



Dave Yost • Auditor of State

**CITY OF ONTARIO
RICHLAND COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	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) 20% Street Construction Fund	25
Statement of Net Position – Proprietary Funds.....	26
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	27
Statement of Cash Flows – Proprietary Funds	28
Statement of Fiduciary Assets and Liabilities – Fiduciary Funds	29
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.....	6ì

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Financial Statements

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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, 2012, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund and 20% Street Construction Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, the City restated its Governmental Activities' Net Position due to the adoption of Governmental Accounting Standards Board Statement No. 65. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

September 30, 2013

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2012 (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, 2012. 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 2012 are as follows:

- The City restated net assets to net position as described in Note 3.A. The total net position of the City decreased \$38,889. Net position of governmental activities increased \$321,224 or 1.25% over 2011 and net position of business-type activities decreased \$360,113 or 2.30% from 2011.
- General revenues accounted for \$5,504,102 or 80.87% of total governmental activities revenue. Program specific revenues accounted for \$1,302,368 or 19.13% of total governmental activities revenue.
- The City had \$6,485,246 in expenses related to governmental activities; \$1,302,368 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$5,182,878 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,504,102.
- The general fund had revenues of \$4,259,727 in 2012. This represents a decrease of \$362,557 from 2011 revenues and other financing sources. The expenditures and other financing uses of the general fund, which totaled \$3,945,162 in 2012, increased \$380,245 from 2011. The net increase in fund balance for the general fund was \$314,565 or 8.44%.
- The 20% street construction fund had revenues and other financing sources of \$1,109,079 in 2012. The expenditures of the 20% street construction fund totaled \$1,147,632 in 2012. The net decrease in fund balance for the 20% street construction fund was \$38,553 or 12.67%.
- The capital improvement fund had revenues of \$360,093 in 2012. The expenditures of the capital improvement fund totaled \$230,761 in 2012. The net increase in fund balance for the capital improvement fund was \$129,332 or 8.56%.
- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, decreased in 2012 by \$360,113. This decrease in net position was due primarily to an increase in liabilities during 2012.

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 position 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, 2012 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Position 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 2012?" The statement of net position and the statement of activities answer this question. These statements include all *assets, deferred outflows, liabilities, deferred inflows, 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 position and changes in that position. This change in net position 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 position 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 position 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 10.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the 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, 2012 (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, 20% 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 - 28 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 29 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, 2012
(UNAUDITED)**

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. Certain asset, deferred outflow, liability, deferred inflow, and net position classifications have been restated by the City for 2011 to conform to 2012 presentation in accordance with GASB Statement No. 63 and GASB Statement No. 65. The net position of the City was restated at December 31, 2011 as described in Note 3.A to the basic financial statements. The table below provides a summary of the City's net position at December 31, 2012 and December 31, 2011.

	Governmental Activities		Business - type Activities		Total	
	(Restated)				(Restated)	
	2012	2011	2012	2011	2012	2011
<u>Assets</u>						
Current and other assets	\$ 10,134,638	\$ 9,293,505	\$ 3,919,693	\$ 3,582,670	\$ 14,054,331	\$ 12,876,175
Capital assets, net	<u>18,946,512</u>	<u>19,375,857</u>	<u>12,493,100</u>	<u>13,007,502</u>	<u>31,439,612</u>	<u>32,383,359</u>
Total assets	<u>29,081,150</u>	<u>28,669,362</u>	<u>16,412,793</u>	<u>16,590,172</u>	<u>45,493,943</u>	<u>45,259,534</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	2,044,773	2,128,170	883,298	887,640	2,928,071	3,015,810
Other liabilities	<u>497,389</u>	<u>300,644</u>	<u>221,757</u>	<u>34,681</u>	<u>719,146</u>	<u>335,325</u>
Total liabilities	<u>2,542,162</u>	<u>2,428,814</u>	<u>1,105,055</u>	<u>922,321</u>	<u>3,647,217</u>	<u>3,351,135</u>
Deferred inflows	<u>586,882</u>	<u>609,666</u>	-	-	<u>586,882</u>	<u>609,666</u>
<u>Net position</u>						
Net investment in capital assets	17,213,425	17,535,462	11,678,231	12,176,694	28,891,656	29,712,156
Restricted	1,660,612	1,464,208	-	-	1,660,612	1,464,208
Unrestricted	<u>7,078,069</u>	<u>6,631,212</u>	<u>3,629,507</u>	<u>3,491,157</u>	<u>10,707,576</u>	<u>10,122,369</u>
Total net position	<u>\$ 25,952,106</u>	<u>\$ 25,630,882</u>	<u>\$ 15,307,738</u>	<u>\$ 15,667,851</u>	<u>\$ 41,259,844</u>	<u>\$ 41,298,733</u>

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the City's total assets and deferred outflows exceeded liabilities and deferred inflows by \$41,259,844. At year-end, net positions were \$25,952,106 and \$15,307,738 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 position. At year-end, capital assets represented 69.10% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Net investment in capital assets to acquire the assets at December 31, 2012, were \$17,213,425 and \$11,678,231 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, 2012, the City is able to report positive balances in all three categories of net position, 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 position, \$1,660,612, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$7,078,069 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, 2012
(UNAUDITED)**

The table below shows the changes in net position for 2012 and 2011.

	Governmental Activities		Business-type Activities		Total	
		(Restated)				(Restated)
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services and sales	\$ 714,059	\$ 620,761	\$ 1,955,434	\$ 1,795,889	\$ 2,669,493	\$ 2,416,650
Operating grants and contributions	588,309	424,728	-	-	588,309	424,728
Capital grants and contributions	-	-	-	92,940	-	92,940
Total program revenues	1,302,368	1,045,489	1,955,434	1,888,829	3,257,802	2,934,318
General revenues:						
Property taxes	347,505	411,536	-	-	347,505	411,536
Income taxes	4,557,114	4,102,090	-	-	4,557,114	4,102,090
Unrestricted grants	270,689	423,671	-	-	270,689	423,671
Payments in lieu of taxes	196,995	193,396	-	-	196,995	193,396
Interest	66,714	104,170	-	-	66,714	104,170
Increase in fair market value of investments	7,280	5,578	-	-	7,280	5,578
Miscellaneous	57,805	167,374	4,369	7,366	62,174	174,740
Total general revenues	5,504,102	5,407,815	4,369	7,366	5,508,471	5,415,181
Total revenues	6,806,470	6,453,304	1,959,803	1,896,195	8,766,273	8,349,499
Expenses:						
General government	1,796,559	1,753,638	-	-	1,796,559	1,753,638
Security of persons and property	2,382,213	2,220,967	-	-	2,382,213	2,220,967
Public health and welfare	79	1,571	-	-	79	1,571
Transportation	2,023,077	2,039,061	-	-	2,023,077	2,039,061
Community environment	25,833	28,047	-	-	25,833	28,047
Leisure time activity	186,460	211,974	-	-	186,460	211,974
Interest and fiscal charges	71,025	74,001	-	-	71,025	74,001
Water	-	-	866,848	932,623	866,848	932,623
Sewer	-	-	1,453,068	1,285,680	1,453,068	1,285,680
Total expenses	6,485,246	6,329,259	2,319,916	2,218,303	8,805,162	8,547,562
Transfers	-	(37,298)	-	37,298	-	-
Change in net position	321,224	86,747	(360,113)	(284,810)	(38,889)	(198,063)
Net position at beginning of year	25,630,882	25,544,135	15,667,851	15,952,661	41,298,733	41,496,796
Net position at end of year	\$ 25,952,106	\$ 25,630,882	\$ 15,307,738	\$ 15,667,851	\$ 41,259,844	\$ 41,298,733

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Governmental Activities

Governmental activities net position increased \$321,224 in 2012.

