* - The capital improvement fund receives income tax revenues for the construction and maintenance of capital items.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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

Other governmental funds of the City are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

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

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

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

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

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

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

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

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

**E. Basis of Accounting**

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, payments in lieu of taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income taxes, State-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

**Unearned Revenue and Deferred Revenue** - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes and payments in lieu of taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at December 31, 2011 are recorded as deferred revenue on the governmental fund financial statements.

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

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

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

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

**F. Budgetary Process**

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

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

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

**G. Cash and Investments**

Cash balances of the City's funds, except cash in segregated accounts, are pooled and invested to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the cash management pool is presented as "equity in pooled cash and investments" on the financial statements.

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

During 2011, investments were limited to certificates of deposits, federal agency securities and U.S. government money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be distributed to specific funds. Interest revenue earned and credited to the general fund during 2011 amounted to \$107,670, which includes \$71,578 assigned from other funds of the City.

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

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

**H. Inventory**

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

**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2011, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

**J. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$500. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 40 years
Furniture and equipment	5 - 15 years
Vehicles	8 years
Infrastructure	15 - 50 years

**K. Compensated Absences**

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation absences are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments for sick leave.

The total liability for vacation and severance payments has been calculated using pay rates in effect at December 31, 2011 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements. The liability is an estimate based on the City's past experience of making termination payments.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**L. Accrued Liabilities and Long-Term Obligations**

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

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

**M. Interfund Activity**

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

**N. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

*Assigned* - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the City Auditor the authority to constrain monies for intended purposes.

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

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

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

**O. Unamortized Issuance Costs and Discounts**

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Issuance costs are recorded as deferred charges. Bond discounts are deferred and accreted over the terms of the bonds. Bond discounts are presented as a reduction to the face amount of the bonds.

On the governmental fund financial statements, issuance costs and bond discounts are recognized in the current period.

**P. Estimates**

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

**Q. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. The sewer fund received \$19,103 in capital contributions from governmental funds during 2011.

**R. Net Assets**

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

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

**S. Operating Revenues and Expenses**

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither of these transactions occurred in 2011.

**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

**A. Change in Accounting Principles**

For 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

**B. Deficit Fund Balances**

Fund balance at December 31, 2011 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Recreation	\$ 2,197
Police pension	34,565

These funds complied with Ohio State law, which does not permit a cash basis deficit at year end. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the nonmajor governmental funds are the result of recording adjustments for accrued liabilities. These deficit balances will be eliminated as resources become available to liquidate the accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement 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 items (1) or (2) above 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 Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

3. Obligations of the City.

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 City 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.

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 City Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash in Segregated Accounts**

The City has depository accounts outside of the City treasury to account for Mayor's Court operations. The carrying amount of these depository accounts at December 31, 2011 was \$25,191. These depository accounts are included in "deposits with financial institutions" below.

**B. Deposits with Financial Institutions**

At December 31, 2011, the carrying amount of all City deposits was \$6,388,591. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$3,770,687 of the City's bank balance of \$6,504,726 was exposed to custodial risk as discussed below, while \$2,734,039 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

As of December 31, 2011, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 60 months</u>
FHLB - callable	\$ 500,415	\$ -	\$ -	\$ -	\$ 500,415
FFCB - callable	249,973	-	-	-	249,973
FNMA - callable	400,058	-	-	-	400,058
FHLMC - callable	1,224,325	-	-	-	1,224,325
FNMA - noncallable	752,495	-	-	-	752,495
U.S. government money market funds	10,832	10,832	-	-	-
<b>Total</b>	<b>\$ 3,138,098</b>	<b>\$ 10,832</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,127,266</b>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the City's investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* The City's investments in federal agency securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. The City's investment in U.S. government money market mutual funds were rated AAAM by Standard & Poor's. The City's investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

