

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

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

For The Year Ended
December 31, 2004

MS. SHIRLEY BOWMAN, AUDITOR



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the City of Ontario, Richland County, prepared by Julian & Grube, Inc., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 27, 2005

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CITY OF ONTARIO, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, (the “City”), as of and for the year ended December 31, 2004, which collectively comprise the City’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City’s management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and 25% street construction funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005, on our consideration of the City’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor
City of Ontario
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Julian & Grube, Inc.
September 16, 2005

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The discussion and analysis of the City of Ontario's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. 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 2004 are as follows:

- The total net assets of the City increased \$2,639,720. Net assets of governmental activities increased \$819,094 or 3.47% over 2003 and net assets of business-type activities increased \$1,820,626 or 17.60% over 2003.
- General revenues accounted for \$5,025,488 of total governmental activities revenue. Program specific revenues accounted for \$1,737,916 or 25.70% of total governmental activities revenue.
- The City had \$5,505,756 in expenses related to governmental activities; \$1,737,916 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,767,840 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,025,488.
- The general fund had revenues of \$3,495,324 in 2004. This represents an increase of \$752,682 from 2003 revenues. The expenditures and other financing uses of the general fund, which totaled \$3,282,625 in 2004, decreased \$60,905 from 2003. The net increase in fund balance for the general fund was \$212,699 or 24.01%.
- The 25% street construction fund had revenues and other financing sources of \$804,386 in 2004. This represents a decrease of \$298,615 from 2003 revenues. The expenditures of the 25% street construction fund, which totaled \$1,438,238 in 2004, increased \$265,611 from 2003. The net decrease in fund balance for the 25% street construction fund was \$633,852 or 26.19%.
- The capital improvement fund had revenues and other financing sources of \$1,393,211 in 2004. This represents an increase of \$171,266 from 2003 revenues and other financing sources. The expenditures of the capital improvement fund, which totaled \$2,789,550 in 2004, increased \$1,936,447 from 2003. The net decrease in fund balance for the capital improvement fund was \$1,396,339 or 23.01%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2004 by \$1,820,626. This increase in net assets was due primarily to capital contributions coupled with adequate charges for services revenue to cover operating expenses.

Using this Annual Financial Report

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

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

CITY OF ONTARIO, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all *assets, liabilities, revenues and expenses* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

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

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31 - 55 of this report.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2004 and 2003:

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
<u>Assets</u>						
Current and other assets	\$ 10,542,296	\$ 11,568,545	\$ 2,485,244	\$ 2,149,736	\$ 13,027,540	\$ 13,718,281
Capital assets	<u>15,328,299</u>	<u>13,193,196</u>	<u>11,762,931</u>	<u>10,455,291</u>	<u>27,091,230</u>	<u>23,648,487</u>
Total assets	<u>25,870,595</u>	<u>24,761,741</u>	<u>14,248,175</u>	<u>12,605,027</u>	<u>40,118,770</u>	<u>37,366,768</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	556,225	443,536	344,053	2,151,485	900,278	2,595,021
Other liabilities	<u>903,982</u>	<u>726,911</u>	<u>1,737,338</u>	<u>107,384</u>	<u>2,641,320</u>	<u>834,295</u>
Total liabilities	<u>1,460,207</u>	<u>1,170,447</u>	<u>2,081,391</u>	<u>2,258,869</u>	<u>3,541,598</u>	<u>3,429,316</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	14,967,610	12,977,796	9,948,184	8,338,088	24,915,794	21,315,884
Restricted	7,856,776	9,727,160	-	-	7,856,776	9,727,160
Unrestricted	<u>1,586,002</u>	<u>886,338</u>	<u>2,218,600</u>	<u>2,008,070</u>	<u>3,804,602</u>	<u>2,894,408</u>
Total net assets	<u>\$ 24,410,388</u>	<u>\$ 23,591,294</u>	<u>\$ 12,166,784</u>	<u>\$ 10,346,158</u>	<u>\$ 36,577,172</u>	<u>\$ 33,937,452</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$36,577,172. At year-end, net assets were \$24,410,388 and \$12,166,784 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 67.53% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$14,967,610 and \$9,948,184 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, 2004, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$7,856,776, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,586,002 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2004 and 2003.

	Governmental Activities 2004	Governmental Activities 2003	Business-Type Activities 2004	Business-Type Activities 2003	Total 2004	Total 2003
Revenues						
Program revenues:						
Charges for services and sales	\$ 792,643	\$ 646,230	\$ 1,757,170	\$ 1,686,081	\$ 2,549,813	\$ 2,332,311
Operating grants and contributions	394,339	332,467	1,047,822	-	1,442,161	332,467
Capital grants and contributions	550,934	-	-	-	550,934	-
Total program revenues	1,737,916	978,697	2,804,992	1,686,081	4,542,908	2,664,778
General revenues:						
Property taxes	868,117	687,908	-	-	868,117	687,908
Income taxes	3,794,556	3,502,618	562,948	540,451	4,357,504	4,043,069
Unrestricted grants	219,469	81,870	-	-	219,469	81,870
Interest	95,986	175,086	3,210	43,531	99,196	218,617
Fair market value adjustment	(47,817)	-	-	-	(47,817)	-
Miscellaneous	95,177	50,180	2,803	3,628	97,980	53,808
Total general revenues	5,025,488	4,497,662	568,961	587,610	5,594,449	5,085,272
Total revenues	6,763,404	5,476,359	3,373,953	2,273,691	10,137,357	7,750,050
Expenses:						
General government	1,142,851	1,380,634	-	-	1,142,851	1,380,634
Security of persons and property	1,925,840	1,928,272	-	-	1,925,840	1,928,272
Public health and welfare	8,056	7,235	-	-	8,056	7,235
Transportation	2,158,055	1,701,131	-	-	2,158,055	1,701,131
Community environment	79,646	54,222	-	-	79,646	54,222
Leisure time activity	189,992	218,541	-	-	189,992	218,541
Utility services	-	18,094	-	-	-	18,094
Interest and fiscal charges	1,316	1,074	-	-	1,316	1,074
Water	-	-	853,434	769,601	853,434	769,601
Sewer	-	-	1,138,447	931,206	1,138,447	931,206
Total expenses	5,505,756	5,309,203	1,991,881	1,700,807	7,497,637	7,010,010
Capital Contributions	(438,554)	(313,097)	438,554	313,097	-	-
Change in net assets	819,094	(102,996)	1,820,626	885,981	2,639,720	782,985
Net assets at beginning of year	23,591,294	23,694,290	10,346,158	9,460,177	33,937,452	33,154,467
Net assets at end of year	\$ 24,410,388	\$ 23,591,294	\$ 12,166,784	\$ 10,346,158	\$ 36,577,172	\$ 33,937,452

Governmental Activities

Governmental activities net assets increased \$819,094 in 2004. This increase is a result of an increase in income tax revenue, capital grants and contributions and an increase in unrestricted grants and entitlements.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$1,925,840 of the total expenses of the City. These expenses were partially funded by \$277,841 in direct charges to users of the services. Transportation expenses totaled \$2,158,055. Transportation expenses were

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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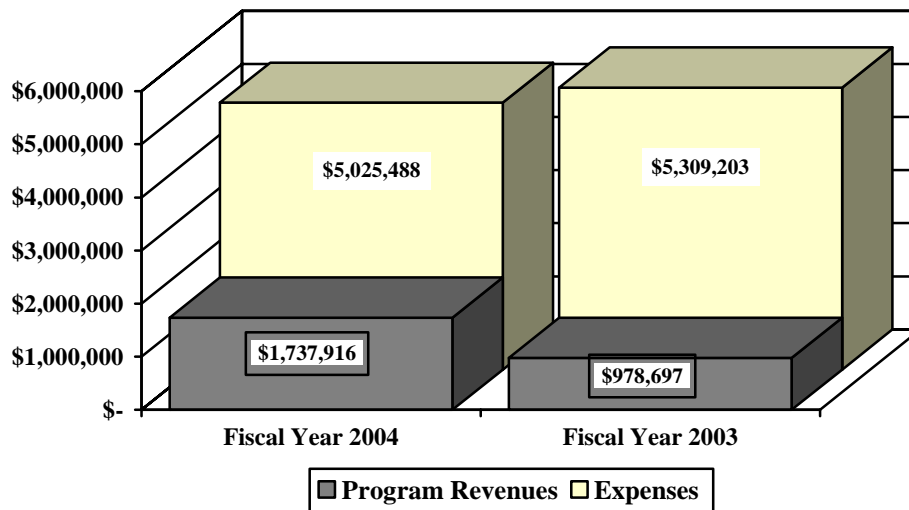
partially funded by \$173,374 in direct charges to users of the services and \$377,489 in operating grants and contributions and \$550,934 in capital grants and contributions.