Total governmental expenses increased \$155,987 from 2011. The primary increase occurred in security of persons and property.

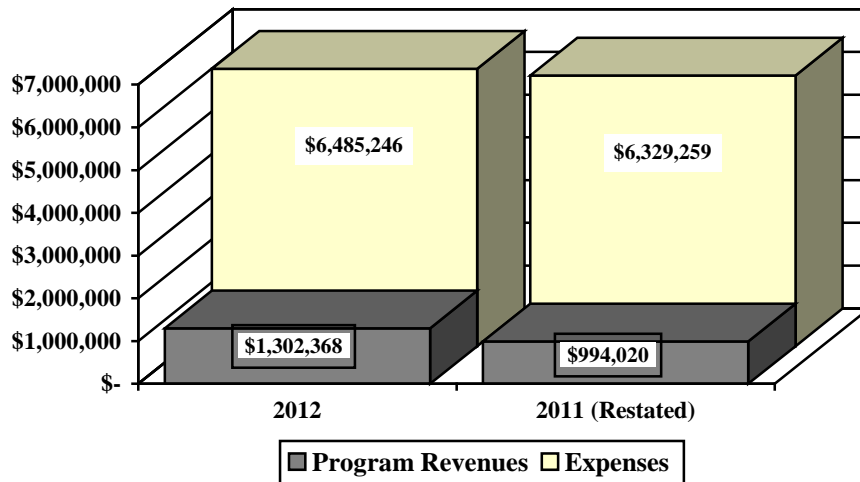
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,382,213 of the total expenses of the City. These expenses were partially funded by \$263,272 in direct charges to users of the services, \$7,102 in operating grants and contributions. Transportation expenses totaled \$2,023,077. Transportation expenses were partially funded by \$14,441 in direct charges to users of the services and \$581,207 in operating grants and contributions.

The state and federal government contributed to the City \$588,309 in operating grants and contributions. These revenues are restricted to a particular program or purpose. \$581,207 of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$5,504,102, and amounted to 80.87% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,906,102. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government revenue, making up \$269,206.

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.

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF ONTARIO, OHIO

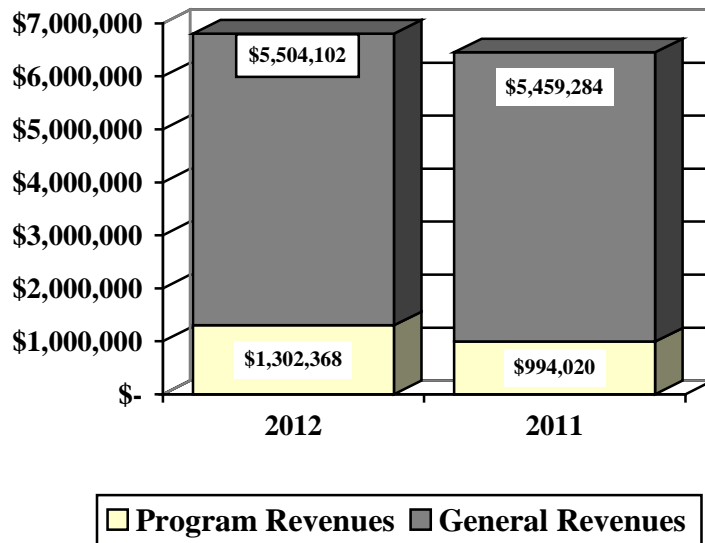
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

	Governmental Activities			
	Total Cost of Services 2012	Net Cost of Services 2012	(Restated) Total Cost of Services 2011	(Restated) Net Cost of Services 2011
	<u>2012</u>	<u>2012</u>	<u>2011</u>	<u>2011</u>
Program Expenses:				
General government	\$ 1,796,559	\$ 1,378,103	\$ 1,753,638	\$ 1,410,729
Security of persons and property	2,382,213	2,111,839	2,220,967	2,029,440
Public health and welfare	79	79	1,571	(2,434)
Transportation	2,023,077	1,427,429	2,039,061	1,599,376
Community environment	25,833	25,833	28,047	28,047
Leisure time activity	186,460	168,570	211,974	196,080
Interest and fiscal charges	<u>71,025</u>	<u>71,025</u>	<u>74,001</u>	<u>74,001</u>
Total Expenses	<u>\$ 6,485,246</u>	<u>\$ 5,182,878</u>	<u>\$ 6,329,259</u>	<u>\$ 5,335,239</u>

The dependence upon general revenues for governmental activities is apparent, with 79.92% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's general revenues and program revenues for 2012 and 2011.

Governmental Activities - General and Program Revenues



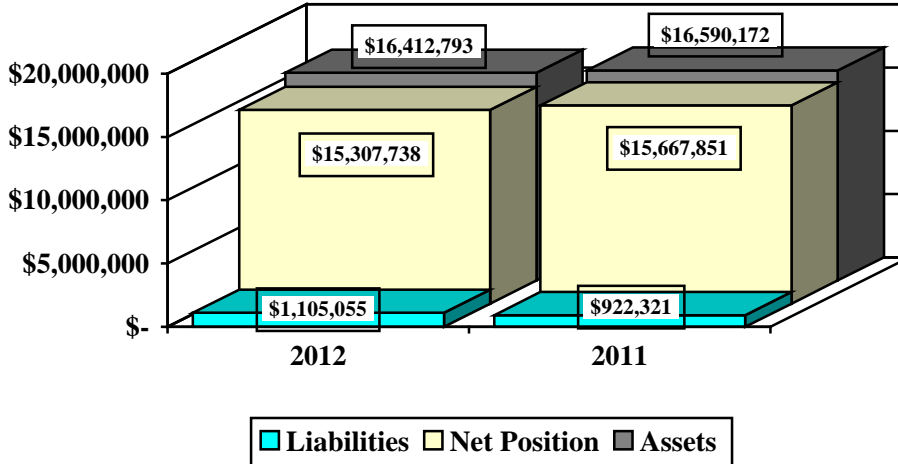
Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$1,955,434, general revenues of \$4,369, and expenses of \$2,319,916 for 2012. The graph below shows the business-type activities assets, liabilities, and net position at year-end.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)

Net Position in Business - type Activities



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 19) reported a combined fund balance of \$7,665,874 which is \$629,607 more than last year's total of \$7,036,267.

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2012 for all major and nonmajor governmental funds.

	Fund Balances 12/31/12	Fund Balances 12/31/11	Increase/ (Decrease)
Major funds:			
General	\$ 4,042,042	\$ 3,727,477	\$ 314,565
20% Street Construction	265,783	304,336	(38,553)
Capital Improvement	1,640,022	1,510,690	129,332
Other nonmajor governmental funds	1,718,027	1,493,764	224,263
Total	<u>\$ 7,665,874</u>	<u>\$ 7,036,267</u>	<u>\$ 629,607</u>

General Fund

CITY OF ONTARIO, OHIO

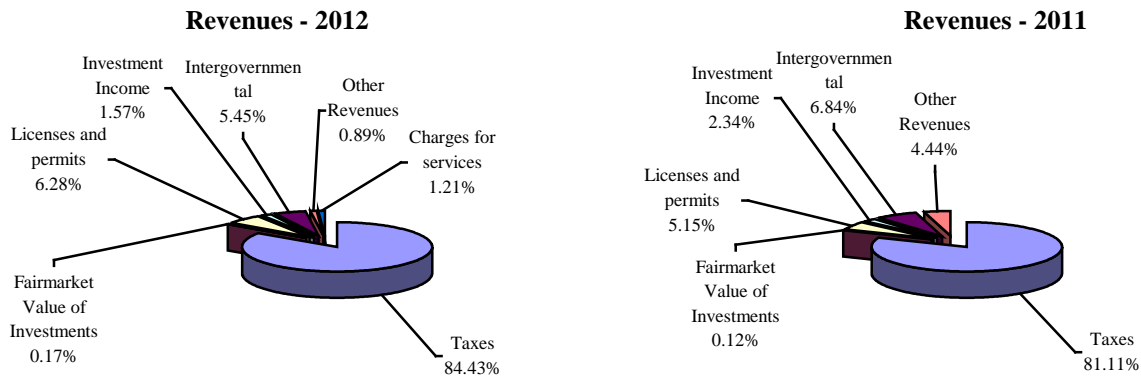
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The City's general fund balance increased \$307,031. The table that follows assists in illustrating the revenues of the general fund.