*Custodial Credit Risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the City Treasurer or qualified trustee.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB - callable	\$ 500,415	15.95
FFCB - callable	249,973	7.97
FNMA - callable	400,058	12.75
FHLMC - callable	1,224,325	39.00
FNMA - noncallable	752,495	23.98
U.S. government money market funds	<u>10,832</u>	<u>0.35</u>
Total	<u>\$ 3,138,098</u>	<u>100.00</u>

**D. Reconciliation of Cash and Investments to Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,388,591
Investments	<u>3,138,098</u>
Total	<u>\$ 9,526,689</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 6,617,408
Business-type activities	2,863,486
Agency funds	<u>45,795</u>
Total	<u>\$ 9,526,689</u>

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported on the fund financial statements:

Transfers from the general fund to:

25% street construction	\$ 12,587
Capital improvement	22,482
Water	1,647
Sewer	1,619
Nonmajor governmental funds	165,706

Transfers from capital improvement funds to:

Sewer	15,019
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Transfers from water fund to:

Sewer	<u>29,244</u>
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Total	<u>\$ 248,304</u>
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Transfers between enterprise funds are eliminated for reporting on the government-wide financial statements. Transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Ontario. County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was \$10.59 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

<u>Real Property</u>	
Residential/Agricultural	\$ 113,024,560
Commercial/Industrial/Mineral	83,780,920
<u>Public Utility</u>	
Real	96,940
Personal	<u>4,006,680</u>
Total Assessed Value	<u>\$ 200,909,100</u>

**NOTE 7 - LOCAL INCOME TAX**

The City levies and collects an income tax of 1.5% on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of .5% of the tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. During 2011, by City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvement fund, and the 25% street construction fund. On the modified accrual basis of accounting, total income tax revenue was \$4,226,731 in 2011.

**NOTE 8 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

Vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten or more days of vacation per year, depending upon length of service. Vacation accumulation is limited to the amount earned in one year. All accumulated unused vacation time is paid upon termination of employment. Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee may be paid 60% of accumulated, unused sick leave.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 8 - OTHER EMPLOYEE BENEFITS - (Continued)**

**B. Insurance**

The City provides health, prescription, life and accidental death and dismemberment insurance to its employees through Medical Mutual Insurance. The City provides dental and vision benefits to employees through a self-insured plan.

**NOTE 9 - TAX INCREMENT FINANCING DISTRICT (TIF)**

The City, pursuant to the Ohio Revised Code and City ordinances, has established two TIFs. A TIF represents a geographic area wherein property values created after the commencement date of the TIF are exempt, in whole or in part, from property taxes. Owners of such property, however, must pay amounts equal to the property taxes, known as “payments in lieu of taxes (PILOT)”, as though the TIF had not been established. These “PILOTS” are then dedicated to the payments for various public improvements within or adjacent to the TIF area. Property values existing before the commencement date of a TIF continue to be subjected to property taxes.

PILOT revenue was \$193,396 in 2011. The TIFs have a longevity of the shorter period of 30 years or until the public improvements are paid for. The property tax exemption then ceases; PILOT’s cease and property taxes then apply to the increased property values.

**NOTE 10 - RECEIVABLES**

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements, shared revenue and payments in lieu of taxes. A summary of the principal items of receivables reported on the statement of net assets follows:

**Governmental activities:**

Income taxes	\$ 1,449,946
Real and other taxes	454,376
Accounts	22,669
Special assessments	18,348
Accrued interest	3,222
Intergovernmental	295,190
Payments in lieu of taxes	193,396

**Business-type activities:**

Accounts	625,572
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Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 11 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2011, was as follows:

