

CITY OF ONTARIO, OHIO



Basic Financial Statements

December 31, 2016

PLATTENBURG
Certified Public Accountants



Dave Yost • Auditor of State

City Council
City of Ontario
555 Stumbo Road
Ontario, Ohio 44906

We have reviewed the *Independent Auditors' Report* of the City of Ontario, Richland County, prepared by Plattenburg & Associates, Inc., for the audit period January 1, 2016 through December 31, 2016. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

August 29, 2017

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CITY OF ONTARIO, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Ontario

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and 20% Street Construction Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of net pension liabilities and pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2017, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.
Plattenburg & Associates, Inc.
Cincinnati, Ohio
June 23, 2017

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

The management's discussion and analysis of the City of Ontario's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2016. 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 2016 are as follows:

- The total net position of the City decreased \$339,595. Net position of governmental activities decreased \$279,321 or 1.30% from 2015. Net position of business-type activities decreased \$60,274 or 0.37% from 2015 net position.
- General revenues accounted for \$6,159,391 or 83.84% of total governmental activities revenue. Program specific revenues accounted for \$1,187,235 or 16.16% of total governmental activities revenue.
- The City had \$7,623,476 in expenses related to governmental activities; \$1,187,235 of these expenses was offset by program specific charges for services, grants or contributions. The general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$6,159,391 were not adequate to provide the remaining expenses of the governmental activities of \$6,436,241.
- The general fund had revenues and other financing sources of \$4,682,860 in 2016. This represents an increase of \$409,996 from 2015 revenues. The expenditures and other financing uses of the general fund, which totaled \$4,196,655 in 2016, decreased \$282,290 from 2015. The net increase in fund balance for the general fund was \$486,205 or 10.17%.
- The 20% street construction fund had revenues and other financing sources of \$1,250,408 in 2016. The expenditures of the 20% street construction fund totaled \$992,992 in 2016. The net increase in fund balance for the 20% street construction fund was \$257,416.
- The debt service fund had revenues and other financing sources of \$3,186,436 in 2016. The expenditures and other financing uses of the debt service fund totaled \$3,093,082 in 2016. The net increase in fund balance for the debt service fund was \$93,354.
- Net position for the business-type activities, which are made up of the water and sewer enterprise funds, decreased in 2016 by \$60,274.

Using this Annual Financial Report

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

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

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

Reporting the City as a Whole

Statement of Net Position and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2016?" The statement of net position and the statement of activities answer this question. These statements include all *assets, deferred outflows, liabilities, deferred inflows, revenues and expenses (excluding fiduciary funds)* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The City's statement of net position and statement of activities can be found on pages 19-21 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 12.

Governmental Funds

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

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (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, the 20% street construction fund and the debt service 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 22-28 of this report.

Proprietary Funds

The City maintains proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Both of the City's enterprise funds are considered major funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its self-insurance programs for medical-related employee benefits. The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statement can be found on page 32 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 33-78 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 80-86 of this report.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

Government-Wide Financial Analysis

The statement of net position provides the perspective of the City as a whole. The table below provides a summary of the City's net position at December 31, 2016 and December 31, 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current assets	\$ 9,497,238	\$ 8,294,051	\$ 5,100,374	\$ 4,795,627	\$ 14,597,612	\$ 13,089,678
Capital assets, net	20,288,587	21,109,165	15,100,282	15,697,332	35,388,869	36,806,497
Total assets	29,785,825	29,403,216	20,200,656	20,492,959	49,986,481	49,896,175
Deferred outflows of resources						
Unamortized deferred charges	143,772	-	-	-	143,772	-
Pension	1,461,760	559,665	162,146	54,907	1,623,906	614,572
Total deferred outflows of resources	1,605,532	559,665	162,146	54,907	1,767,678	614,572
Liabilities						
Current liabilities	215,624	1,758,345	163,049	2,732,290	378,673	4,490,635
Long-term liabilities:						
Due within one year	263,369	233,923	180,263	54,068	443,632	287,991
Net pension liability	5,114,398	3,930,394	3,181,427	301,302	8,295,825	4,231,696
Other amounts	3,556,537	1,984,899	416,705	985,359	3,973,242	2,970,258
Total liabilities	9,149,928	7,907,561	3,941,444	4,073,019	13,091,372	11,980,580
Deferred inflows of resources						
Property taxes and PILOTs	973,951	544,510	-	-	973,951	544,510
Pension	59,785	23,796	12,854	6,069	72,639	29,865
Total deferred inflows of resources	1,033,736	568,306	12,854	6,069	1,046,590	574,375
Net Position						
Net investment in capital assets	17,067,662	17,780,785	11,831,835	12,242,746	28,899,497	30,023,531
Restricted	802,596	459,888	-	-	802,596	459,888
Unrestricted	3,337,435	3,246,341	4,576,669	4,226,032	7,914,104	7,472,373
Total net position	\$ 21,207,693	\$ 21,487,014	\$ 16,408,504	\$ 16,468,778	\$ 37,616,197	\$ 37,955,792