The state and federal government contributed to the City \$394,339 in operating grants and contributions and \$550,934 in capital grants and contributions. These revenues are restricted to a particular program or purpose. \$377,489 of the operating grants and contributions and \$550,934 of the capital grants and contributions subsidized transportation programs.

General revenues totaled \$5,025,488, and amounted to 74.30% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,662,673. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$219,469.

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

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF ONTARIO, OHIO

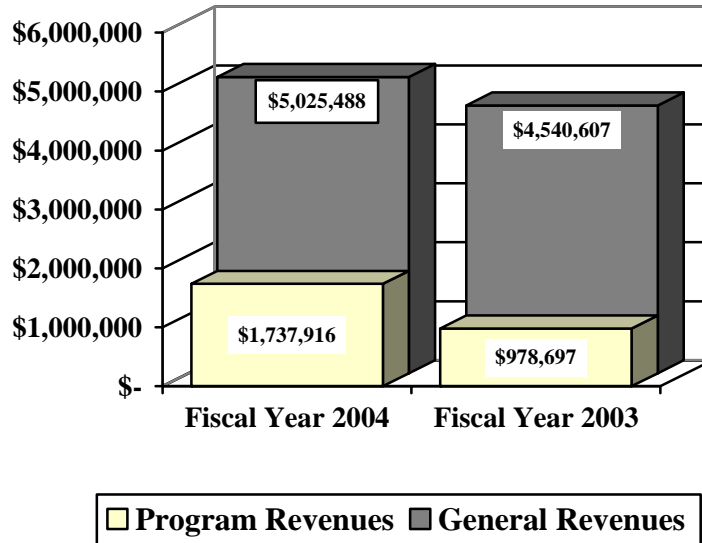
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>	Total Cost of Services <u>2003</u>	Net Cost of Services <u>2003</u>
Program Expenses:				
General government	\$ 1,142,851	\$ 816,782	\$ 1,380,634	\$ 1,154,548
Security of persons and property	1,925,840	1,631,149	1,928,272	1,616,521
Public health and welfare	8,056	3,092	7,235	4,085
Transportation	2,158,055	1,056,258	1,701,131	1,273,895
Community environment	79,646	79,646	54,222	54,222
Leisure time activity	189,992	184,232	218,541	214,020
Utility services	-	-	18,094	18,094
Interest and fiscal charges	<u>1,316</u>	<u>(3,319)</u>	<u>1,074</u>	<u>(4,879)</u>
Total Expenses	<u>\$ 5,505,756</u>	<u>\$ 3,767,840</u>	<u>\$ 5,309,203</u>	<u>\$ 4,330,506</u>

The dependence upon general revenues for governmental activities is apparent, with 68.43% of expenses supported through taxes and other general revenues.

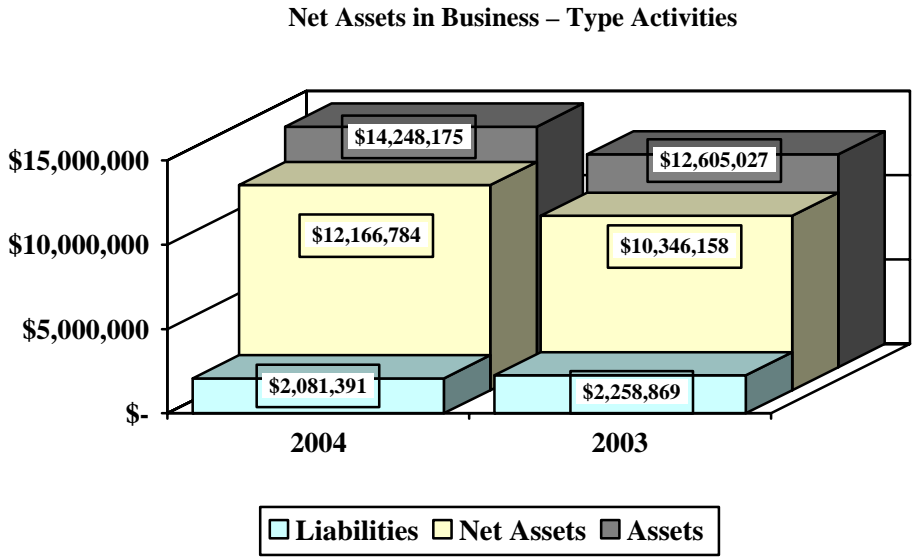
Governmental Activities – General and Program Revenues



CITY OF ONTARIO, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
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UNAUDITED

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$2,804,992, general revenues of \$568,961 and expenses of \$1,991,881 for 2004. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$8,775,657 which is \$1,664,716 below last year's total of \$10,440,373. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and nonmajor governmental funds.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
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	<u>Fund Balances</u> <u>12/31/04</u>	<u>Fund Balances</u> <u>12/31/03</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 1,098,480	\$ 885,781	\$ 212,699
25% Street Construction	1,786,098	2,419,950	(633,852)
Capital Improvement	4,672,691	6,069,030	(1,396,339)
Other nonmajor governmental funds	<u>1,218,388</u>	<u>1,065,612</u>	<u>152,776</u>
Total	<u>\$ 8,775,657</u>	<u>\$ 10,440,373</u>	<u>\$ (1,664,716)</u>

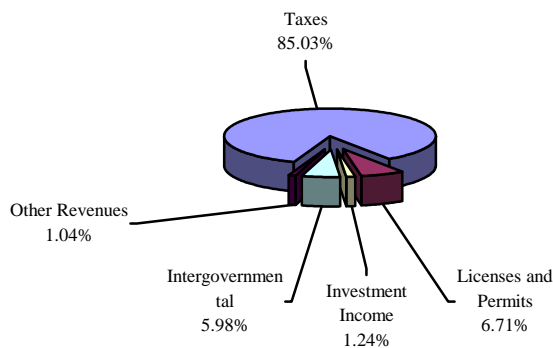
General Fund

The City's general fund balance increased \$212,699, primarily due to increasing revenues being more than decreased expenditures by \$344,490. The table that follows assists in illustrating the revenues of the general fund.

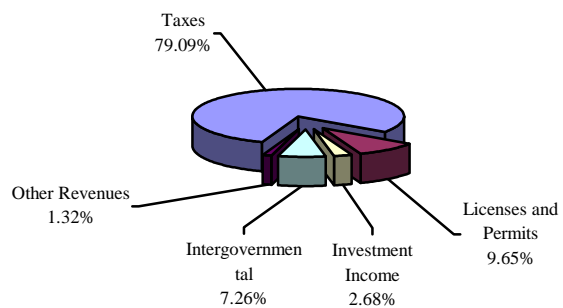
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 3,012,891	\$ 2,168,829	38.92 %
Licenses and permits	237,733	264,769	(10.21) %
Investment income	44,013	73,552	(40.16) %
Decrease in FMV of investment	(47,817)	-	(100.00) %
Intergovernmental	211,783	199,153	6.34 %
Other	<u>36,721</u>	<u>36,339</u>	1.05 %
Total	<u>\$ 3,495,324</u>	<u>\$ 2,742,642</u>	27.44 %

Tax revenue represents 86.20% of all general fund revenue. Tax revenue increased 38.92% over prior year. During 2004, the City moved money from Certificates of Deposit to Federal Agency Securities, this accounts for the decrease in investment income. The increase in taxes revenue is due to the allocation change in the collections of municipal income taxes. All other revenue remained comparable to 2003.