	<u>2012 Amount</u>	<u>2011 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 3,596,497	\$ 3,739,543	(3.83) %
Charges for services	51,469	51,469	-
Licenses, permits and fees	267,397	237,509	12.58 %
Investment income	66,714	107,670	(38.04) %
Increase in fair market value of investments	7,280	5,578	30.51 %
Intergovernmental	232,580	315,177	(26.21) %
Other	<u>37,790</u>	<u>153,410</u>	(75.37) %
Total	<u>\$ 4,259,727</u>	<u>\$ 4,610,356</u>	(7.61) %

Tax revenue represents 84.43% of all general fund revenue. Licenses, permits and fees increased due to an increase in court fines. Investment income decreased 38.04% as a result of decreasing interest rates and decreasing investment balances. 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. Intergovernmental revenues decreased due to a decrease in state shared local government revenues. Other revenues decreased 75.37% from 2011.

The following charts illustrate the general fund revenues for 2012 and 2011.



CITY OF ONTARIO, OHIO

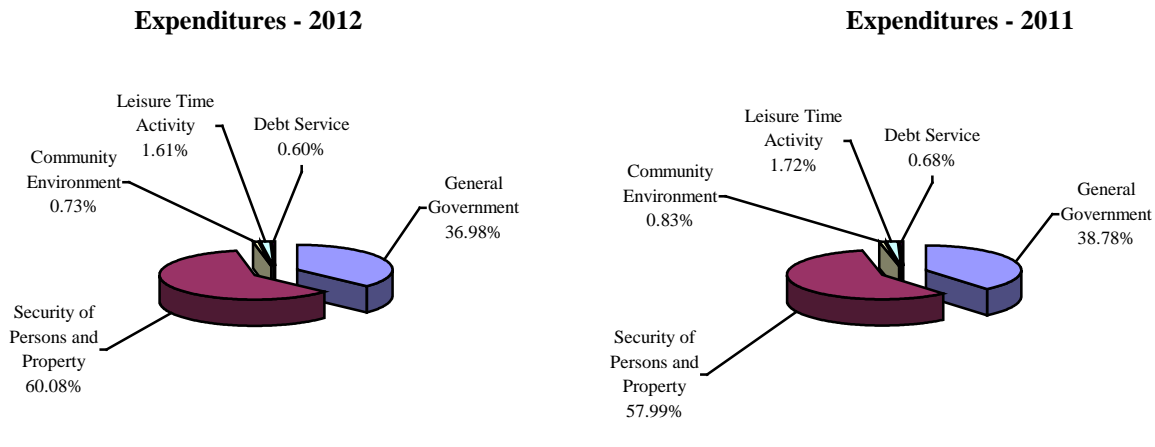
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

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

	<u>2012</u> <u>Amount</u>	<u>2011</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,303,610	\$ 1,303,513	0.01 %
Security of persons and property	2,118,120	1,948,962	8.68 %
Community environment	25,833	28,047	(7.89) %
Leisure time activity	56,712	57,643	(1.62) %
Debt service	<u>21,224</u>	<u>22,711</u>	(6.55) %
 Total	 <u>\$ 3,525,499</u>	 <u>\$ 3,360,876</u>	 4.90 %

The largest expenditure line items are security of persons and property and general government. These two expenditures account for 97.06% of total general fund expenditures. Total expenditures increased 4.90% during 2012. Increased budgetary controls helped to keep the increase in expenditures to a minimum.

The following charts illustrate the general fund expenditures for 2012 and 2011.



20% Street Construction Fund

The 20% street construction fund had revenues and other financing sources of \$1,109,079 in 2012. The expenditures of the 20% street construction fund totaled \$1,147,632 in 2012. The net decrease in fund balance for the 20% street construction fund was \$38,553 or 12.67%.

Capital Improvement Fund

The capital improvement fund had revenues of \$360,093 in 2012. The expenditures of the capital improvement fund totaled \$230,761 in 2012. The net increase in fund balance for the capital improvement fund was \$129,332 or 8.56%.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)

Budgeting Highlights - General Fund

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated 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 \$4,542,070 remained the same as the final budgeted revenues. Actual revenues of \$4,167,609 were \$374,461 less than final budgeted revenues. Original budgeted expenditures and other financing uses were \$3,692,290 and final budgeted expenditures and other financing uses were \$4,054,654. Actual expenditures and other financing uses of \$3,919,558 were \$135,096 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.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the City had \$31,439,612 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Of this total, \$18,946,512 was reported in governmental activities and \$12,493,100 was reported in business-type activities. The following table shows 2012 balances compared to 2011:

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

	<u>Governmental Activities</u>		<u>Business - type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 2,603,619	\$ 2,589,154	\$ 262,626	\$ 262,626	\$ 2,866,245	\$ 2,851,780
Construction in progress	40,628	-	-	-	40,628	-
Land improvements	952,236	1,049,353	12,405	8,212	964,641	1,057,565
Buildings and improvements	1,291,007	1,347,469	903,273	955,876	2,194,280	2,303,345
Furniture and equipment	670,948	677,838	383,260	494,921	1,054,208	1,172,759
Vehicles	290,359	333,809	-	-	290,359	333,809
Infrastructure	<u>13,097,715</u>	<u>13,378,234</u>	<u>10,931,536</u>	<u>11,285,867</u>	<u>24,029,251</u>	<u>24,664,101</u>
Totals	<u>\$ 18,946,512</u>	<u>\$ 19,375,857</u>	<u>\$ 12,493,100</u>	<u>\$ 13,007,502</u>	<u>\$ 31,439,612</u>	<u>\$ 32,383,359</u>

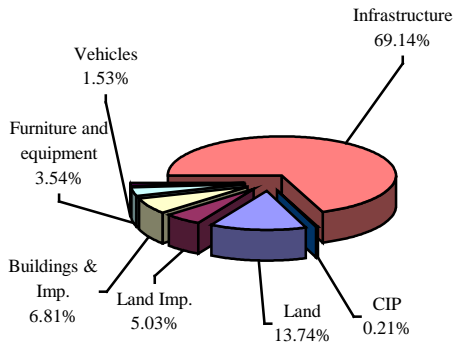
The City's largest governmental activities capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 69.14% of the City's total governmental capital assets.

CITY OF ONTARIO, OHIO

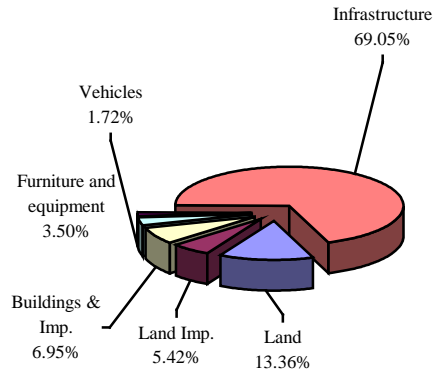
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

The following graphs show the breakdown of governmental capital assets by category for 2012 and 2011.