<b><u>Governmental activities:</u></b>	Balance 1/1/2011	Additions	Disposals	Balance 12/31/2011
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,589,154	\$ -	\$ -	\$ 2,589,154
Total capital assets, not being depreciated	<u>2,589,154</u>	<u>-</u>	<u>-</u>	<u>2,589,154</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,631,813	-	-	2,631,813
Buildings and improvements	3,172,798	6,465	-	3,179,263
Furniture and equipment	2,906,048	229,003	(10,061)	3,124,990
Vehicles	1,372,505	96,002	(16,789)	1,451,718
Infrastructure	<u>20,923,281</u>	<u>421,234</u>	<u>-</u>	<u>21,344,515</u>
Total capital assets, being depreciated	<u>31,006,445</u>	<u>752,704</u>	<u>(26,850)</u>	<u>31,732,299</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,468,762)	(113,698)	-	(1,582,460)
Buildings and improvements	(1,752,135)	(79,659)	-	(1,831,794)
Furniture and equipment	(2,284,798)	(172,415)	10,061	(2,447,152)
Vehicles	(1,051,291)	(83,407)	16,789	(1,117,909)
Infrastructure	<u>(7,137,963)</u>	<u>(828,318)</u>	<u>-</u>	<u>(7,966,281)</u>
Total accumulated depreciation	<u>(13,694,949)</u>	<u>(1,277,497)</u>	<u>26,850</u>	<u>(14,945,596)</u>
Total capital assets, being depreciated, net	<u>17,311,496</u>	<u>(524,793)</u>	<u>-</u>	<u>16,786,703</u>
Governmental activities capital assets, net	<u>\$ 19,900,650</u>	<u>\$ (524,793)</u>	<u>\$ -</u>	<u>\$ 19,375,857</u>

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

<b><u>Governmental activities:</u></b>	
General government	\$ 77,974
Security of persons and property	120,937
Transportation	965,692
Leisure time activity	<u>112,894</u>
Total depreciation expense - governmental activities	<u>\$ 1,277,497</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 11 - CAPITAL ASSETS - (Continued)**

<b><u>Business-type activities:</u></b>	<u>Balance</u> <u>1/1/2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2011</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Total capital assets, not being depreciated	<u>262,626</u>	<u>-</u>	<u>-</u>	<u>262,626</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	54,622	-	-	54,622
Buildings and improvements	1,987,205	-	-	1,987,205
Furniture and equipment	2,631,470	27,587	-	2,659,057
Infrastructure:				
Sewer lines	10,535,540	2,550	-	10,538,090
Water lines	<u>5,603,343</u>	<u>19,952</u>	<u>-</u>	<u>5,623,295</u>
Total capital assets, being depreciated	<u>20,812,180</u>	<u>50,089</u>	<u>-</u>	<u>20,862,269</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(43,125)	(3,285)	-	(46,410)
Buildings and improvements	(978,662)	(52,667)	-	(1,031,329)
Furniture and equipment	(2,039,900)	(124,236)	-	(2,164,136)
Infrastructure:				
Sewer lines	(2,452,248)	(228,382)	-	(2,680,630)
Water lines	<u>(2,049,477)</u>	<u>(145,411)</u>	<u>-</u>	<u>(2,194,888)</u>
Total accumulated depreciation	<u>(7,563,412)</u>	<u>(553,981)</u>	<u>-</u>	<u>(8,117,393)</u>
Total capital assets, being depreciated, net	<u>13,248,768</u>	<u>(503,892)</u>	<u>-</u>	<u>12,744,876</u>
Business-type activities capital assets, net	<u>\$ 13,511,394</u>	<u>\$ (503,892)</u>	<u>\$ -</u>	<u>\$ 13,007,502</u>

Depreciation expense was charged to enterprise funds of the City as follows:

**Business-type activities:**

Water	\$ 281,231
Sewer	<u>272,750</u>
Total depreciation expense - business-type activities	<u>\$ 553,981</u>

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 12 - LEASE-PURCHASE AGREEMENT**

Prior to 2009, the City entered into a lease-purchase agreement for 911-system equipment. This lease meets the criteria of a capital lease as defined generally accepted accounting principles which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment have been capitalized in the amount of \$26,195. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2011 was \$18,337, leaving a current book value of \$7,858. A corresponding liability was recorded in the government-wide financial statements. Principal payments of \$5,166 were paid out of the general fund.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of December 31, 2011.