The City has adopted Governmental Accounting Standards Board (GASB) Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27" and GASB Statement 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68" which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the City's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the City's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the City is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2016, the City's total assets and deferred outflows exceeded liabilities and deferred inflows by \$37,616,197. At year-end, net positions were \$21,207,693 and \$16,408,504 for the governmental activities and the business-type activities, respectively.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year-end, capital assets represented 70.80% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Net investment in capital assets to acquire the assets at December 31, 2016, were \$17,067,662 and \$11,831,835 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, 2016, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net position, \$802,596, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net position of \$3,337,435 may be used to meet the City's ongoing obligations to citizens and creditors.

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CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

The table below shows the changes in net position for 2016 and 2015.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 760,256	\$ 618,638	\$ 2,625,405	\$ 2,174,159	\$ 3,385,661	\$ 2,792,797
Operating grants and contributions	<u>426,979</u>	<u>690,374</u>	<u>-</u>	<u>-</u>	<u>426,979</u>	<u>690,374</u>
Total program revenues	<u>1,187,235</u>	<u>1,309,012</u>	<u>2,625,405</u>	<u>2,174,159</u>	<u>3,812,640</u>	<u>3,483,171</u>
General revenues:						
Property taxes	472,735	433,220	-	-	472,735	433,220
Income taxes	5,144,317	4,556,506	-	-	5,144,317	4,556,506
Unrestricted grants	160,292	182,759	-	-	160,292	182,759
Payments in lieu of taxes	276,449	193,396	-	-	276,449	193,396
Interest	65,891	77,870	-	-	65,891	77,870
Increase (Decrease) in fair market value of investments	(6,536)	1,493	-	-	(6,536)	1,493
Miscellaneous	<u>46,243</u>	<u>104,606</u>	<u>5,456</u>	<u>59,658</u>	<u>51,699</u>	<u>164,264</u>
Total general revenues	<u>6,159,391</u>	<u>5,549,850</u>	<u>5,456</u>	<u>59,658</u>	<u>6,164,847</u>	<u>5,609,508</u>
Total revenues	<u>7,346,626</u>	<u>6,858,862</u>	<u>2,630,861</u>	<u>2,233,817</u>	<u>9,977,487</u>	<u>9,092,679</u>
Expenses:						
General government	1,727,858	1,703,237	-	-	1,727,858	1,703,237
Security of persons and property	2,956,277	2,510,419	-	-	2,956,277	2,510,419
Public health and welfare	9,973	6,010	-	-	9,973	6,010
Transportation	2,529,679	3,067,101	-	-	2,529,679	3,067,101
Community environment	32,053	29,423	-	-	32,053	29,423
Leisure time activity	234,172	255,488	-	-	234,172	255,488
Interest and fiscal charges	133,464	69,702	-	-	133,464	69,702
Water	-	-	1,007,281	960,489	1,007,281	960,489
Sewer	-	-	1,686,325	1,543,290	1,686,325	1,543,290
Total expenses	<u>7,623,476</u>	<u>7,641,380</u>	<u>2,693,606</u>	<u>2,503,779</u>	<u>10,317,082</u>	<u>10,145,159</u>
Transfers	<u>(2,471)</u>	<u>(508,016)</u>	<u>2,471</u>	<u>508,016</u>	<u>-</u>	<u>-</u>
Change in net position	(279,321)	(1,290,534)	(60,274)	238,054	(339,595)	(1,052,480)
Net position at beginning of year	<u>21,487,014</u>	<u>22,777,548</u>	<u>16,468,778</u>	<u>16,230,724</u>	<u>37,955,792</u>	<u>39,008,272</u>
Net position at end of year	<u>\$ 21,207,693</u>	<u>\$ 21,487,014</u>	<u>\$ 16,408,504</u>	<u>\$ 16,468,778</u>	<u>\$ 37,616,197</u>	<u>\$ 37,955,792</u>

GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2016 statements report pension expense of \$761,681.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

Governmental Activities

Governmental activities net position decreased \$279,321 in 2016.