Revenues – Fiscal Year 2004



Revenues – Fiscal Year 2003



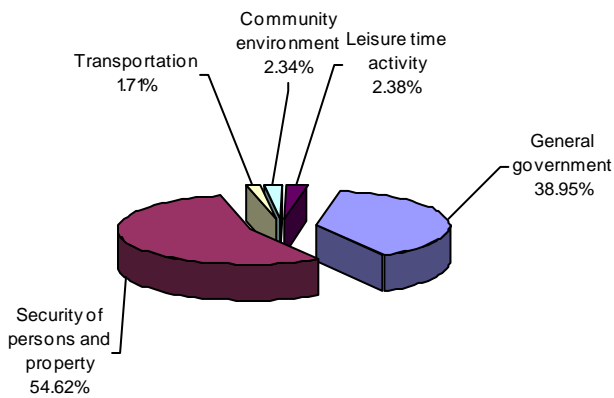
CITY OF ONTARIO, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

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

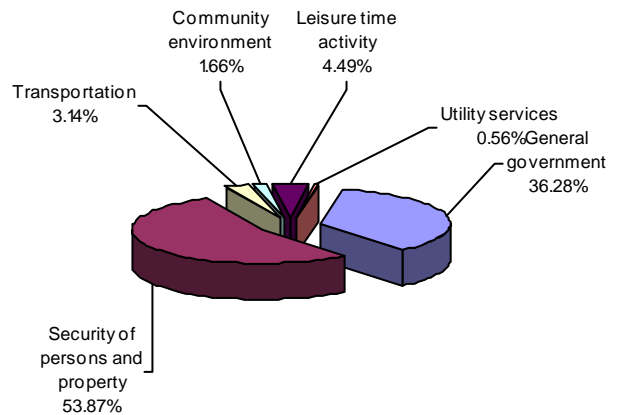
	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,227,389	\$ 1,170,623	4.85 %
Security of persons and property	1,720,774	1,737,981	(0.99) %
Transportation	53,868	101,412	(46.88) %
Community environment	73,780	53,693	37.41 %
Leisure time activity	75,023	144,872	(48.21) %
Utility services	-	18,094	(100.00) %
Total	<u>\$ 3,150,834</u>	<u>\$ 3,226,675</u>	(2.35) %

The most significant decrease was in the area of transportation. This decrease is primarily due to the elimination of the park and ride project used during the holiday season. Community environment expenditures increased by the decrease in utility services. Leisure time activity decreased by 48.21% due the maintenance completed in 2003 on Marshall Park. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to wage and benefit controls and overall cost controls in purchased goods and services.

Expenditures - Fiscal Year 2004



Expenditures - Fiscal Year 2003



CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

25% Street Construction Fund

The 25% street construction fund had revenues and other financing sources of \$804,386 and expenditures of \$1,438,238 in 2004. The 25% street construction fund's fund balance decreased \$633,852 from \$2,419,950 to \$1,786,098.

Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$1,393,211 and expenditures of \$2,789,550 in 2004. The capital improvement fund's fund balance decreased \$1,396,339 from \$6,069,030 to \$4,672,691.

Budgeting Highlights - General Fund

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

In the general fund, actual revenues of \$3,379,298 were more than final budgeted revenues by \$291,298. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$348,689 lower than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, the City had \$27,091,230 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress (CIP) and infrastructure. Of this total, \$15,328,299 was reported in governmental activities and \$11,762,931 was reported in business-type activities. The following table shows fiscal 2004 balances compared to 2003:

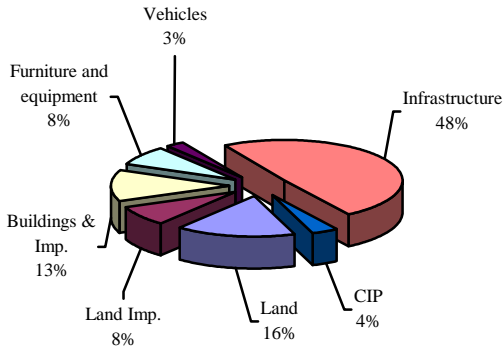
CITY OF ONTARIO, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Capital Assets at December 31
(Net of Depreciation)

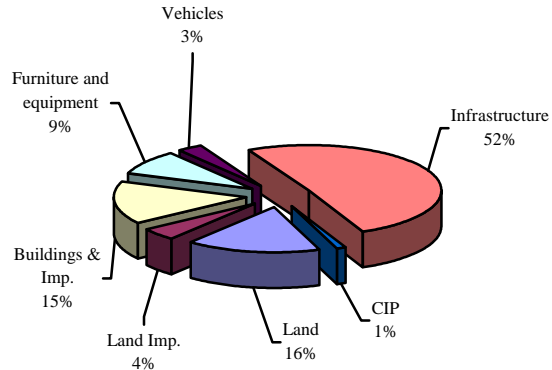
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 2,504,452	\$ 2,172,787	\$ 262,626	\$ 262,626	\$ 2,767,078	\$ 2,435,413
Construction in progress	550,934	137,447	181,557	-	732,491	137,447
Land improvements	1,227,613	591,602	31,207	34,492	1,258,820	626,094
Buildings and improvements	1,930,515	2,012,966	1,269,651	1,324,190	3,200,166	3,337,156
Furniture and equipment	1,199,240	1,150,474	1,180,359	1,330,522	2,379,599	2,480,996
Vehicles	390,577	423,676	-	-	390,577	423,676
Infrastructure	7,524,968	6,704,244	8,837,531	7,503,461	16,362,499	14,207,705
Totals	\$ 15,328,299	\$ 13,193,196	\$ 11,762,931	\$ 10,455,291	\$ 27,091,230	\$ 23,648,487

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

Capital Assets - Governmental Activities 2004



Capital Assets - Governmental Activities 2003

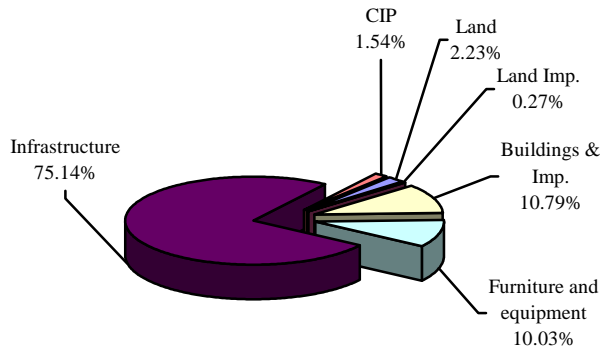


The City's largest capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 48% of the City's total governmental capital assets.

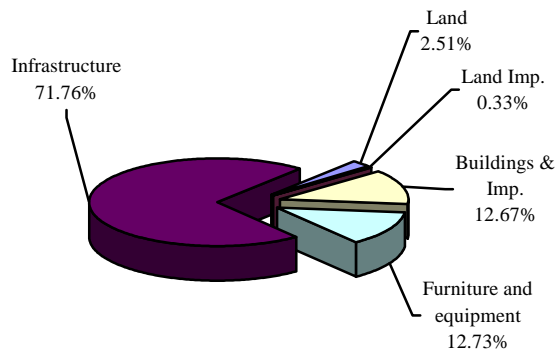
CITY OF ONTARIO, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



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 75.14% of the City's total business-type capital assets.

See Note 8 to the basic financial statements for additional information on the City's capital assets.