<u>Year Ending December 31,</u>	<u>Total</u>
2012	<u>\$ 6,552</u>
Total future minimum lease payments	6,552
Less: amount representing interest	<u>(735)</u>
Present value of future minimum lease payments	<u>\$ 5,817</u>

**NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE**

In previous years, the City entered into capitalized leases for copiers. These leases meet the criteria of a capital lease as defined by generally accepted accounting principles which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment have been capitalized in the amount of \$101,376. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2011 was \$82,068, leaving a current book value of \$19,308. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments on the leases, totaled \$12,312 and \$2,360, respectively and were paid out of the general fund.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 13 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)**

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2011.

<u>Year Ending December 31,</u>	<u>Total</u>
2012	\$ 14,672
2013	14,672
2014	<u>2,446</u>
Total future minimum lease payments	31,790
Less: amount representing interest	<u>(2,212)</u>
Present value of future minimum lease payments	<u>\$ 29,578</u>

**NOTE 14 - LONG-TERM OBLIGATIONS**

A. During 2011, the following activity occurred in governmental and business-type activities long-term obligations:

	Balance		Balance	Due within	
<u>Governmental activities:</u>	<u>1/1/2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2011</u>	<u>One Year</u>
General obligation bonds payable	\$ 1,880,000	\$ -	\$ (75,000)	\$ 1,805,000	\$ 75,000
Capital lease payable	41,890	-	(12,312)	29,578	13,136
Lease-purchase agreement	10,983	-	(5,166)	5,817	5,817
Compensated absences	<u>308,051</u>	<u>87,481</u>	<u>(93,613)</u>	<u>301,919</u>	<u>60,665</u>
	<u>\$ 2,240,924</u>	<u>\$ 87,481</u>	<u>\$ (186,091)</u>	2,142,314	<u>\$ 154,618</u>
Unamortized discount on bonds				<u>(14,144)</u>	
Total governmental activities				<u>\$ 2,128,170</u>	
<b><u>Business-type activities:</u></b>					
OPWC water treatment loan	\$ 17,458	\$ -	\$ (2,756)	\$ 14,702	\$ 918
OPWC sewer improvement loan	466,667	-	(25,000)	441,667	8,334
OPWC I/I reduction phase 2 loan	<u>394,498</u>	<u>-</u>	<u>(20,059)</u>	<u>374,439</u>	<u>6,687</u>
Total OPWC loans	<u>878,623</u>	<u>-</u>	<u>(47,815)</u>	<u>830,808</u>	<u>15,939</u>
Compensated absences	<u>63,584</u>	<u>10,572</u>	<u>(17,324)</u>	<u>56,832</u>	<u>4,487</u>
Total business-type activities	<u>\$ 942,207</u>	<u>10,572</u>	<u>\$ (65,139)</u>	<u>\$ 887,640</u>	<u>\$ 20,426</u>

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

The City's lease-purchase agreement obligations are described in Note 12.

The City's capital lease obligations are described in Note 13.

Compensated absences for governmental activities will be paid from the fund from which the employee is paid which, for the City, is the general fund and the street construction and maintenance fund (a nonmajor governmental fund).

On December 22, 2009, the City issued \$1,950,000 in general obligation bonds, series 2009 to fund the Walker Lake Road improvements. The bonds are comprised of serial and term bonds with an annual interest rate ranging from 2.00% - 4.60%. All bonds are secured by the full faith and credit of the City. General obligation bonds will be paid from the debt service fund.

The interest-free OPWC water treatment loan was entered into during July 2000 to finance improvements to the water treatment plant. The OPWC water treatment loan will all be paid from the water fund. The interest-free OPWC sewer improvement loan was entered into during 2008 to finance improvements to the City's sewer system. The OPWC sewer improvement loan will all be paid from the sewer fund.