Capital Assets - Governmental Activities 2012



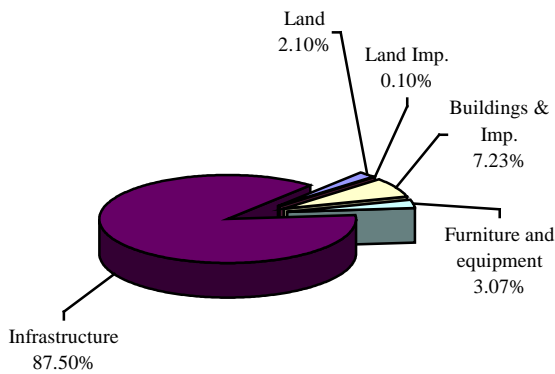
Capital Assets - Governmental Activities 2011



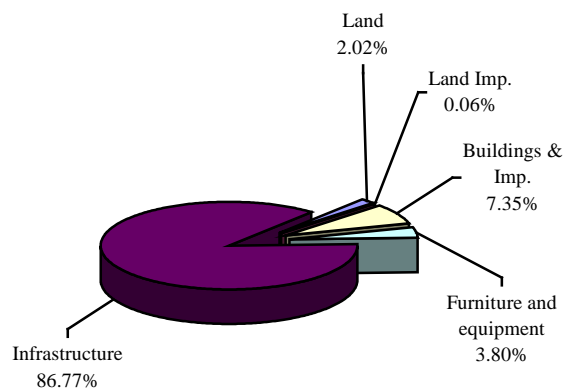
The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 87.50% of the City's total business-type capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2012 and 2011.

Capital Assets - Business-type Activities 2012



Capital Assets - Business-type Activities 2011



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

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2012 and 2011:

	Governmental activities	
	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 1,730,000	\$ 1,805,000
Lease-purchase agreement	-	5,817
Capital leases payable	<u>16,442</u>	<u>29,578</u>
Total long-term obligations	<u>\$ 1,746,442</u>	<u>\$ 1,840,395</u>

	Business-type activities	
	<u>2012</u>	<u>2011</u>
OPWC loans	<u>\$ 814,869</u>	<u>\$ 830,808</u>
Total long-term obligations	<u>\$ 814,869</u>	<u>\$ 830,808</u>

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

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 4th 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.

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.

THIS PAGE IS INTENTIONALLY LEFT BLANK

CITY OF ONTARIO, OHIO

STATEMENT OF NET POSITION
DECEMBER 31, 2012

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 7,338,356	\$ 3,202,404	\$ 10,540,760
Cash in segregated accounts	24,601	-	24,601
Receivables (net of allowance for uncollectibles):			
Income taxes	1,672,302	-	1,672,302
Real and other taxes	427,500	-	427,500
Accounts	44,755	601,137	645,892
Special assessments	18,670	-	18,670
Accrued interest	2,583	-	2,583
Intergovernmental	227,102	-	227,102
Payment in lieu of taxes	193,396	-	193,396
Prepayments	57,811	-	57,811
Materials and supplies inventory	127,562	116,152	243,714
Capital assets:			
Land and construction in progress	2,644,247	262,626	2,906,873
Depreciable capital assets, net	16,302,265	12,230,474	28,532,739
Total capital assets, net	<u>18,946,512</u>	<u>12,493,100</u>	<u>31,439,612</u>
Total assets	<u>29,081,150</u>	<u>16,412,793</u>	<u>45,493,943</u>
Liabilities:			
Accounts payable	194,552	15,516	210,068
Accrued wages and benefits payable	101,842	20,546	122,388
Intergovernmental payable	192,612	185,695	378,307
Accrued interest payable	5,276	-	5,276
Claims payable	3,107	-	3,107
Long-term liabilities:			
Due within one year	144,380	40,112	184,492
Due in more than one year	1,900,393	843,186	2,743,579
Total liabilities	<u>2,542,162</u>	<u>1,105,055</u>	<u>3,647,217</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	586,882	-	586,882
Total deferred inflows of resources	<u>586,882</u>	<u>-</u>	<u>586,882</u>
Net position:			
Net investment in capital assets	17,213,425	11,678,231	28,891,656
Restricted for:			
Debt service	251,405	-	251,405
Transportation improvement projects	1,292,150	-	1,292,150
Court computerization	24,494	-	24,494
Cemetery	24,881	-	24,881
Other purposes	67,682	-	67,682
Unrestricted	7,078,069	3,629,507	10,707,576
Total net position	<u>\$ 25,952,106</u>	<u>\$ 15,307,738</u>	<u>\$ 41,259,844</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>
Governmental activities:			
General government	\$ 1,796,559	\$ 418,456	\$ -
Security of persons and property	2,382,213	263,272	7,102
Public health and welfare	79	-	-
Transportation	2,023,077	14,441	581,207
Community environment	25,833	-	-
Leisure time activity	186,460	17,890	-
Interest and fiscal charges	71,025	-	-
Total governmental activities	<u>6,485,246</u>	<u>714,059</u>	<u>588,309</u>
Business-type activities:			
Water	866,848	893,812	-
Sewer	1,453,068	1,061,622	-
Total business-type activities	<u>2,319,916</u>	<u>1,955,434</u>	<u>-</u>
Total primary government	<u>\$ 8,805,162</u>	<u>\$ 2,669,493</u>	<u>\$ 588,309</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
 Change in net position
 Net position at beginning of year (restated)
 Net position at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-type Activities	Total
\$ (1,378,103)	\$ -	\$ (1,378,103)
(2,111,839)	-	(2,111,839)
(79)	-	(79)
(1,427,429)	-	(1,427,429)
(25,833)	-	(25,833)
(168,570)	-	(168,570)
(71,025)	-	(71,025)
<u>(5,182,878)</u>	<u>-</u>	<u>(5,182,878)</u>
-	26,964	26,964
-	(391,446)	(391,446)
-	(364,482)	(364,482)
<u>(5,182,878)</u>	<u>(364,482)</u>	<u>(5,547,360)</u>
300,442	-	300,442
47,063	-	47,063
3,381,797	-	3,381,797
908,691	-	908,691
266,626	-	266,626
270,689	-	270,689
196,995	-	196,995
66,714	-	66,714
7,280	-	7,280
57,805	4,369	62,174
<u>5,504,102</u>	<u>4,369</u>	<u>5,508,471</u>
321,224	(360,113)	(38,889)
<u>25,630,882</u>	<u>15,667,851</u>	<u>41,298,733</u>
<u>\$ 25,952,106</u>	<u>\$ 15,307,738</u>	<u>\$ 41,259,844</u>