Total governmental expenses decreased \$17,904 from 2015, which is attributed primarily to a decrease in transportation expenses for the maintenance and repair of streets from 2015 to 2016.

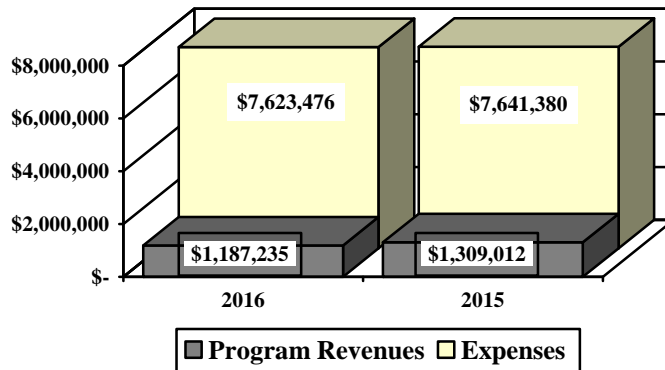
Security of persons and property, which primarily supports the operations of the police department accounted for \$2,956,277 of the total expenses of the City. These expenses were partially funded by \$252,136 in direct charges to users of the services and \$3,960 in operating grants and contributions. Transportation expenses totaled \$2,529,679. Transportation expenses were partially funded by \$28,226 in direct charges to users of the services and \$423,019 in operating grants and contributions.

The state and federal government contributed to the City \$426,979 in operating grants and contributions. These revenues are restricted to a particular program or purpose. \$423,019 of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$6,159,391, and amounted to 83.84% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$5,617,052. The other primary source of general revenues is payments in lieu of taxes making up \$276,449.

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

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

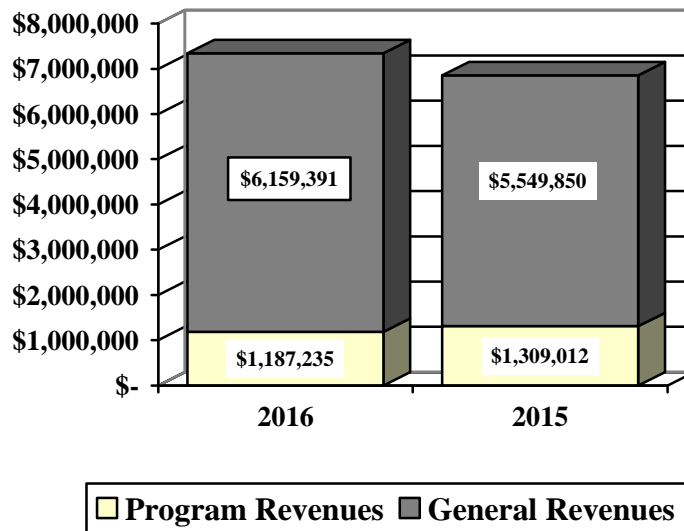
Governmental Activities

	Total Cost of Services 2016	Net Cost of Services 2016	Total Cost of Services 2015	Net Cost of Services 2015
Program Expenses:				
General government	\$ 1,727,858	\$ 1,277,256	\$ 1,703,237	\$ 1,352,959
Security of persons and property	2,956,277	2,700,181	2,510,419	2,266,425
Public health and welfare	9,973	(1,767)	6,010	(2,810)
Transportation	2,529,679	2,078,434	3,067,101	2,378,407
Community environment	32,053	32,053	29,423	29,423
Leisure time activity	234,172	216,620	255,488	238,262
Interest and fiscal charges	133,464	133,464	69,702	69,702
Total Expenses	\$ 7,623,476	\$ 6,436,241	\$ 7,641,380	\$ 6,332,368

The dependence upon general revenues for governmental activities is apparent, with 84.43% of expenses supported through taxes and other general revenues.

The chart below illustrates the City's general revenues and program revenues for 2016 and 2015.