During 2009, the City entered into a loan with the OPWC for the I/I reduction phase 2 project. This is an interest-free OPWC loan and has an outstanding balance of \$374,439.

The OPWC loans are to be paid from water and sewer resources, however, the loans are backed by the full faith and credit of the City.

Compensated absences for business-type activities will be paid from the fund from which the employee is paid which, for the City, is the water and sewer enterprise funds.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2010 are as follows:

Year Ending December 31,	<u>Governmental Activities</u>		
	<u>General Obligation Bonds Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 75,000	\$ 68,084	\$ 143,084
2013	75,000	66,584	141,584
2014	80,000	65,084	145,084
2015	80,000	63,284	143,284
2016	85,000	61,284	146,284
2017 - 2021	465,000	263,201	728,201
2022 - 2026	550,000	164,650	714,650
2027 - 2029	<u>395,000</u>	<u>37,030</u>	<u>432,030</u>
Total	<u>\$ 1,805,000</u>	<u>\$ 789,201</u>	<u>\$ 2,594,201</u>

Year Ending December 31,	<u>Business-type Activities</u>			
	<u>OPWC Water Treatment Loan Principal</u>	<u>OPWC Sewer Improvement Loan Principal</u>	<u>OPWC Sewer I/I Reduction Phase 2 Principal</u>	<u>Total OPWC Loans</u>
	2012	\$ 918	\$ 8,334	\$ 6,687
2013	1,837	16,667	13,373	31,877
2014	1,838	16,667	13,373	31,878
2015	1,838	16,667	13,372	31,877
2016	1,838	16,667	13,373	31,878
2017 - 2021	6,433	83,335	66,864	156,632
2022 - 2026	-	83,335	66,864	150,199
2027 - 2031	-	83,332	66,864	150,196
2032 - 2036	-	83,330	66,864	150,194
2037 - 2040	<u>-</u>	<u>33,333</u>	<u>46,805</u>	<u>80,138</u>
Total	<u>\$ 14,702</u>	<u>\$ 441,667</u>	<u>\$ 374,439</u>	<u>\$ 830,808</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)**

**B. Legal Debt Margin**

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2011, the City's overall legal debt margin was \$19,544,573 and the unvoted debt margin was \$11,304,118.

**NOTE 15 - RISK MANAGEMENT**

**A. Comprehensive**

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2011, the City contracted with the Ohio Plan for various types of insurance.

The coverage and deductible are as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
General Liability	\$ 0	\$5,000,000/\$7,000,000
Employers Liability	0	5,000,000
Employee Benefits	0	5,000,000/7,000,000
Law Enforcement Officers Liability	5,000	5,000,000/7,000,000
Public Officials Liability	5,000	5,000,000/7,000,000
Automobile	0	5,000,000
Property	1,000	18,290,164
Special Property Coverage	1,000	1,252,409
Electronic Equipment/Media Coverage	1,000	219,638
Public Employee Dishonesty	0	25,000
Boiler and Machinery	1,000	18,290,164

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 15 - RISK MANAGEMENT - (Continued)**

**B. Workers' Compensation**

The City participates in the Ohio Association of Rural Water and Wastewater Systems Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost controls, and actuarial services to the GRP.

**C. Dental and Vision Self-Insurance**

The City operates a self-insurance plan for dental and vision benefits. The activity of the plan is recorded in the City's general fund. The claims liability of \$4,115 reported on the financial statements at December 31, 2011 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by FASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the claims liability amount for the last two years follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2011	\$ 5,531	\$ 37,389	\$ (38,805)	\$ 4,115
2010	4,647	53,055	(52,171)	5,531

**NOTE 16 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 16 - PENSION PLANS - (Continued)**

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$140,238, \$125,944, and \$125,560, respectively; 90.90% has been contributed for 2011 and 100% has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$8,748 made by the City and \$6,249 made by the plan members.