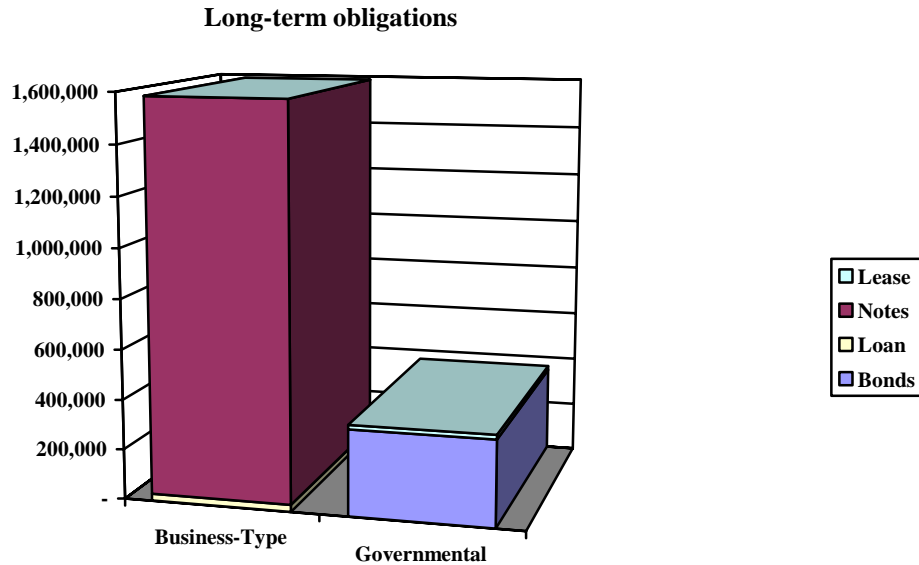
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Governmental Activities	
	2004	2003
Lewis Road Bonds 1997	\$ 10,800	\$ 14,400
Park Land Acquisition Bond 2000	67,000	201,000
Beer Property Bond	265,332	-
Capital Lease Payable	17,557	-
Total long-term obligations	\$ 360,689	\$ 215,400
	Business-type Activities	
	2004	2003
OPWC Water Treatment Loan 2000	\$ 27,563	\$ 29,400
Water System Improvement Note	1,500,000	2,000,000
Sewer Improvement Note	58,536	87,803
Lease-Purchase Agreement	228,648	-
Total long-term obligations	\$ 1,814,747	\$ 2,117,203

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

CITY OF ONTARIO, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED



See Note 12 to the basic financial statements for additional information on the City's debt administration.

Economic Conditions and Outlook

In 2004, the City finished the new ball fields, dugouts and a field house. The City's baseball program has really grown, requiring more room to play. The additions to Marshall Park provide a central location for the ball games to be played. In the past, games have been divided between two parks within the City.

The City is continually improving its water, sewer and storm sewer systems. In 2004 the City worked on the lift stations in the Northeast part of the City. In 2004 there was much work done on the water distribution and storm sewer system. The City has implemented a replacement plan for water lines. Water and sewer rates have been increased in 2004 in order to continue upgrading the lines and system. The City is upgrading the meter reading system in the water department.

The Lexington-Springmill Road update continues. The installation of the sidewalks has begun. The road will also be resurfaced. This is a joint effort between the City and Richland County.

Contacting the City's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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CITY OF ONTARIO, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 8,404,989	\$ 1,956,303	\$ 10,361,292
Cash and cash equivalents:			
Cash in segregated accounts	18,235	-	18,235
Cash with fiscal agent.	-	21,069	21,069
Receivables (net of allowances for uncollectibles):			
Income taxes	715,555	-	715,555
Real and other taxes	846,017	-	846,017
Accounts	21,245	240,705	261,950
Special assessments	22,037	-	22,037
Accrued interest	11,529	-	11,529
Intergovernmental	256,215	-	256,215
Loans.	39,735	-	39,735
Prepayments	60,187	-	60,187
Materials and supplies inventory.	146,552	267,167	413,719
Capital assets:			
Land.	2,504,452	262,626	2,767,078
Construction in progress	550,934	181,557	732,491
Depreciable capital assets, net	12,272,913	11,318,748	23,591,661
Total capital assets, net	<u>15,328,299</u>	<u>11,762,931</u>	<u>27,091,230</u>
Total assets.	<u>25,870,595</u>	<u>14,248,175</u>	<u>40,118,770</u>
Liabilities:			
Accounts payable.	261,529	75,337	336,866
Contracts payable.	61,637	125,366	187,003
Retainage payable	-	21,069	21,069
Accrued wages and benefits	28,054	4,689	32,743
Intergovernmental payable	81,855	5,369	87,224
Deferred revenue.	470,862	-	470,862
Accrued interest payable.	45	5,508	5,553
Note payable.	-	1,500,000	1,500,000
Long-term liabilities:			
Due within one year	156,590	90,487	247,077
Due in more than one year	399,635	253,566	653,201
Total liabilities	<u>1,460,207</u>	<u>2,081,391</u>	<u>3,541,598</u>
Net assets:			
Invested in capital assets, net of related debt	14,967,610	9,948,184	24,915,794
Restricted for:			
Capital projects.	4,981,244	-	4,981,244
Debt service	213,427	-	213,427
Street construction and repair	1,807,278	-	1,807,278
Court computerization	51,811	-	51,811
Cemetery	11,973	-	11,973
Recreation	1,766	-	1,766
Law enforcement and education	2,834	-	2,834
Other purposes	786,443	-	786,443
Unrestricted.	1,586,002	2,218,600	3,804,602
Total net assets	<u>\$ 24,410,388</u>	<u>\$ 12,166,784</u>	<u>\$ 36,577,172</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 1,142,851	\$ 326,069	\$ -	\$ -
Security of persons and property.	1,925,840	277,841	16,850	-
Public health and welfare	8,056	4,964	-	-
Transportation	2,158,055	173,374	377,489	550,934
Community environment.	79,646	-	-	-
Leisure time activity.	189,992	5,760	-	-
Interest and fiscal charges.	1,316	4,635	-	-
Total governmental activities	5,505,756	792,643	394,339	550,934
Business-type Activities:				
Water	853,434	760,203	445,833	-
Sewer	1,138,447	996,967	601,989	-
Total business-type activities	1,991,881	1,757,170	1,047,822	-
Total primary government.	\$ 7,497,637	\$ 2,549,813	\$ 1,442,161	\$ 550,934

General Revenues:

Property taxes levied for:

- General purposes.
- Police pension

Income taxes levied for:

- General purposes.
- Special revenue
- Capital projects
- Other purposes

Grants and entitlements not restricted to specific programs

- Investment earnings
- Decrease in fair market value of investments.
- Sale of assets
- Miscellaneous

Total general revenues.

Capital Contributions.

Change in net assets.

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (816,782)	\$ -	\$ (816,782)
(1,631,149)	-	(1,631,149)
(3,092)	-	(3,092)
(1,056,258)	-	(1,056,258)
(79,646)	-	(79,646)
(184,232)	-	(184,232)
3,319	-	3,319
<u>(3,767,840)</u>	<u>-</u>	<u>(3,767,840)</u>
-	352,602	352,602
-	460,509	460,509
-	813,111	813,111
<u>(3,767,840)</u>	<u>813,111</u>	<u>(2,954,729)</u>
743,807	-	743,807
124,310	-	124,310
2,693,774	-	2,693,774
368,186	-	368,186
732,596	-	732,596
-	562,948	562,948
219,469	-	219,469
95,986	3,210	99,196
(47,817)	-	(47,817)
35,500	-	35,500
59,677	2,803	62,480
<u>5,025,488</u>	<u>568,961</u>	<u>5,594,449</u>
<u>(438,554)</u>	<u>438,554</u>	<u>-</u>
819,094	1,820,626	2,639,720
<u>23,591,294</u>	<u>10,346,158</u>	<u>33,937,452</u>
<u>\$ 24,410,388</u>	<u>\$ 12,166,784</u>	<u>\$ 36,577,172</u>