Governmental Activities - General and Program Revenues



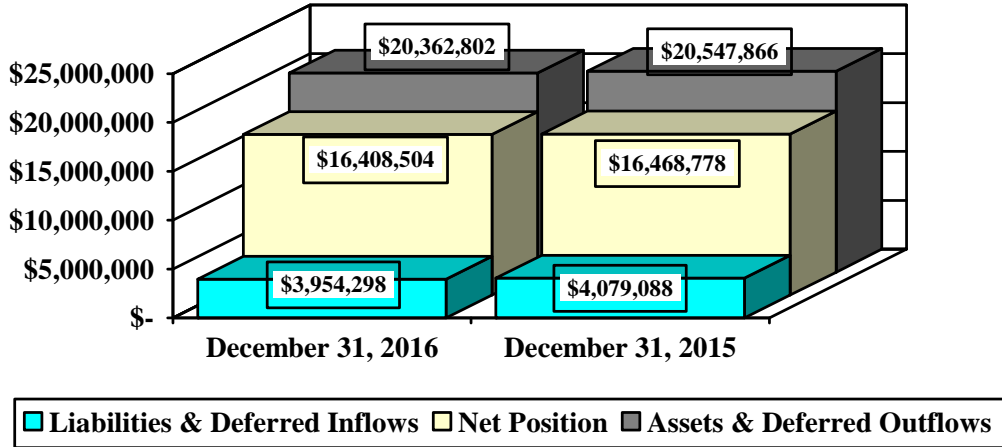
Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$2,625,405, general revenues of \$5,456, transfers in of \$2,471 and expenses of \$2,693,606 for 2016. The graph on the following page shows the business-type activities assets, liabilities, and net position at year-end.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

Net Position in Business - type Activities



Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unrestricted 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 22) reported a combined fund balance of \$7,419,877 which is \$2,590,023 more than last year's total of \$4,829,854.

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2016 for all major and nonmajor governmental funds.

	Fund Balances 12/31/16	Fund Balances 12/31/15	<u>Increase</u>
Major funds:			
General	\$ 5,264,719	\$ 4,778,514	\$ 486,205
20% Street Construction	614,268	356,852	257,416
Debt Service	128,305	34,951	93,354
Other nonmajor governmental funds	<u>1,412,585</u>	<u>(340,463)</u>	<u>1,753,048</u>
Total	<u>\$ 7,419,877</u>	<u>\$ 4,829,854</u>	<u>\$ 2,590,023</u>

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

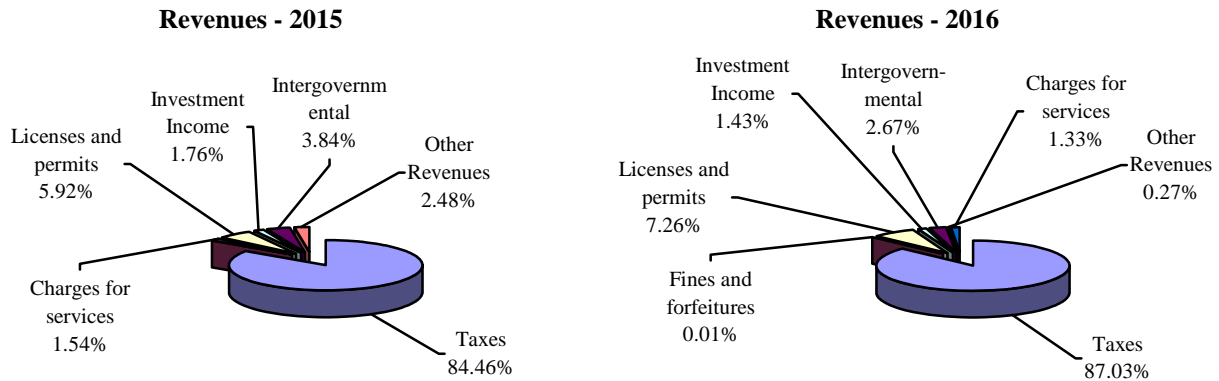
General Fund

The City's general fund balance increased \$486,205. The table that follows assists in illustrating the revenues of the general fund.

	<u>2016 Amount</u>	<u>2015 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 4,060,559	\$ 3,538,803	14.74 %
Charges for services	62,218	64,380	(3.36) %
Licenses, permits and fees	338,068	248,141	36.24 %
Fines and forfeitures	350	-	100.00 %
Investment income	66,871	73,794	(9.38) %
Increase (decrease) in fair market value of investments	(6,536)	1,493	(537.78) %
Intergovernmental	126,071	161,063	(21.73) %
Other	<u>12,787</u>	<u>103,850</u>	(87.69) %
Total	<u>\$ 4,660,388</u>	<u>\$ 4,191,524</u>	11.19 %

Tax revenue represents 87.03% of all general fund revenue. Intergovernmental revenue decreased due to a decrease in state shared revenues. Investment income decreased 9.38% as a result of a fluctuation in interest rates. The decrease in the fair market value of investments was a result of decreasing market values of the federal agency securities. The City intends to hold the federal agency securities to maturity. Licenses, permits and fees increased 36.24% due to franchise cable fees received by the City being reclassified on a cash basis from other revenue to licenses, permits and fees during 2016.