CITY OF ONTARIO, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General	20% Street Construction	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and investments	\$ 3,781,398	\$ 252,381	\$ 1,664,884	\$ 1,639,693	\$ 7,338,356
Cash in segregated accounts	-	-	-	24,601	24,601
Receivables (net of allowance for uncollectibles)					
Income taxes	1,226,355	334,461	111,486	-	1,672,302
Real and other taxes	369,444	-	-	58,056	427,500
Accounts	23,610	-	20,000	1,145	44,755
Accrued interest	2,544	-	-	39	2,583
Special assessments	-	-	-	18,670	18,670
Intergovernmental	70,184	-	5,514	151,404	227,102
Payments in lieu of taxes	-	-	-	193,396	193,396
Due from other funds	3,533	-	-	-	3,533
Prepayments	57,811	-	-	-	57,811
Materials and supplies inventory	3,903	31,853	-	91,806	127,562
Total assets	\$ 5,538,782	\$ 618,695	\$ 1,801,884	\$ 2,178,810	\$ 10,138,171
Liabilities:					
Accounts payable	\$ 17,602	\$ 92,573	\$ 84,226	\$ 151	\$ 194,552
Accrued wages and benefits payable	86,834	14,290	-	718	101,842
Intergovernmental payable	120,059	13,140	-	59,413	192,612
Compensated absences payable	5,562	-	-	-	5,562
Due to other funds	-	-	-	3,533	3,533
Claims payable	3,107	-	-	-	3,107
Total liabilities	233,164	120,003	84,226	63,815	501,208
Deferred inflows of resources:					
Property taxes levied for the next fiscal year . .	340,050	-	-	246,832	586,882
Delinquent property tax revenue not available .	19,444	-	-	3,056	22,500
Special assessments revenue not available . . .	-	-	-	18,670	18,670
Income tax revenue not available	854,000	232,909	77,636	-	1,164,545
Nonexchange transactions	50,082	-	-	128,410	178,492
Total deferred inflows of resources	1,263,576	232,909	77,636	396,968	1,971,089
Fund balances:					
Nonspendable	61,714	31,853	-	91,806	185,373
Restricted	-	-	-	1,430,333	1,430,333
Committed	-	233,930	1,640,022	224,239	2,098,191
Assigned	1,996,292	-	-	-	1,996,292
Unassigned (deficit)	1,984,036	-	-	(28,351)	1,955,685
Total fund balances	4,042,042	265,783	1,640,022	1,718,027	7,665,874
Total liabilities, deferred inflows of resources and fund balances	\$ 5,538,782	\$ 618,695	\$ 1,801,884	\$ 2,178,810	\$ 10,138,171

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2012

Total governmental fund balances	\$	7,665,874
 <i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,946,512
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Real and other taxes receivable	\$ 22,500	
Income taxes receivable	1,164,545	
Special assessments receivable	18,670	
Intergovernmental receivable	178,492	
Total	1,384,207	1,384,207
Unamortized bond discounts are not recognized in the governmental funds.		13,355
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	(5,276)	
Compensated absences payable	(306,124)	
Capital lease payable	(16,442)	
General obligation bonds payable	(1,730,000)	
Total	(2,057,842)	(2,057,842)
Net position of governmental activities	\$	25,952,106

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, 2012

	<u>General</u>	<u>20% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 3,289,466	\$ 893,401	\$ 297,800	\$ -	\$ 4,480,667
Real and other taxes	307,031	-	-	48,795	355,826
Charges for services	51,469	-	-	32,331	83,800
Licenses, permits and fees	267,397	-	-	357,176	624,573
Intergovernmental	232,580	-	62,293	590,961	885,834
Special assessments	-	-	-	5,364	5,364
Payments in lieu of taxes	-	-	-	196,995	196,995
Investment income	66,714	-	-	2,626	69,340
Contributions and donations	-	-	-	4,964	4,964
Other	37,790	2,015	-	2,138	41,943
Increase in fair market value of investments	7,280	-	-	-	7,280
Total revenues	<u>4,259,727</u>	<u>895,416</u>	<u>360,093</u>	<u>1,241,350</u>	<u>6,756,586</u>
Expenditures:					
Current:					
General government	1,303,610	-	-	422,401	1,726,011
Security of persons and property	2,118,120	-	-	232,969	2,351,089
Public health and welfare	-	-	-	79	79
Transportation	-	1,147,632	-	401,907	1,549,539
Community environment	25,833	-	-	-	25,833
Leisure time activity	56,712	-	-	40,647	97,359
Capital outlay	-	-	230,761	-	230,761
Debt service:					
Principal retirement	18,953	-	-	75,000	93,953
Interest and fiscal charges	2,271	-	-	68,084	70,355
Total expenditures	<u>3,525,499</u>	<u>1,147,632</u>	<u>230,761</u>	<u>1,241,087</u>	<u>6,144,979</u>
Excess (deficiency) of revenues over (under) expenditures	<u>734,228</u>	<u>(252,216)</u>	<u>129,332</u>	<u>263</u>	<u>611,607</u>
Other financing sources (uses):					
Transfers in	-	213,663	-	206,000	419,663
Transfers (out)	(419,663)	-	-	-	(419,663)
Insurance recoveries	-	-	-	18,000	18,000
Total other financing sources (uses)	<u>(419,663)</u>	<u>213,663</u>	<u>-</u>	<u>224,000</u>	<u>18,000</u>
Net change in fund balances	314,565	(38,553)	129,332	224,263	629,607
Fund balances at beginning of year	<u>3,727,477</u>	<u>304,336</u>	<u>1,510,690</u>	<u>1,493,764</u>	<u>7,036,267</u>
Fund balances at end of year	<u>\$ 4,042,042</u>	<u>\$ 265,783</u>	<u>\$ 1,640,022</u>	<u>\$ 1,718,027</u>	<u>\$ 7,665,874</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO
ANY COUNTY, 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, 2012