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

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

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% for police officers. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers. The City's required contributions for pension obligations to OP&F for police officers were \$140,294, \$139,907 and \$141,930 for 2011, 2010 and 2009, respectively. The full amount has been contributed for 2010 and 2009. 76.46% has been contributed for police for 2011.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 17 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

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

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$56,255, \$71,733, and \$92,647, respectively; 90.90% has been contributed for 2011 and 100% has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

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

OP&F provides access to post-employment 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers were \$74,273, \$74,069 and \$75,140 for 2011, 2010 and 2009, respectively. The full amount has been contributed for 2010 and 2009. 76.46% has been contributed for police for 2011.

**NOTE 18 - 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), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and the 25% street construction fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the general fund and the 25% street construction fund.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**NOTE 18 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

**Net Change in Fund Balance**

	<u>General fund</u>	25% Street <u>Construction fund</u>
Budget basis	\$ 998,524	\$ (507,299)
Net adjustment for revenue accruals	14,327	(9,922)
Net adjustment for expenditure accruals	45,312	(1,509)
Net adjustment for other sources/uses	<u>(796)</u>	<u>-</u>
GAAP basis	<u>\$ 1,057,367</u>	<u>\$ (518,730)</u>

**NOTE 19 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2011.

**B. Litigation**

The City is not party to legal proceedings which will have a material effect, if any, on the financial condition of the City.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**NOTE 20 - FUND BALANCE**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund balance	General	25% Street Construction	Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Materials and supplies inventory	\$ 28,897	\$ 57,956	\$ -	\$ 94,130	\$ 180,983
Prepays	<u>57,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,967</u>
Total nonspendable	<u>86,864</u>	<u>57,956</u>	<u>-</u>	<u>94,130</u>	<u>238,950</u>
Restricted:					
Debt service	-	-	-	254,117	254,117
Transportation improvement projects	-	-	-	863,209	863,209
Mayor's court programs	-	-	-	39,624	39,624
Cemetery	-	-	-	24,494	24,494
Police programs	-	-	-	2,854	2,854
Other purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,575</u>	<u>38,575</u>
Total restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,222,873</u>	<u>1,222,873</u>
Committed:					
Capital projects	-	-	1,510,690	213,523	1,724,213
Transportation improvement projects	<u>-</u>	<u>246,380</u>	<u>-</u>	<u>-</u>	<u>246,380</u>
Total committed	<u>-</u>	<u>246,380</u>	<u>1,510,690</u>	<u>213,523</u>	<u>1,970,593</u>
Unassigned (deficit)	<u>3,640,613</u>	<u>-</u>	<u>-</u>	<u>(36,762)</u>	<u>3,603,851</u>
Total fund balances	<u>\$ 3,727,477</u>	<u>\$ 304,336</u>	<u>\$ 1,510,690</u>	<u>\$ 1,493,764</u>	<u>\$ 7,036,267</u>

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# Dave Yost • Auditor of State

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

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

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, (the City) as of and for the year ended December 31, 2011, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 30, 2013.

### ***Internal Control Over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. We consider finding 2011-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-003 described in the accompanying schedule of findings to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001 and 2011-002.

***City's Response to Findings***

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

September 30, 2013

**CITY OF ONTARIO  
RICHLAND COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING 2011-001**

**Material Weakness/Noncompliance**

**Ohio Rev. Code Section 5705.42** requires in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision.

In 2011, Ohio Public Works Commission (OPWC) expended \$92,940, for wastewater treatment plant improvements on the City's behalf. Under the terms of these agreements, OPWC made project payments directly to the vendor/contractor(s) on the City's behalf. The City did not recognize the \$92,940 as receipts and disbursements in their accounting records, thus understating their receipts and disbursements. An adjustment was made to the financial statements to recognize these receipts and disbursements.

Any payments made on behalf of the City by another party should be recorded by the City as a receipt and disbursement. Failure to do so results in an understatement of receipts and disbursements. The City should refer to Auditor of State Bulletin 2000-008 for additional guidance.