The following charts illustrate the general fund revenues for 2016 and 2015.



CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

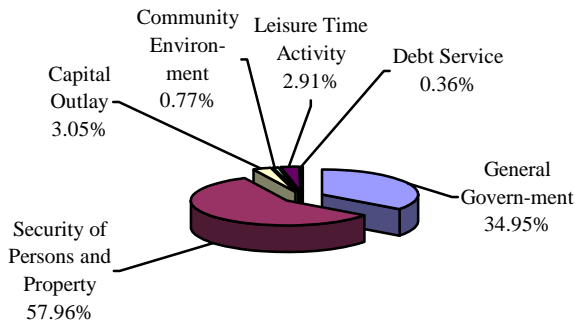
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2016</u> <u>Amount</u>	<u>2015</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,246,675	\$ 1,342,553	(7.14) %
Security of persons and property	2,333,371	2,226,398	4.80 %
Community environment	30,550	29,782	2.58 %
Leisure time activity	94,413	111,763	(15.52) %
Capital outlay	75,068	117,078	(35.88) %
Debt service	80,410	13,689	487.41 %
Total	<u>\$ 3,860,487</u>	<u>\$ 3,841,263</u>	0.50 %

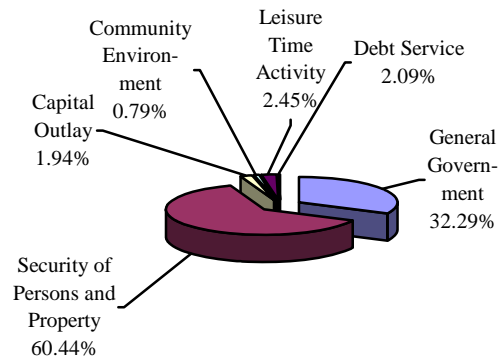
The largest expenditure line items are security of persons and property and general government. These two expenditures account for 92.74% of total general fund expenditures. Security of persons and property increased 4.80% due to an increase in police insurance expenditures. Leisure time activities decreased 15.52% primarily due to a decrease in park maintenance expenditures. Capital outlay expenditures decreased due in part to a decrease in projects and asset additions throughout the City.

The following charts illustrate the general fund expenditures for 2016 and 2015.

Expenditures - 2015



Expenditures - 2016



20% Street Construction Fund

The 20% street construction fund had revenues and other financing sources of \$1,250,408 in 2016. The expenditures of the 20% street construction fund totaled \$992,992 in 2016. The net increase in fund balance for the 20% street construction fund was \$257,416 or 72.14%.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)

Debt Service Fund

The debt service fund had revenues and other financing sources of \$3,186,436 in 2016. The expenditures and other uses of the debt service fund totaled \$3,093,082 in 2016. The net increase in fund balance for the debt service fund was \$93,354 or 267.10%. The primary reason for the increase in other financing sources and uses from 2015 to 2016 is due to the City issuing refunding and improvement bonds of \$2,515,000 in the governmental funds. Revenues related to payments in lieu of taxes increased \$83,053 from 2015. This is due to the City receiving four additional payments in lieu of taxes from new agreements that took effect during 2016.

Budgeting Highlights - General Fund

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

In the general fund, original budgeted revenues of \$4,305,150 were the same as final budgeted revenues. Actual revenues of \$4,630,562 were \$325,412 more than final budgeted revenues. Original budgeted expenditures and other financing uses were \$4,520,875 and final budgeted expenditures and other financing uses were \$4,570,875. Actual expenditures and other financing uses of \$4,307,654 were \$263,221 lower than final budgeted expenditures and other financing uses.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of 2016, the City had \$35,388,869 (net of accumulated depreciation) invested in land, easements, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Of this total, \$20,288,587 was reported in governmental activities and \$15,100,282 was reported in business-type activities. The following table shows 2016 balances compared to 2015:

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

	<u>Governmental Activities</u>		<u>Business - type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 2,492,488	\$ 2,492,488	\$ 262,626	\$ 262,626	\$ 2,755,114	\$ 2,755,114
Easements	19,705	19,705	-	-	19,705	19,705
Land improvements	713,048	782,372	22,712	6,326	735,760	788,698
Buildings and improvements	1,016,407	1,080,572	3,301,875	3,424,628	4,318,282	4,505,200
Furniture and equipment	400,593	574,465	814,239	871,922	1,214,832	1,446,387
Vehicles	616,621	604,066	-	-	616,621	604,066
Infrastructure	<u>15,029,725</u>	<u>15,555,497</u>	<u>10,698,830</u>	<u>11,131,830</u>	<u>25,728,555</u>	<u>26,687,327</u>
Totals	<u>\$ 20,288,587</u>	<u>\$ 21,109,165</u>	<u>\$ 15,100,282</u>	<u>\$ 15,697,332</u>	<u>\$ 35,388,869</u>	<u>\$ 36,806,497</u>