Net change in fund balances - total governmental funds	\$	629,607
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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 exceeds capital outlay in the current period.		
Capital asset additions	\$ 838,923	
Current year depreciation	<u>(1,268,268)</u>	
Total		(429,345)
 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	(8,321)	
Income taxes	76,447	
Special assessments	322	
Intergovernmental revenues	<u>(36,564)</u>	
Total		31,884
 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 position.		
		93,953
 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	119	
Amortization of discount on bond issuance	<u>(789)</u>	
Total		(670)
 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.		
		<u>(4,205)</u>
Change in net position of governmental activities	\$	<u>321,224</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 3,458,774	\$ 3,458,774	\$ 3,182,466	\$ (276,308)
Real and other taxes.	331,956	331,956	303,234	(28,722)
Charges for services.	51,469	51,469	51,469	-
Licenses, permits and fees.	290,493	290,493	266,139	(24,354)
Intergovernmental.	295,487	295,487	259,477	(36,010)
Investment income.	67,643	67,643	67,899	256
Other	46,248	46,248	36,925	(9,323)
Total revenues	<u>4,542,070</u>	<u>4,542,070</u>	<u>4,167,609</u>	<u>(374,461)</u>
Expenditures:				
Current:				
General government	1,306,570	1,432,717	1,323,234	109,483
Security of persons and property	2,094,950	2,122,930	2,099,672	23,258
Community environment	29,700	26,727	25,872	855
Leisure time activity	54,514	52,617	51,117	1,500
Total expenditures	<u>3,485,734</u>	<u>3,634,991</u>	<u>3,499,895</u>	<u>135,096</u>
Excess of revenues over expenditures	<u>1,056,336</u>	<u>907,079</u>	<u>667,714</u>	<u>(239,365)</u>
Other financing uses:				
Transfers (out).	(206,556)	(419,663)	(419,663)	-
Total other financing uses	<u>(206,556)</u>	<u>(419,663)</u>	<u>(419,663)</u>	<u>-</u>
Net change in fund balances	849,780	487,416	248,051	(239,365)
Fund balance at beginning of year	<u>3,496,999</u>	<u>3,496,999</u>	<u>3,496,999</u>	<u>-</u>
Fund balance at end of year	<u>\$ 4,346,779</u>	<u>\$ 3,984,415</u>	<u>\$ 3,745,050</u>	<u>\$ (239,365)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 20% STREET CONSTRUCTION FUND
 FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 681,783	\$ 681,783	\$ 864,219	\$ 182,436
Other	1,590	1,590	2,015	425
Total revenues	<u>683,373</u>	<u>683,373</u>	<u>866,234</u>	<u>182,861</u>
Expenditures:				
Current:				
Transportation	<u>1,120,575</u>	<u>1,556,789</u>	<u>1,241,721</u>	<u>315,068</u>
Total expenditures	<u>1,120,575</u>	<u>1,556,789</u>	<u>1,241,721</u>	<u>315,068</u>
Excess of expenditures over revenues. . .	<u>(437,202)</u>	<u>(873,416)</u>	<u>(375,487)</u>	<u>497,929</u>
Other financing sources:				
Transfers in	<u>168,559</u>	<u>168,559</u>	<u>213,663</u>	<u>45,104</u>
Total other financing sources	<u>168,559</u>	<u>168,559</u>	<u>213,663</u>	<u>45,104</u>
Net change in fund balances	(268,643)	(704,857)	(161,824)	543,033
Fund balance at beginning of year . . .	<u>196,463</u>	<u>196,463</u>	<u>196,463</u>	<u>-</u>
Fund balance (deficit) at end of year . .	<u>\$ (72,180)</u>	<u>\$ (508,394)</u>	<u>\$ 34,639</u>	<u>\$ 543,033</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents . . .	\$ 2,290,849	\$ 911,555	\$ 3,202,404
Receivables (net of allowance for uncollectables)			
Accounts	266,889	334,248	601,137
Materials and supplies inventory	59,504	56,648	116,152
Total current assets	<u>2,617,242</u>	<u>1,302,451</u>	<u>3,919,693</u>
Noncurrent assets:			
Capital assets:			
Land	262,626	-	262,626
Depreciable capital assets, net	4,331,761	7,898,713	12,230,474
Total capital assets, net	<u>4,594,387</u>	<u>7,898,713</u>	<u>12,493,100</u>
Total assets	<u>7,211,629</u>	<u>9,201,164</u>	<u>16,412,793</u>
Liabilities:			
Current liabilities:			
Accounts payable	3,594	11,922	15,516
Accrued wages and benefits payable	12,391	8,155	20,546
Intergovernmental	8,013	177,682	185,695
Compensated absences payable - current	2,201	6,034	8,235
OPWC loans payable - current	1,837	30,040	31,877
Total current liabilities	<u>28,036</u>	<u>233,833</u>	<u>261,869</u>
Long-term liabilities:			
Compensated absences payable	43,171	17,023	60,194
OPWC loans payable	11,947	771,045	782,992
Total long-term liabilities	<u>55,118</u>	<u>788,068</u>	<u>843,186</u>
Total liabilities	<u>83,154</u>	<u>1,021,901</u>	<u>1,105,055</u>
Net position:			
Net investment in capital assets	4,580,603	7,097,628	11,678,231
Unrestricted	2,547,872	1,081,635	3,629,507
Total net position	<u>\$ 7,128,475</u>	<u>\$ 8,179,263</u>	<u>\$ 15,307,738</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 893,812	\$ 1,061,622	\$ 1,955,434
Other	4,369	-	4,369
Total operating revenues.	<u>898,181</u>	<u>1,061,622</u>	<u>1,959,803</u>
Operating expenses:			
Personal services	338,677	229,372	568,049
Contract services.	98,946	952,673	1,051,619
Materials and supplies.	128,730	-	128,730
Depreciation.	297,098	271,023	568,121
Other	3,397	-	3,397
Total operating expenses.	<u>866,848</u>	<u>1,453,068</u>	<u>2,319,916</u>
Operating income (loss)	<u>31,333</u>	<u>(391,446)</u>	<u>(360,113)</u>
Transfer in	-	15,021	15,021
Transfer out	<u>(15,021)</u>	<u>-</u>	<u>(15,021)</u>
Change in net position	16,312	(376,425)	(360,113)
Net position at beginning of year	<u>7,112,163</u>	<u>8,555,688</u>	<u>15,667,851</u>
Net position at end of year	<u>\$ 7,128,475</u>	<u>\$ 8,179,263</u>	<u>\$ 15,307,738</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 905,332	\$ 1,074,537	\$ 1,979,869
Cash received from other operations	4,369	-	4,369
Cash payments for personal services	(321,821)	(221,357)	(543,178)
Cash payments for contract services	(109,098)	(768,719)	(877,817)
Cash payments for materials and supplies	(126,522)	(24,748)	(151,270)
Cash payments for other expenses	(3,397)	-	(3,397)
Net cash provided by operating activities	<u>348,863</u>	<u>59,713</u>	<u>408,576</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(36,188)	(17,531)	(53,719)
Principal retirement on OPWC loans	(15,939)	-	(15,939)
Net cash used in capital and related financing activities	<u>(52,127)</u>	<u>(17,531)</u>	<u>(69,658)</u>
Net increase in cash and cash equivalents	296,736	42,182	338,918
Cash and cash equivalents at beginning of year	1,994,113	869,373	2,863,486
Cash and cash equivalents at end of year	<u>\$ 2,290,849</u>	<u>\$ 911,555</u>	<u>\$ 3,202,404</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 31,333	\$ (391,446)	\$ (360,113)
Adjustments:			
Depreciation	297,098	271,023	568,121
Changes in assets and liabilities:			
Decrease (increase) in materials and supplies inventory	2,208	(24,748)	(22,540)
Decrease in accounts receivable	11,520	12,915	24,435
Increase (decrease) in accounts payable	(10,152)	11,922	1,770
Increase in accrued wages and benefits	4,849	1,680	6,529
Increase in intergovernmental payable	4,107	174,670	178,777
Increase in compensated absences payable	7,900	3,697	11,597
Net cash provided by operating activities	<u>\$ 348,863</u>	<u>\$ 59,713</u>	<u>\$ 408,576</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2012**

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

THIS PAGE IS INTENTIONALLY LEFT BLANK

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

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 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 position 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, 2012

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

Government-wide Financial Statements - The statement of net position 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 position 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 deferred inflows and liabilities and deferred outflows 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.

20% street construction fund - The 20% 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, 2012

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 position, 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 position and changes in net position. 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, all deferred outflows, all liabilities and all deferred inflows associated with the operation of the City are included on the statement of net position.

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, current deferred outflows, current liabilities and current deferred inflows 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, all deferred outflows, all liabilities and all deferred inflows associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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, 2012

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 inflows/outflows 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.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future reporting period.

Property taxes for which there is an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations, have been recorded as deferred inflows on both the government-wide and fund financial statements. Income taxes and special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2012, are recorded as deferred inflows on the governmental fund financial statements.

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

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, 2012

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 2012, 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, 2012**

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 2012 amounted to \$66,714, which includes \$41,629 assigned from other funds of the City.

For purposes of the statement of cash flows and for presentation on the statement of net position, 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, 2012, 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 position, 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 position 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 and construction in progress. 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, 2012

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, 2012 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, 2012

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, 2012**

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

O. Unamortized Issuance Costs and Discounts

On government-wide financial statements, issuance costs are expensed during the year in which they incurred. 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, 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. There were no capital contributions during 2012.

R. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position invested in capital assets 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 position 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 position 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 position is 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, 2012

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 2012.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

A. Change in Accounting Principles

For 2012, the City has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", and GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the City.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the City.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows or resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the City's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 had the following effect on the financial statements of the City:

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES - (Continued)

	Governmental Activities
Net assets as previously reported	\$ 25,783,631
Removal of unamortized bond issuance costs	(152,749)
Net position at January 1, 2012	\$ 25,630,882

B. Deficit Fund Balances

Fund balance at December 31, 2012 included the following individual fund deficits:

<u>Nonmajor governmental funds</u>	<u>Deficit</u>
Recreation	\$ 4,954
Police pension	23,397

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.

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;

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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,
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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2012 was \$24,601. These depository accounts are included in “deposits with financial institutions” below.

B. Deposits with Financial Institutions

At December 31, 2012, the carrying amount of all City deposits was \$7,450,652. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2012, \$4,022,977 of the City’s bank balance of \$7,676,424 was exposed to custodial risk as discussed below, while \$3,653,447 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.