CITY OF ONTARIO, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and cash equivalents	\$ 769,467	\$ 1,678,126	\$ 4,729,563	\$ 1,227,833	\$ 8,404,989
Cash in segregated accounts	-	-	-	18,235	18,235
Receivables (net of allowance for uncollectibles):					
Income taxes.	572,444	143,111	-	-	715,555
Real and other taxes.	725,390	-	-	120,627	846,017
Accounts	15,511	-	4,765	969	21,245
Accrued interest	11,529	-	-	-	11,529
Special assessments.	-	-	-	22,037	22,037
Intergovernmental	118,188	-	-	138,027	256,215
Loans	39,735	-	-	-	39,735
Prepayments.	60,187	-	-	-	60,187
Materials and supplies inventory	4,327	142,225	-	-	146,552
Total assets	<u>\$ 2,316,778</u>	<u>\$ 1,963,462</u>	<u>\$ 4,734,328</u>	<u>\$ 1,527,728</u>	<u>\$ 10,542,296</u>
Liabilities:					
Accounts payable	\$ 81,826	\$ 105,620	\$ -	\$ 74,083	\$ 261,529
Contracts payable	-	-	61,637	-	61,637
Accrued wages and benefits.	19,468	7,774	-	812	28,054
Intergovernmental payable	71,934	8,983	-	938	81,855
Deferred revenue	1,045,070	54,987	-	233,507	1,333,564
Total liabilities	<u>1,218,298</u>	<u>177,364</u>	<u>61,637</u>	<u>309,340</u>	<u>1,766,639</u>
Fund Balances:					
Reserved for encumbrances.	52,011	112,298	151,647	91,166	407,122
Reserved for prepayments	60,187	-	-	-	60,187
Reserved for materials and supplies inventory	4,327	142,225	-	-	146,552
Reserved for loans	39,735	-	-	-	39,735
Reserved for debt service.	-	-	-	191,435	191,435
Unreserved, undesignated, reported in:					
General fund.	942,220	-	-	-	942,220
Special revenue funds.	-	1,531,575	-	664,854	2,196,429
Capital projects funds.	-	-	4,521,044	270,933	4,791,977
Total fund balances	<u>1,098,480</u>	<u>1,786,098</u>	<u>4,672,691</u>	<u>1,218,388</u>	<u>8,775,657</u>
Total liabilities and fund balances.	<u>\$ 2,316,778</u>	<u>\$ 1,963,462</u>	<u>\$ 4,734,328</u>	<u>\$ 1,527,728</u>	<u>\$ 10,542,296</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Total governmental fund balances \$ 8,775,657

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

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. 15,328,299

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

Property taxes	\$ 367,221
Income taxes	274,937
Special assessments	22,037
Intergovernmental revenues	193,153
Accrued interest	<u>5,354</u>

Total 862,702

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

Compensated absences	(195,536)
Accrued interest payable	(45)
Capital lease payable	(17,557)
Bonds payable	<u>(343,132)</u>

(556,270)

Net assets of governmental activities \$ 24,410,388

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, 2004

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Municipal income taxes	\$ 2,554,758	\$ 735,419	\$ 460,682	\$ -	\$ 3,750,859
Property and other taxes	458,133	-	-	71,951	530,084
Charges for services	-	-	-	49,311	49,311
Licenses and permits	237,733	-	4,765	174,343	416,841
Fines and forfeitures	-	-	-	312,591	312,591
Intergovernmental	211,783	-	550,934	374,925	1,137,642
Special assessments	-	-	-	4,416	4,416
Investment income	44,013	13,912	34,605	7,490	100,020
Rental income	5,305	-	3,960	-	9,265
Other	31,416	19,555	6,600	2,106	59,677
Decrease in fair market value of investments	(47,817)	-	-	-	(47,817)
Total revenues	<u>3,495,324</u>	<u>768,886</u>	<u>1,061,546</u>	<u>997,133</u>	<u>6,322,889</u>
Expenditures:					
Current:					
General government	1,227,389	-	-	328,955	1,556,344
Security of persons and property	1,720,774	-	-	238,286	1,959,060
Public health and welfare	-	-	-	8,056	8,056
Transportation	53,868	1,438,238	-	273,432	1,765,538
Community environment	73,780	-	-	-	73,780
Leisure time activity	75,023	-	-	32,506	107,529
Capital outlay	-	-	2,589,217	107,539	2,696,756
Debt service:					
Principal retirement	-	-	200,333	4,901	205,234
Interest and fiscal charges	-	-	-	1,331	1,331
Total expenditures	<u>3,150,834</u>	<u>1,438,238</u>	<u>2,789,550</u>	<u>995,006</u>	<u>8,373,628</u>
Excess (deficiency) of revenues over (under) expenditures	344,490	(669,352)	(1,728,004)	2,127	(2,050,739)
Other financing sources (uses):					
Sale of capital assets	-	35,500	-	-	35,500
Sale of bonds	-	-	331,665	-	331,665
Transfers in	-	-	-	131,791	131,791
Transfers out	(131,791)	-	-	-	(131,791)
Capital lease transaction	-	-	-	18,858	18,858
Total other financing sources (uses)	<u>(131,791)</u>	<u>35,500</u>	<u>331,665</u>	<u>150,649</u>	<u>386,023</u>
Net change in fund balances	212,699	(633,852)	(1,396,339)	152,776	(1,664,716)
Fund balances at beginning of year	<u>885,781</u>	<u>2,419,950</u>	<u>6,069,030</u>	<u>1,065,612</u>	<u>10,440,373</u>
Fund balances at end of year	<u>\$ 1,098,480</u>	<u>\$ 1,786,098</u>	<u>\$ 4,672,691</u>	<u>\$ 1,218,388</u>	<u>\$ 8,775,657</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds \$ (1,664,716)

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

Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,966,786) exceeded depreciation expense (\$817,087) in the current period.	2,149,699
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(14,596)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	405,015
Proceeds of bonds and capital leases provide current financial resources in the governmental funds, but issuing debt increases long-term liabilities on the statement of net assets.	(350,523)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.	205,234
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	15
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.	88,966

Change in net assets of governmental activities \$ 819,094

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 1,672,500	\$ 1,672,500	\$ 2,363,682	\$ 691,182
Property and other taxes	465,000	465,000	451,330	(13,670)
Fines, licenses and permits.	409,704	409,704	240,286	(169,418)
Intergovernmental	361,103	361,103	211,783	(149,320)
Investment income	70,472	70,472	48,160	(22,312)
Rental income	9,045	9,045	5,305	(3,740)
Loan payment	46,610	46,610	27,336	(19,274)
Other	53,566	53,566	31,416	(22,150)
Total revenues.	3,088,000	3,088,000	3,379,298	291,298
Expenditures:				
Current:				
General government	1,429,082	1,429,082	1,205,006	224,076
Security of persons and property	1,768,819	1,758,819	1,688,491	70,328
Transportation	61,702	61,702	61,702	-
Community environment	76,498	76,498	70,461	6,037
Leisure time activity	97,246	97,246	74,532	22,714
Utility services	15,534	15,534	-	15,534
Total expenditures	3,448,881	3,438,881	3,100,192	338,689
Excess (deficiency) of revenues over (under) expenditures	(360,881)	(350,881)	279,106	629,987
Other financing uses:				
Transfers out	(131,791)	(131,791)	(131,791)	-
Total other financing uses	(131,791)	(131,791)	(131,791)	-
Net change in fund balance	(492,672)	(482,672)	147,315	629,987
Fund balance at beginning of year	475,508	475,508	475,508	-
Prior year encumbrances appropriated	119,751	119,751	119,751	-
Fund balance at end of year.	\$ 102,587	\$ 112,587	\$ 742,574	\$ 629,987