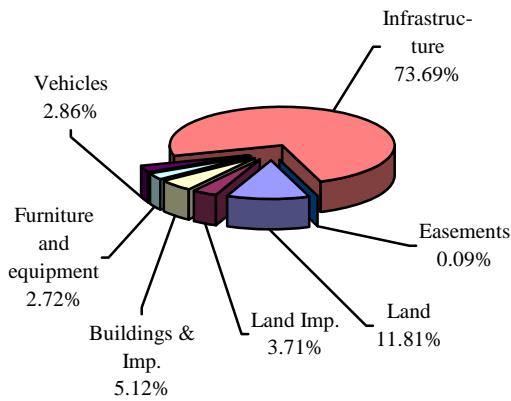
CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016
(UNAUDITED)**

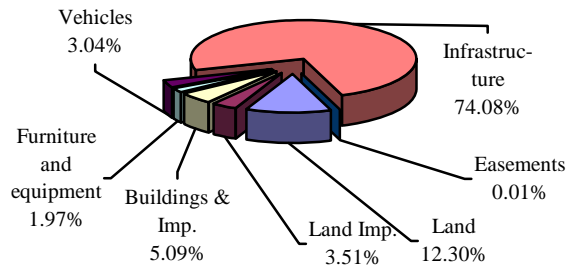
The City's largest governmental activities capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 74.08% of the City's total governmental capital assets.

The following graphs show the breakdown of governmental capital assets by category for 2016 and 2015.

Capital Assets - Governmental Activities 2015



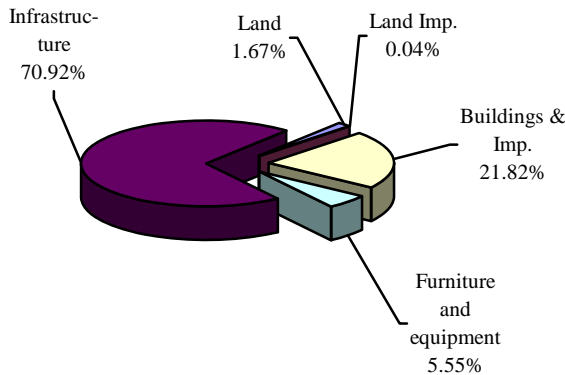
Capital Assets - Governmental Activities 2016



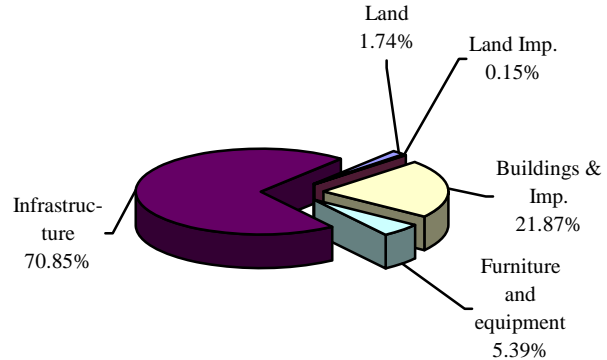
The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 70.85% of the City's total business-type capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2016 and 2015.

Capital Assets - Business-type Activities 2015



Capital Assets - Business-type Activities 2016



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

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2016 and 2015:

	Governmental activities	
	2016	2015
General obligation bonds	\$ 2,780,000	\$ 1,495,000
Capital leases payable	<u>210,764</u>	<u>319,456</u>
Total long-term obligations	<u>\$ 2,990,764</u>	<u>\$ 1,814,456</u>

	Business-type activities	
	2016	2015
OPWC loans	\$ 914,950	\$ 954,956
General obligation bonds	<u>2,075,000</u>	<u>-</u>
Total long-term obligations	<u>\$ 2,989,950</u>	<u>\$ 954,956</u>

See Note 13 to the basic financial statements for additional information on the City's long-term obligations.

Economic Conditions and Outlook

The City of Ontario strives to create a business-friendly environment for both existing and new businesses. Regardless if the type of business is manufacturing, healthcare, energy, service or retail-oriented, the area offers unique advantages to benefit the business. The City thrives as the retail center of Richland County and draws regionally from a five-county area. Ontario is located conveniently between Columbus and Cleveland, with several main routes in and out of the city offering easy access to all directions. The City also is beneficially located to take advantage of three major airports: Cleveland, Columbus, and Akron-Canton.