C. Investments

As of December 31, 2012, 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>
FFCB - callable	\$ 499,674	\$ -	\$ -	\$ -	\$ 499,674
FHLMC - callable	501,306	-	-	-	501,306
FFCB - noncallable	1,124,985	-	-	400,540	724,445
FHLMC - noncallable	250,103	-	-	-	250,103
FNMA - noncallable	755,875	-	251,440	-	504,435
Money market funds	28,561	28,561	-	-	-
Total	\$ 3,160,504	\$ 28,561	\$ 251,440	\$ 400,540	\$ 2,479,963

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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Credit Risk: The City’s investments in federal agency securities were rated AA+ 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.

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, 2012:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FFCB - callable	\$ 499,674	15.81
FHLMC - callable	501,306	15.86
FFCB - noncallable	1,124,985	35.60
FHLMC - noncallable	250,103	7.91
FNMA - noncallable	755,875	23.92
Money market funds	28,561	0.90
Total	<u>\$ 3,160,504</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to Statement of Net Position

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 position as of December 31, 2012:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,450,652
Investments	<u>3,160,504</u>
Total	<u>\$ 10,611,156</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 7,362,957
Business-type activities	3,202,404
Agency funds	<u>45,795</u>
Total	<u>\$ 10,611,156</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund transfers for the year ended December 31, 2012, consisted of the following, as reported on the fund financial statements:

Transfers from the general fund to:

20% street construction	\$ 213,663
	206,000

Transfers from water fund to:

Sewer	15,021
-------	--------

Total	\$ 434,684
-------	------------

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.

- B. Interfund balances at December 31, 2012 consisted of the following amounts due from and to other funds, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Nonmajor governmental fund	\$ 3,533

Interfund balances between governmental funds are eliminated on the government-wide financial statements.

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 revalued 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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. 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. 2012 public utility property taxes became a lien December 31, 2011, are levied after October 1, 2012, and are collected in 2013 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, 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, 2012 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2012 operations and the collection of delinquent taxes has been offset by a deferred inflow of resources 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 a deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2012 was \$2.20 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

<u>Real Property</u>	
Residential/Agricultural	\$ 102,204,420
Commercial/Industrial/Mineral	78,974,600
<u>Public Utility</u>	
Real	100,900
Personal	<u>4,172,930</u>
Total Assessed Value	<u>\$ 185,452,850</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 2012, by City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvement fund, and the 20% street construction fund. On the modified accrual basis of accounting, total income tax revenue was \$4,480,667 in 2012.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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.

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 \$196,995 in 2012. 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, 2012, 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 position follows:

Governmental activities:

Income taxes	\$ 1,672,302
Real and other taxes	427,500
Accounts	44,755
Special assessments	18,670
Accrued interest	2,583
Intergovernmental	227,102
Payments in lieu of taxes	193,396

Business-type activities:

Accounts	601,137
----------	---------

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 10 - RECEIVABLES - (Continued)

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.

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

<u>Governmental activities:</u>	Balance 1/1/2012	Additions	Disposals	Balance 12/31/2012
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,589,154	\$ 14,465	\$ -	\$ 2,603,619
Construction in progress	-	40,628	-	40,628
Total capital assets, not being depreciated	<u>2,589,154</u>	<u>55,093</u>	<u>-</u>	<u>2,644,247</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,631,813	-	-	2,631,813
Buildings and improvements	3,179,263	23,759	-	3,203,022
Furniture and equipment	3,124,990	165,054	(42,500)	3,247,544
Vehicles	1,451,718	44,866	-	1,496,584
Infrastructure	21,344,515	550,151	-	21,894,666
Total capital assets, being depreciated	<u>31,732,299</u>	<u>783,830</u>	<u>(42,500)</u>	<u>32,473,629</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,582,460)	(97,117)	-	(1,679,577)
Buildings and improvements	(1,831,794)	(80,221)	-	(1,912,015)
Furniture and equipment	(2,447,152)	(171,944)	42,500	(2,576,596)
Vehicles	(1,117,909)	(88,316)	-	(1,206,225)
Infrastructure	(7,966,281)	(830,670)	-	(8,796,951)
Total accumulated depreciation	<u>(14,945,596)</u>	<u>(1,268,268)</u>	<u>42,500</u>	<u>(16,171,364)</u>
Total capital assets, being depreciated, net	<u>16,786,703</u>	<u>(484,438)</u>	<u>-</u>	<u>16,302,265</u>
Governmental activities capital assets, net	<u>\$ 19,375,857</u>	<u>\$ (429,345)</u>	<u>\$ -</u>	<u>\$ 18,946,512</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 11 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 73,180
Security of persons and property	121,662
Transportation	977,315
Leisure time activity	<u>96,111</u>
Total depreciation expense - governmental activities	<u>\$ 1,268,268</u>

THIS SPACE INTENTIONALLY LEFT BLANK

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 11 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	<u>Balance</u> <u>1/1/2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/2012</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	7,670	-	62,292
Buildings and improvements	1,987,205	-	-	1,987,205
Furniture and equipment	2,659,057	25,552	-	2,684,609
Infrastructure:				
Sewer lines	10,538,090	-	-	10,538,090
Water lines	<u>5,623,295</u>	<u>20,497</u>	<u>-</u>	<u>5,643,792</u>
Total capital assets, being depreciated	<u>20,862,269</u>	<u>53,719</u>	<u>-</u>	<u>20,915,988</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(46,410)	(3,477)	-	(49,887)
Buildings and improvements	(1,031,329)	(52,603)	-	(1,083,932)
Furniture and equipment	(2,164,136)	(137,213)	-	(2,301,349)
Infrastructure:				
Sewer lines	(2,680,630)	(228,406)	-	(2,909,036)
Water lines	<u>(2,194,888)</u>	<u>(146,422)</u>	<u>-</u>	<u>(2,341,310)</u>
Total accumulated depreciation	<u>(8,117,393)</u>	<u>(568,121)</u>	<u>-</u>	<u>(8,685,514)</u>
Total capital assets, being depreciated, net	<u>12,744,876</u>	<u>(514,402)</u>	<u>-</u>	<u>12,230,474</u>
Business-type activities capital assets, net	<u>\$ 13,007,502</u>	<u>\$ (514,402)</u>	<u>\$ -</u>	<u>\$ 12,493,100</u>

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

Business-type activities:

Water	\$ 297,098
Sewer	<u>271,023</u>
Total depreciation expense - business-type activities	<u>\$ 568,121</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012 was \$23,576, leaving a current book value of \$2,619. A corresponding liability was recorded in the government-wide financial statements. Principal payments of \$5,817 were paid out of the general fund. The lease terms were completed during 2012.

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, 2012 was \$97,000, leaving a current book value of \$4,376. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments on the leases, totaled \$13,136 and \$1,536, respectively and were paid out of the general fund.

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, 2012.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2013	\$ 14,672
2014	<u>2,446</u>
Total future minimum lease payments	17,118
Less: amount representing interest	<u>(676)</u>
Present value of future minimum lease payments	<u>\$ 16,442</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - LONG-TERM OBLIGATIONS

A. During 2012, the following activity occurred in governmental and business-type activities long-term obligations:

	Balance			Balance	Due within
	1/1/2012	Additions	Disposals	12/31/2012	One Year
<u>Governmental activities:</u>					
General obligation bonds payable	\$ 1,805,000	\$ -	\$ (75,000)	\$ 1,730,000	\$ 75,000
Capital lease payable	29,578	-	(13,136)	16,442	14,016
Lease-purchase agreement	5,817	-	(5,817)	-	-
Compensated absences	<u>301,919</u>	<u>70,432</u>	<u>(60,665)</u>	<u>311,686</u>	<u>55,364</u>
	<u>\$ 2,142,314</u>	<u>\$ 70,432</u>	<u>\$ (154,618)</u>	2,058,128	<u>\$ 144,380</u>
Unamortized discount on bonds				<u>(13,355)</u>	
Total governmental activities				<u>\$ 2,044,773</u>	
<u>Business-type activities:</u>					
OPWC water treatment loan	\$ 14,702	\$ -	\$ (918)	\$ 13,784	\$ 1,837
OPWC sewer improvement loan	441,667	-	(8,334)	433,333	16,667
OPWC I/I reduction phase 2 loan	<u>374,439</u>	<u>-</u>	<u>(6,687)</u>	<u>367,752</u>	<u>13,373</u>
Total OPWC loans	<u>830,808</u>	<u>-</u>	<u>(15,939)</u>	<u>814,869</u>	<u>31,877</u>
Compensated absences	<u>56,832</u>	<u>11,597</u>	<u>-</u>	<u>68,429</u>	<u>8,235</u>
Total business-type activities	<u>\$ 887,640</u>	<u>\$ 11,597</u>	<u>\$ (15,939)</u>	<u>\$ 883,298</u>	<u>\$ 40,112</u>

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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

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 \$367,752.