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 25% STREET CONSTRUCTION
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Municipal income taxes	\$ 762,593	\$ 762,593	\$ 762,593	\$ -
Investment income	37,481	37,481	13,912	(23,569)
Other	53,252	53,252	19,555	(33,697)
Total revenues.	<u>853,326</u>	<u>853,326</u>	<u>796,060</u>	<u>(57,266)</u>
Expenditures:				
Current:				
Transportation	<u>1,759,489</u>	<u>1,852,489</u>	<u>1,669,921</u>	<u>182,568</u>
Total expenditures.	<u>1,759,489</u>	<u>1,852,489</u>	<u>1,669,921</u>	<u>182,568</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(906,163)</u>	<u>(999,163)</u>	<u>(873,861)</u>	<u>125,302</u>
Other financing sources:				
Sale of capital assets	<u>96,674</u>	<u>96,674</u>	<u>35,500</u>	<u>(61,174)</u>
Total other financing sources	<u>96,674</u>	<u>96,674</u>	<u>35,500</u>	<u>(61,174)</u>
Net change in fund balance	(809,489)	(902,489)	(838,361)	64,128
Fund balance at beginning of year	2,116,733	2,116,733	2,116,733	-
Prior year encumbrances appropriated	<u>198,477</u>	<u>198,477</u>	<u>198,477</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 1,505,721</u>	<u>\$ 1,412,721</u>	<u>\$ 1,476,849</u>	<u>\$ 64,128</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and cash equivalents	\$ 607,919	\$ 1,348,384	\$ 1,956,303
Cash with fiscal agent	21,069	-	21,069
Receivables (net of allowance for uncollectibles):			
Accounts	99,361	141,344	240,705
Materials and supplies inventory	253,915	13,252	267,167
Total current assets	<u>982,264</u>	<u>1,502,980</u>	<u>2,485,244</u>
Noncurrent assets:			
Capital assets:			
Land	262,626	-	262,626
Construction in progress	-	181,557	181,557
Depreciable capital assets, net	5,993,948	5,324,800	11,318,748
Total capital assets, net	<u>6,256,574</u>	<u>5,506,357</u>	<u>11,762,931</u>
Total assets	<u>7,238,838</u>	<u>7,009,337</u>	<u>14,248,175</u>
Liabilities:			
Current liabilities:			
Accounts payable	39,236	36,101	75,337
Contracts payable	-	125,366	125,366
Retainage payable	21,069	-	21,069
Accrued wages and benefits	3,009	1,680	4,689
Compensated absences	3,680	1,706	5,386
Intergovernmental payable	3,477	1,892	5,369
OPWC loan payable	1,837	-	1,837
Notes payable	1,500,000	29,267	1,529,267
Accrued interest payable	5,176	332	5,508
Lease-purchase agreement payable	26,999	26,998	53,997
Total current liabilities	<u>1,604,483</u>	<u>223,342</u>	<u>1,827,825</u>
Long-term liabilities:			
OPWC loan payable	25,726	-	25,726
Notes payable	-	29,269	29,269
Compensated absences	18,766	5,154	23,920
Lease-purchase agreement payable	87,325	87,326	174,651
Total long-term liabilities	<u>131,817</u>	<u>121,749</u>	<u>253,566</u>
Total liabilities	<u>1,736,300</u>	<u>345,091</u>	<u>2,081,391</u>
Net assets:			
Invested in capital assets, net of related debt	4,614,687	5,333,497	9,948,184
Unrestricted	887,851	1,330,749	2,218,600
Total net assets	<u>\$ 5,502,538</u>	<u>\$ 6,664,246</u>	<u>12,166,784</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 760,203	\$ 996,967	\$ 1,757,170
Other	2,428	375	2,803
Total operating revenues	<u>762,631</u>	<u>997,342</u>	<u>1,759,973</u>
Operating expenses:			
Personal services	253,049	133,380	386,429
Contract services	135,708	657,166	792,874
Materials and supplies	136,347	190,236	326,583
Depreciation	294,693	152,350	447,043
Other	4,927	-	4,927
Total operating expenses.	<u>824,724</u>	<u>1,133,132</u>	<u>1,957,856</u>
Operating loss	<u>(62,093)</u>	<u>(135,790)</u>	<u>(197,883)</u>
Nonoperating revenues (expenses):			
Interest revenue.	2,140	1,070	3,210
Income tax revenue	528,200	34,748	562,948
Interest expense and fiscal charges	(28,710)	(5,315)	(34,025)
Total nonoperating revenues (expenses)	<u>501,630</u>	<u>30,503</u>	<u>532,133</u>
Income (loss) before contributions	439,537	(105,287)	334,250
Capital contributions	<u>884,387</u>	<u>601,989</u>	<u>1,486,376</u>
Changes in net assets	1,323,924	496,702	1,820,626
Net assets at beginning of year.	<u>4,178,614</u>	<u>6,167,544</u>	<u>10,346,158</u>
Net assets at end of year.	<u>\$ 5,502,538</u>	<u>\$ 6,664,246</u>	<u>\$ 12,166,784</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, 2004

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 788,141	\$ 1,074,323	\$ 1,862,464
Cash received from other operations	2,428	375	2,803
Cash payments for personal services	(253,130)	(158,564)	(411,694)
Cash payments for contract services	(140,930)	(649,750)	(790,680)
Cash payments for materials and supplies	(294,982)	(179,689)	(474,671)
Cash payments for other expenses	(4,927)	-	(4,927)
Net cash provided by operating activities	<u>96,600</u>	<u>86,695</u>	<u>183,295</u>
Cash flows from noncapital financing activities:			
Cash received from income taxes	<u>528,200</u>	<u>34,748</u>	<u>562,948</u>
Net cash provided by noncapital financing activities	<u>528,200</u>	<u>34,748</u>	<u>562,948</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(80,650)	(66,581)	(147,231)
Principal retirement on OPWC loan	(1,837)	-	(1,837)
Principal retirement on lease-purchase agreement	(31,354)	(31,354)	(62,708)
Proceeds of lease-purchase agreement	145,678	145,678	291,356
Principal retirement on notes	(2,000,000)	(29,267)	(2,029,267)
Proceeds of note	1,500,000	-	1,500,000
Interest and fiscal charges	(28,200)	(5,481)	(33,681)
Net cash provided by (used in) capital and related financing activities	<u>(496,363)</u>	<u>12,995</u>	<u>(483,368)</u>
Cash flows from investing activities:			
Interest received	<u>2,140</u>	<u>1,070</u>	<u>3,210</u>
Net cash provided by investing activities	<u>2,140</u>	<u>1,070</u>	<u>3,210</u>
Net increase in cash and cash equivalents	130,577	135,508	266,085
Cash and cash equivalents at beginning of year	498,411	1,212,876	1,711,287
Cash and cash equivalents at end of year	<u>\$ 628,988</u>	<u>\$ 1,348,384</u>	<u>\$ 1,977,372</u>

-- continued

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating loss	\$ (62,093)	\$ (135,790)	\$ (197,883)
Adjustments:			
Depreciation	294,693	152,350	447,043
Changes in assets and liabilities:			
(Increase) decrease in materials and supplies inventory	(185,264)	10,547	(174,717)
Decrease in accounts receivable.	27,938	77,356	105,294
Increase in accounts payable	26,629	7,416	34,045
Increase (decrease) in accrued wages and benefits	1,303	(15,300)	(13,997)
Decrease in retainage payable.	(5,222)	-	(5,222)
Increase (decrease) in due to other governments	2,412	(8,704)	(6,292)
Decrease in compensated absences payable.	(3,796)	(1,180)	(4,976)
Total adjustments	<u>(136,000)</u>	<u>70,135</u>	<u>(65,865)</u>
Net cash provided by operating activities	<u>\$ 96,600</u>	<u>\$ 86,695</u>	<u>\$ 183,295</u>

Noncash item: The City had capital contributions of \$438,694 from the capital improvement fund to the water fund as well as \$1,047,682 of annexed water and sewer lines received from developers within the City for a total of \$1,486,376.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ <u>29,941</u>
Liabilities:	
Deposits held and due to others	\$ <u>29,941</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF THE CITY

As a result of the 2000 census, Ontario, formerly known as the Village of Ontario, became the City of Ontario. The City of Ontario (the "City") is a statutory municipal corporation, incorporated under the laws of the State of Ohio. The City operates under a Mayor-Council form of government. Council is elected to two year terms. The Mayor, Auditor, Treasurer and Law Director are elected to four year terms.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Presentation - Fund Accounting

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

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

C. Fund Accounting

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

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

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

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

Capital Improvements Fund - The capital improvements 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, 2004

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

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

E. Basis of Accounting

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 6). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 5). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

F. Budgetary Process

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

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

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

G. Cash and Cash Equivalents

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

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

The City uses a fiscal agent to hold retainage on construction contracts. The balance in this account is presented as "Cash and Cash Equivalents with Fiscal Agent" and represents deposits or short-term investments in certificates of deposits.

During 2004, investments were limited to certificates of deposit, overnight repurchase agreements, investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and money market accounts. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold at December 31, 2004.

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 2004 amounted to \$44,013, which includes \$37,390 assigned from other funds of the City.

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

An analysis of the City's investment account at year-end is provided in Note 3.

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, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

J. Capital Assets

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

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

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Balances

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

N. Interfund Activity

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

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

O. Fund Balance Reserves

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

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

P. Estimates

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

Q. Contributions of Capital

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

R. Net Assets

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

S. Operating Revenues and Expenses

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither of these transactions occurred in 2004.