The City offers several economic development tools to attract business and industry. The Job Creation Tax Credit (JCTC) pursuant to Ohio law may be offered to entities who agree to make a capital investment to create and/or retain jobs. Additionally, the City actively promotes economic development by offering retention and expansion support and assistance for those businesses already located in the community. The Ohio Community Reinvestment Area program provides property tax exemptions for property owners who renovate existing or construct new buildings. These programs are designed to help offset the high cost of business start-up activities as well as assist existing businesses to grow and remain competitive in the long-term.

During 2016, Ontario has made several improvements. In the park system, the Maize Memorial Dog Park has become very popular, drawing visitors from several counties. Many trees were planted and playground equipment has been added to the parks. A disc-golf course is being constructed adjacent to the dog park and will be ready soon. Ontario was also able to continue the annual paving project and made numerous enhancements to the infrastructure. Marketing and development continues for the Ontario Triangle complex which features the new TownePlace Suites by Marriott. Opening in 2016, this 86-room extended-stay hotel, in conjunction with the City, developed 67 acres of excellent retail property.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2016 (UNAUDITED)

The former Lazarus building at the Richland Mall was purchased by Avita Health System and opened "Avita Ontario", a state-of-the-art multi-specialty medical facility in the fall of 2014. The medical center offers 40 primary care providers and 60 medical specialists surrounded by specialty service lines such as outpatient diagnostic and treatment services including lab, imaging, endoscopy and pharmacy. The health care complex will continue to build up the 17-acre lot in phases, with phase 2 to include a 23-bed emergency department with a helipad, surgery care, inpatient hospital beds and a critical care unit. The cardiology services are also being expanded to include a cardiac catheterization lab and cardiac rehab area. This phase totals \$26 million and covers 94,000 square feet. The project will create at least 350 new jobs when it opens by early 2017.

The City is staying motivated and energized for changes in the area. Construction on the Beer Road Industrial Park roadway is complete enabling FedEx to develop more than 31 acres and build a \$10 million 165,000 square foot packaging and distribution center. The industrial park continues to develop. In cooperation with the Ontario Growth Corporation, the City works to attract new business. The Department of Zoning reported 16 new businesses in 2016 and dealt with more than \$34 million in new construction, alterations, and additions. About \$6 million in construction permits were for OhioHealth, which plans to build a free-standing emergency department in 2017. The Maple Ridge Villas applied for \$5 million in permits and phase 1 construction began on 23 buildings in the new housing development.

The Ohio State University branch has completed three of the five on-campus new student housing units, "Buckeye Village". The complex is located on Lexington-Springmill Road north of Meijer's. OSU and North Central State College, which share the campus, are planning to move the main entrance near Buckeye Village. This demonstrates the dedication both colleges have to our community and we look forward to partnering with them. The City recently extended the sidewalks approximately one mile to this "Campus District". The goal is to have a walkable community with a "town center" concept. A zoning plan for the Walker-Lake and Lexington-Springmill Road area has been completed.

Ontario has a very promising future. Working hand-in-hand with the Ontario Growth Association and Make it Ontario - Ontario Growth Corporation, we believe that the City will see great progress. With the addition of the new businesses and the development of the Beer Road Industrial Park, it shows that Ontario is a great place to live, work, raise a family and grow a business.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Ann Hellinger, City Auditor, City of Ontario, 555 Stumbo Road, Ontario, Ohio 44906.