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.

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2012 are as follows:

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>		
	<u>General Obligation Bonds Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 75,000	\$ 66,584	\$ 141,584
2014	80,000	65,084	145,084
2015	80,000	63,284	143,284
2016	85,000	61,184	146,184
2017	85,000	58,634	143,634
2018 - 2022	480,000	246,317	726,317
2023 - 2027	575,000	141,070	716,070
2028 - 2029	270,000	18,860	288,860
Total	\$ 1,730,000	\$ 721,017	\$ 2,451,017

THIS SPACE INTENTIONALLY LEFT BLANK

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

Year Ending December 31,	Business-type Activities				Total OPWC Loans
	OPWC Water Treatment Loan	OPWC Sewer Improvement Loan	OPWC Sewer I/I Reduction Phase 2		
	<u>Principal</u>	<u>Principal</u>	<u>Principal</u>		
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	1,838	16,667	13,373		31,878
2018 - 2022	4,595	83,335	66,864		154,794
2023 - 2027	-	83,335	66,864		150,199
2028 - 2032	-	83,331	66,864		150,195
2033 - 2037	-	83,330	66,864		150,194
2038 - 2040	-	16,667	33,432		50,099
Total	<u>\$ 13,784</u>	<u>\$ 433,333</u>	<u>\$ 367,752</u>		<u>\$ 814,869</u>

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, 2012, the City's overall legal debt margin was \$17,980,740 and the unvoted debt margin was \$10,438,098.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 2012, 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	19,021,771
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	19,021,771

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.

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 \$3,107 reported on the financial statements at December 31, 2012 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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 15 - RISK MANAGEMENT - (Continued)

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>
2012	\$ 4,115	\$ 42,951	\$ (43,959)	\$ 3,107
2011	5,531	37,389	(38,805)	4,115

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.

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 2012, member and contribution rates were consistent across all three plans. The 2012 member contribution rates were 10.00% for members. The City's contribution rate for 2012 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2012 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2012 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2012, 2011, and 2010 were \$107,308, \$140,238, and \$125,994, respectively; 88.05% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 pension liability has been reported as due to other governments/pension obligation payable on the basic financial statements. Contributions to the member-directed plan for 2012 were \$9,045 made by the City and \$6,461 made by the plan members.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 16 - PENSION PLANS - (Continued)

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 or by visiting the website at www.op-f.org.

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 2012, 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 was \$148,315 for the year ended December 31, 2012, \$140,294 for the year ended December 31, 2011, and 139,907 for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 74.20% has been contributed for police for 2012. The remaining 2012 pension liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

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.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2012, 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 2012 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2012 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, 2012, 2011, and 2010 were \$81,648, \$56,255, and \$71,733, respectively; 88.05% has been contributed for 2012 and 100% has been contributed for 2011 and 2010. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

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 or by visiting the website at www.op-f.org.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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, 2012, 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.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers was \$78,519 for the year ended December 31, 2012, \$74,273 for the year ended December 31, 2011, and \$74,069, for the year ended December 31, 2010. The full amount has been contributed for 2011 and 2010. 74.20% has been contributed for police for 2012. The remaining 2012 post-employment health care benefits liability has been reported as due to other governments/pension obligation payable on the basic financial statements.

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 20% 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);

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (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); and,
- (d) Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

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 20% street construction fund.

Net Change in Fund Balance

	<u>General fund</u>	<u>20% Street Construction fund</u>
Budget basis	\$ 248,051	\$ (161,824)
Net adjustment for revenue accruals	92,118	29,182
Net adjustment for expenditure accruals	(48,305)	(123,653)
Adjustment for encumbrances	<u>22,701</u>	<u>217,742</u>
GAAP basis	<u>\$ 314,565</u>	<u>\$ (38,553)</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, 2012.

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, 2012

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:

		20% Street	Capital	Nonmajor	Total
	General	Construction	Improvement	Governmental	Governmental
Fund balance				Funds	Funds
Nonspendable:					
Materials and supplies inventory	\$ 3,903	\$ 31,853	\$ -	\$ 91,806	\$ 127,562
Prepays	<u>57,811</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,811</u>
Total nonspendable	<u>61,714</u>	<u>31,853</u>	<u>-</u>	<u>91,806</u>	<u>185,373</u>
Restricted:					
Debt service	-	-	-	238,011	238,011
Transportation improvement projects	-	-	-	1,075,265	1,075,265
Mayor's court programs	-	-	-	24,601	24,601
Cemetery	-	-	-	24,881	24,881
Police programs	-	-	-	3,630	3,630
Other purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,945</u>	<u>63,945</u>
Total restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,430,333</u>	<u>1,430,333</u>
Committed:					
Capital projects	-	-	1,640,022	224,239	1,864,261
Transportation improvement projects	<u>-</u>	<u>233,930</u>	<u>-</u>	<u>-</u>	<u>233,930</u>
Total committed	<u>-</u>	<u>233,930</u>	<u>1,640,022</u>	<u>224,239</u>	<u>2,098,191</u>
Assigned:					
Subsequent year appropriations	<u>1,996,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,996,292</u>
Total assigned	<u>1,996,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,996,292</u>
Unassigned (deficit)	<u>1,984,036</u>	<u>-</u>	<u>-</u>	<u>(28,351)</u>	<u>1,955,685</u>
Total fund balances	<u>\$ 4,042,042</u>	<u>\$ 265,783</u>	<u>\$ 1,640,022</u>	<u>\$ 1,718,027</u>	<u>\$ 7,665,874</u>

NOTE 21 - SUBSEQUENT EVENT

Following the year ended December 31, 2012, Dave Metzger became the Auditor for the City.

This page intentionally left blank.



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, 2012, 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.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2012-002 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

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, 2012

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

FINDING 2012-001

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.

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.

36 percent of expenditures tested for 2012 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.

FINDING 2012-001 (Continued)

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 2012-002

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 initial December 31, 2012 bank reconciliation showed a bank over book variance of \$28,563. The City hired an independent public accountant to correct the reconciliation as of December 31, 2012, identifying \$29,647 in adjustments. 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 \$14,724 as of December 31, 2012. 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.

FINDING 2012-002 (Continued)

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.

**CITY OF ONTARIO
RICHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Material Weakness/Noncompliance Finding: Ohio Rev. Code 5705.42 – An OPWC on-behalf transaction was not initially recorded as a receipt and disbursement by the City.	Yes	Finding No Longer Valid.
2011-002	Noncompliance: ORC 5705.41D – 44% of disbursements tested were not properly certified.	No	Not Corrected. See Finding 2012-001.
2011-003	Significant Deficiency: Bank Reconciliations – The December 31, 2011 bank reconciliation was not accurate.	No	Not Corrected. See Finding 2012-002.



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**