NOTE 3 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the City are classified by State statute into three categories:

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

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

Interim deposits are deposits in interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

8. Bankers acceptances for a period not to exceed 180 days and in an amount not to exceed twenty-five percent of the City's interim monies available for investment.

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

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

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

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

Cash with Fiscal Agent: The City has a retainage account for the various construction projects throughout the City. The amount at December 31, 2004 was \$21,069.

Deposits: At year-end, the carrying amount of the City's deposits was \$3,337,541 and the bank balance was \$3,494,871. Of the bank balance:

1. \$438,893 was covered by federal depository insurance; and
2. \$3,055,978 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the Federal Deposit Insurance Corporation.

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

	Category 3	Carrying/ Fair Value
Federal agency securities	\$ 5,968,432	\$ 5,968,432
Repurchase agreements	45,000	45,000
Money market mutual funds	-	512,529
Investment in STAR Ohio	-	567,035
Total investments	\$ 6,013,432	\$ 7,092,996

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

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

	Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$10,430,537	\$ -
Investments of the cash management pool:		
Repurchase agreements	(45,000)	45,000
STAR Ohio	(567,035)	567,035
Federal agency securities	(5,968,432)	5,968,432
Money market mutual funds	(512,529)	512,529
GASB Statement No. 3	\$ 3,337,541	\$7,092,996

NOTE 4 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported in the fund financial statements:

	<u>Transfers from</u>
<u>Transfers to</u>	<u>General</u>
Non-major funds	\$ 131,791

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.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 5 - PROPERTY TAXES

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

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2004 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real property tax	\$ 176,456,990
Public utility property	5,419,080
Tangible personal property	<u>74,427,290</u>
Total assessed valuation	<u>\$ 256,303,360</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 6 - LOCAL INCOME TAX

The City levies a municipal income tax of 1 percent on substantially all income earned arising from employment, residency or business activities within the City. The City allows a credit of 100 percent for the income tax paid to another municipality, not to exceed one percent of taxable income, to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvement fund, the 25% street construction fund and water and sewer funds. Total income tax revenue totaled \$4,313,807.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accrued interest, loans, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, shared revenue. Receivables have been recorded to the extent that they are measurable at December 31, 2004, as well as intended to finance fiscal 2004 operations.

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

Governmental Activities:

Income taxes	\$715,555
Real and other taxes	846,017
Accounts	21,245
Special assessments	22,037
Intergovernmental	256,215
Accrued interest	11,529
Loans	39,735

Business-type Activities:

Accounts	240,705
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,172,787	\$ 331,665	\$ -	\$ 2,504,452
Construction in progress	<u>137,447</u>	<u>1,136,936</u>	<u>(723,449)</u>	<u>550,934</u>
Total capital assets, not being depreciated	<u>2,310,234</u>	<u>1,468,601</u>	<u>(723,449)</u>	<u>3,055,386</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,214,044	723,449	-	1,937,493
Buildings and improvements	3,100,552	-	-	3,100,552
Furniture and equipment	2,089,923	233,004	(27,100)	2,295,827
Vehicles	1,019,558	49,922	(36,789)	1,032,691
Infrastructure	<u>9,578,154</u>	<u>1,215,259</u>	<u>-</u>	<u>10,793,413</u>
Total capital assets, being depreciated	<u>17,002,231</u>	<u>2,221,634</u>	<u>(63,889)</u>	<u>19,159,976</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(622,442)	(87,438)	-	(709,880)
Buildings and improvements	(1,087,586)	(82,451)	-	(1,170,037)
Furniture and equipment	(939,449)	(170,691)	13,553	(1,096,587)
Vehicles	(595,882)	(81,972)	35,740	(642,114)
Infrastructure	<u>(2,873,910)</u>	<u>(394,535)</u>	<u>-</u>	<u>(3,268,445)</u>
Total accumulated depreciation	<u>(6,119,269)</u>	<u>(817,087)</u>	<u>49,293</u>	<u>(6,887,063)</u>
Total capital assets, being depreciated, net	<u>10,882,962</u>	<u>1,404,547</u>	<u>(14,596)</u>	<u>12,272,913</u>
Governmental activities capital assets, net	<u>\$ 13,193,196</u>	<u>\$ 2,873,148</u>	<u>\$(738,045)</u>	<u>\$ 15,328,299</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	Balance <u>12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Construction in progress	<u>-</u>	<u>181,557</u>	<u>-</u>	<u>181,557</u>
Total capital assets, not being depreciated	<u>262,626</u>	<u>181,557</u>	<u>-</u>	<u>444,183</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	54,622	-	-	54,622
Buildings and improvements	1,940,410	-	-	1,940,410
Furniture and equipment	2,208,726	6,100	-	2,214,826
Infrastructure:				
Sewer lines	5,952,264	601,989	-	6,554,253
Water lines	<u>3,995,455</u>	<u>965,037</u>	<u>-</u>	<u>4,960,492</u>
Total capital assets, being depreciated	<u>14,151,477</u>	<u>1,573,126</u>	<u>-</u>	<u>15,724,603</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(20,130)	(3,285)	-	(23,415)
Buildings and improvements	(616,220)	(54,539)	-	(670,759)
Furniture and equipment	(878,204)	(156,263)	-	(1,034,467)
Infrastructure:				
Sewer lines	(1,354,300)	(119,650)	-	(1,473,950)
Water lines	<u>(1,089,958)</u>	<u>(113,306)</u>	<u>-</u>	<u>(1,203,264)</u>
Total accumulated depreciation	<u>(3,958,812)</u>	<u>(447,043)</u>	<u>-</u>	<u>(4,405,855)</u>
Total capital assets, being depreciated, net	<u>10,192,665</u>	<u>1,126,083</u>	<u>-</u>	<u>11,318,748</u>
Business-type activities capital assets, net	<u>\$10,455,291</u>	<u>\$ 1,307,640</u>	<u>\$ -</u>	<u>\$11,762,931</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

General government	\$ 48,913
Security of persons and property	92,718
Transportation	581,428
Community environment	5,866
Leisure time activity	<u>88,162</u>
Total depreciation expense - governmental activities	<u>\$ 817,087</u>

NOTE 9 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

Vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten or more days of vacation per year, depending upon length of service. Vacation accumulation is limited to the amount earned in one year. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at different rates depending upon type of employment. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid 60 percent of accumulated, unused sick leave.

A. Insurance

The City provides health, prescription, dental, vision, life and accidental death and dismemberment insurance to its employees through Medical Mutual Insurance.

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

In 2004, the City entered into a capitalized lease for two copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases," 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 BFS for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment has been capitalized in the amount of \$18,858. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal and interest payments on the lease, totaling \$1,301 and \$611, respectively, were made out of the mayors' court computer fund during 2004.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2004.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2005	\$ 4,588
2006	4,589
2007	4,588
2008	4,589
2009	<u>2,677</u>
Total future minimum lease payments	21,031
Less: amount representing interest	<u>(3,474)</u>
Present value of future minimum lease payments	<u>\$ 17,557</u>

NOTE 11 - LEASE-PURCHASE AGREEMENT

On December 3, 2004, the City entered into a lease-purchase agreement with Huntington National Bank for the purchase of a datamatic fire-fly system. The source of revenue to fund the principal and interest payments is derived from the water and sewer fund. During 2004, the City made principal payments totaling \$62,708 on the lease-purchase agreement. The lease payments are recorded as expenditures in the water and sewer funds.

A liability in the amount of the present value of minimum lease payments has been recorded in the water and sewer funds.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of December 31, 2004.