**Officials' Response:** No response was provided by management.

**FINDING 2011-002**

**Noncompliance**

**Ohio Rev. Code Section 5705.41(D)** provides no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating 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.

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

1. **"Then and Now" Certificate** – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

### FINDING 2011-002 (Continued)

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the City.

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

44 percent of expenditures tested for 2011 were not certified prior to incurring the obligation. It was also found none of the exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments received prior approval. To improve control over disbursements and to help reduce the possibility of the City’s funds exceeding budgetary spending limitations, the City Auditor should certify the funds are or will be available prior to the obligation by the City. When prior certification is not possible, “then and now” certification should be used.

We recommend the City certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The City Auditor should sign the certification prior to the City incurring a commitment, and only when the requirements of 5705.41(D) are satisfied. The City Auditor should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials’ Response:** We, who are currently in the Auditor’s Office were not here when this was done. However, the issue is duly noted and steps are currently being taken to insure this does not happen in the future.

- 1.) P.O.’s for items like sanitary sewer and things that we were writing the P.O. for after the fact, will now be written on super blankets and the money encumbered at the beginning of the year.
- 2.) “THEN and NOW” will also be implemented for any other items that arise beyond our control.

We would like to add that to the best of my knowledge no one has ever purchased, agreed to purchase, or accepted any goods or services without checking to see if monies were available in respective appropriated line items. Also, these findings will be documented and passed on to future employees and elected officials in the Auditor’s Office.

### FINDING 2011-003

#### Significant Deficiency

##### Bank Reconciliation

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash balance. Bank reconciliation means accounting for the differences between the bank statement's balances and the cash and investment balances according to the entity's records at a specific point in time.

The December 31, 2011 bank reconciliations showed a bank over book variance of \$5,036. The City hired an independent public accountant to correct the reconciliation and any necessary adjustments were made in 2012. In addition, the City's accounting records were off by \$3,610 from the cash balance maintained in the GAAP conversion due to audit adjustments from prior years not being posted by the City. These amounts were adjusted to the City's accounting records and financial statements.

Additionally, there was no payroll checking account reconciliation provided as ADP processes the payroll. The account had a balance of \$957 as of December 31, 2011. However, this account should have a \$0 book balance as it should be a clearing account. Therefore, the City should maintain a list of outstanding checks and other reconciling items reducing the bank balance down to \$0.

Without complete and accurate monthly bank reconciliations, the City's internal control is significantly weakened which could hinder management's timely detection of errors or irregularities. Also, copies of the monthly bank reconciliations and listing of outstanding checks and other reconciling items should be provided to the Council or Finance Committee each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented. Finally, the City should reconcile the payroll bank account monthly and ensure it balances to a \$0 balance.

**Officials' Response:** The Treasurer is responsible for funds received by the city. Each month deposits and checks are balanced from the computer system to the bank statement. In the past problem has been balancing to the fund report which involves more than one department having input. Corrective measures have been taken; to date (2013) everything is in balance. Regarding bank reconciliation payroll has been handled by ADP and funds remaining in account were OPERS that hadn't been withdrawn at end of month. New payroll system is in place correcting this problem.

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**CITY OF ONTARIO  
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	<b>Material Weakness/Noncompliance Finding:</b> Ohio Rev. Code 5705.42 – An OPWC on-behalf transaction was not initially recorded as a receipt and disbursement by the City.	No	Not Corrected. See Finding 2011-001.
2010-002	<b>Material Weakness: Financial Statement Adjustments</b> – Several material errors were identified and adjusted to the financial statements.	No	Not Corrected. Repeated in the Management Letter.
2010-003	<b>Noncompliance:</b> ORC 5705.41D – 37% of disbursements tested were not properly certified.	No	Not Corrected. See Finding 2011-002.

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# Dave Yost • Auditor of State

**CITY OF ONTARIO**

**RICHLAND COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 22, 2013**