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
	\$ 62,708
	62,708
2005	62,709
2006	<u>62,708</u>
2007	
2008	250,833
Total minimum lease payments	<u>(22,185)</u>
Less amount representing interest	<u>\$ 228,648</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS

A. The City's long term obligations at December 31, 2004 were as follows:

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
Governmental Activities			
Lewis Road Bonds - 1997	2.500%	\$ 36,000	12/01/07
Park Land Acquisition Bond - 2000	0.000%	536,000	12/01/04
Beer Property Bond	0.000%	331,665	12/01/08
Business-Type Activities			
OPWC Water Treatment Loan - 2000	0.000%	36,749	01/01/20
Sewer Improvement Bonds - 1993	4.250%	83,000	12/01/03
Sewer Improvement Bonds - 1988	6.810%	556,080	12/01/06
Lease-Purchase Agreement	3.800%	291,356	12/01/08

	Amounts				
	Balance <u>01/01/04</u>	Additions	Disposals	Balance <u>12/31/04</u>	Due in <u>One Year</u>
<u>Governmental activities:</u>					
Lewis Road Bonds 1997	\$ 14,400	\$ -	\$ (3,600)	\$ 10,800	\$ 3,600
Park Land Acquisition Bond 2000	201,000	-	(134,000)	67,000	33,500
Beer Property Bond	-	331,665	(66,333)	265,332	66,333
Capital Lease Payable	-	18,858	(1,301)	17,557	3,303
Compensated Absences	<u>228,136</u>	<u>10,103</u>	<u>(42,703)</u>	<u>195,536</u>	<u>49,854</u>
Total governmental activities	<u>\$ 443,536</u>	<u>\$ 360,626</u>	<u>\$(247,937)</u>	<u>\$ 556,225</u>	<u>\$ 156,590</u>
<u>Business-Type Activities:</u>					
OPWC Water Treatment Loan 2000	\$ 29,400	\$ -	\$ (1,837)	\$ 27,563	\$ 1,837
Sewer Improvement Note	87,803	-	(29,267)	58,536	29,267
Lease-Purchase Agreement	-	291,356	(62,708)	228,648	53,997
Compensated absences	<u>34,282</u>	<u>1,867</u>	<u>(6,843)</u>	<u>29,306</u>	<u>5,386</u>
Total business-type activities	<u>\$ 151,485</u>	<u>\$ 293,223</u>	<u>\$(100,655)</u>	<u>\$ 344,053</u>	<u>\$ 90,487</u>

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

The OPWC water treatment loan will all be paid from the water fund.

The Lewis Road Bonds were issued in 1997 for the purpose of road improvements. The Park Land Acquisition Bonds were issued in May 2000 by the City to four individuals for the purpose of acquiring real property adjacent to Marshall Park for recreational use. The first payment on the bonds was made in May of 2001 and the final was to be made in May of 2004. However, one individual did not redeem their bonds in both 2001 and 2002. The bonds will be redeemed in the next two years.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

On December 2, 2004, the City issued bonds to purchase the Beer property. These are non-interest bearing bonds. The Bonds will be paid from the capital improvement fund.

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

The Sewer Improvement Note was issued during June 1988. The note was intended to equalize investment between the City of Mansfield sewer users and the City of Ontario sewer users for the improvements made by the City of Mansfield to its treatment plant and collection system.

Compensated absences will be paid from the general fund, the street construction and maintenance and community drug and alcohol special revenue funds, and the water and sewer enterprise funds.

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2004 are as follows:

Year Ending <u>December 31</u>	<u>Lewis Road Bonds</u>			<u>Park Land Acquisition Bond</u>	<u>Beer Property Bonds</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Principal</u>
2005	\$ 3,600	\$ 540	\$ 4,140	\$ 33,500	\$ 66,333
2006	3,600	360	3,960	33,500	66,333
2007	3,600	180	3,780	-	66,333
2008	-	-	-	-	66,333
Total	<u>\$ 10,800</u>	<u>\$ 1,080</u>	<u>\$ 11,880</u>	<u>\$ 67,000</u>	<u>\$ 265,332</u>

Year Ending <u>December 31</u>	<u>OPWC Water Treatment Loan</u>	<u>Sewer Improvement Note</u>		
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,837	\$ 29,268	\$ 3,488	\$ 32,756
2006	1,837	29,268	1,495	30,763
2007	1,837	-	-	-
2008	1,837	-	-	-
2009	1,837	-	-	-
2010 - 2014	9,189	-	-	-
2015 - 2019	<u>9,189</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 27,563</u>	<u>\$ 58,536</u>	<u>\$ 4,983</u>	<u>\$ 63,519</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

B. As of December 31, 2004, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$26,427,852 and the unvoted legal debt margin was \$13,612,684.

NOTE 13 - NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2004, follows:

Business-Type Activities	<u>Outstanding</u> <u>01/01/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/04</u>
2.07% Water System Improvement Note	<u>\$ 2,000,000</u>	<u>\$ 1,500,000</u>	<u>\$ (2,000,000)</u>	<u>\$ 1,500,000</u>
	<u>\$ 2,000,000</u>	<u>\$ 1,500,000</u>	<u>\$ (2,000,000)</u>	<u>\$ 1,500,000</u>

The water system improvement note was used for constructing and equipping an addition to the City water treatment plant, and constructing an elevated water storage tank, together with all necessary appurtenances. The water system improvement note is backed by the full faith and credit of the City and matures within one year. The note liability is reflected in the fund which received the proceeds.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2004, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
General Liability	\$ 0	\$5,000,000/\$7,000,000
Employers Liability	0	5,000,000
Employee Benefits	0	1,000,000/3,000,000
Law Enforcement Officers Liability	2,500	5,000,000/7,000,000
Public Officials Liability	2,500	5,000,000/7,000,000
Automobile	0	1,000,000
Property	1,000	14,061,417
Special Property Coverage	1,000	932,002
Electronic Equipment/Media Coverage	500	109,638
Public Employee Dishonesty	0	25,000
Boiler and Machinery	1,000	14,061,417

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 14 - RISK MANAGEMENT - (Continued)

The City participates in the Ohio Association of Rural Water and Wastewater Systems Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of GRP is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating cities is calculated as one experience and a common premium rate is applied to all cities in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost controls, and actuarial services to the GRP.

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

All City full-time employees, other than uniformed employees, participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system created by the State of Ohio. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for 2004 was 8.5% for employees other than law enforcement and public safety. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. Public safety division members contribute at 9%. The employer contribution rate for employees other than law enforcement and public safety division was 13.55% of covered payroll and 9.55% was the portion used to fund pension obligations for 2004. The employer contribution rate for law enforcement and public safety divisions was 16.70% of covered payroll and 12.7% was the portion used to fund pension obligations for 2004. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2004, 2003, and 2002 were \$176,974, \$142,796, and \$102,513, respectively; 98.60% has been contributed for 2004 and 100% for 2003 and 2002. \$2,486, representing the unpaid contribution for 2004, is recorded as a liability within the respective funds.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The City's contributions to OP&F for the years ended December 31, 2004, 2003, and 2002 were \$184,874, \$116,600, and \$86,814, respectively; 72.20% has been contributed for 2004 and 100% for the years 2003 and 2002. \$51,389, representing the unpaid contributions for 2004, is recorded as a liability within the respective funds.

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The OPERS provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 1.00% and 6.00% annually for the next eight years and 4.00% annually after eight years.

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$52,243. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS's health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

The OP&F provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides that health care cost paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24.0% of covered payroll. The Ohio Revised Code provides the authority allowing OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2003 and 2004, respectively. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2003 (the latest information available), is 13,662 for police officers and 10,474 for firefighters. The amount of employer contributions used to pay postemployment benefits for police officers and firefighters was \$73,395. OP&F's total health care expense for the year ending December 31, 2003 (the latest information available), was \$150.853 million, which was net of member contributions of \$17.208 million.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance

	<u>General</u>	<u>25% Street Construction</u>
Budget basis	\$ 147,315	\$(838,361)
Net adjustment for revenue accruals	116,026	(27,174)
Net adjustment for expenditure accruals	(125,352)	30,406
Adjustment for encumbrances	<u>74,710</u>	<u>201,277</u>
GAAP basis	<u>\$ 212,699</u>	<u>\$(633,852)</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 18 - 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, 2004.

B. Litigation

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

JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County (the “City”) as of and for the year ended December 31, 2004, and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Members of Council and Mayor
City of Ontario

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Julian & Grube, Inc.
September 16, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
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Facsimile 614-466-4490

CITY OF ONTARIO

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 10, 2005**