CITY OF ONTARIO, OHIO
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 6,731,311	\$ 4,403,326	\$ 11,134,637
Cash in segregated accounts	26,458	-	26,458
Receivables (net of allowance for uncollectibles):			
Income taxes	1,185,931	-	1,185,931
Real and other local taxes	373,865	-	373,865
Accounts	104,096	571,007	675,103
Special assessments	359	-	359
Accrued interest	9,886	-	9,886
Intergovernmental	200,290	-	200,290
Payment in lieu of taxes	640,964	-	640,964
Prepayments	85,974	-	85,974
Materials and supplies inventory	116,839	139,307	256,146
Net pension asset	6,338	1,661	7,999
Internal balance	14,927	(14,927)	-
Capital assets:			
Nondepreciable assets	2,512,193	262,626	2,774,819
Depreciable capital assets, net	17,776,394	14,837,656	32,614,050
Total capital assets, net	<u>20,288,587</u>	<u>15,100,282</u>	<u>35,388,869</u>
Total assets	<u>29,785,825</u>	<u>20,200,656</u>	<u>49,986,481</u>
Deferred outflows of resources:			
Unamortized deferred charges on debt refunding	143,772	-	143,772
Pension - OPERS	618,678	162,146	780,824
Pension - OP&F	843,082	-	843,082
Total deferred outflows of resources	<u>1,605,532</u>	<u>162,146</u>	<u>1,767,678</u>
Liabilities:			
Accounts payable	2,249	-	2,249
Accrued wages and benefits payable	71,051	8,806	79,857
Intergovernmental payable	80,761	148,174	228,935
Accrued interest payable	8,376	6,069	14,445
Claims payable	53,187	-	53,187
Long-term liabilities:			
Due within one year	263,369	180,263	443,632
Due in more than one year	3,556,537	3,181,427	6,737,964
Net pension liability	<u>5,114,398</u>	<u>416,705</u>	<u>5,531,103</u>
Total liabilities	<u>9,149,928</u>	<u>3,941,444</u>	<u>13,091,372</u>
Deferred inflows of resources:			
Property taxes levied for the next fiscal year	973,951	-	973,951
Pension - OPERS	49,046	12,854	61,900
Pension - OP&F	10,739	-	10,739
Total deferred inflows of resources	<u>1,033,736</u>	<u>12,854</u>	<u>1,046,590</u>
Net position:			
Net investment in capital assets	17,067,662	11,831,835	28,899,497
Restricted for:			
Debt service	120,288	-	120,288
Transportation improvement projects	548,943	-	548,943
Court computerization	10,808	-	10,808
Cemetery	40,946	-	40,946
Other purposes	81,611	-	81,611
Unrestricted	<u>3,337,435</u>	<u>4,576,669</u>	<u>7,914,104</u>
Total net position	<u>\$ 21,207,693</u>	<u>\$ 16,408,504</u>	<u>\$ 37,616,197</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

		Program Revenues	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions
Governmental activities:			
Current:			
General government	\$ 1,727,858	\$ 450,602	\$ -
Security of persons and property	2,956,277	252,136	3,960
Public health and welfare	9,973	11,740	-
Transportation	2,529,679	28,226	423,019
Community environment	32,053	-	-
Leisure time activity	234,172	17,552	-
Interest and fiscal charges	133,464	-	-
Total governmental activities	7,623,476	760,256	426,979
Business-type activities:			
Water	1,007,281	988,670	-
Sewer	1,686,325	1,636,735	-
Total business-type activities	2,693,606	2,625,405	-
Total primary government	\$ 10,317,082	\$ 3,385,661	\$ 426,979

General revenues:

Property taxes levied for:
General purposes
Police pension
Capital outlay
Income taxes levied for:
General purposes
Special revenue
Capital projects
Grants and entitlements not restricted
to specific programs
Payments in lieu of taxes
Investment earnings
Decrease in fair market value of investments
Miscellaneous
 Total general revenues
 Transfers
 Change in net position
 Net position at beginning of year
 Net position at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Governmental Activities	Business-type Activities	Total
\$ (1,277,256)	\$ -	\$ (1,277,256)
(2,700,181)	-	(2,700,181)
1,767	-	1,767
(2,078,434)	-	(2,078,434)
(32,053)	-	(32,053)
(216,620)	-	(216,620)
(133,464)	-	(133,464)
<u>(6,436,241)</u>	<u>-</u>	<u>(6,436,241)</u>
-	(18,611)	(18,611)
-	(49,590)	(49,590)
-	<u>(68,201)</u>	<u>(68,201)</u>
<u>(6,436,241)</u>	<u>(68,201)</u>	<u>(6,504,442)</u>
343,018	-	343,018
18,322	-	18,322
111,395	-	111,395
3,592,985	-	3,592,985
1,206,592	-	1,206,592
344,740	-	344,740
160,292	-	160,292
276,449	-	276,449
65,891	-	65,891
(6,536)	-	(6,536)
46,243	5,456	51,699
<u>6,159,391</u>	<u>5,456</u>	<u>6,164,847</u>
<u>(2,471)</u>	<u>2,471</u>	<u>-</u>
(279,321)	(60,274)	(339,595)
<u>21,487,014</u>	<u>16,468,778</u>	<u>37,955,792</u>
<u>\$ 21,207,693</u>	<u>\$ 16,408,504</u>	<u>\$ 37,616,197</u>

CITY OF ONTARIO, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General	20% Street Construction	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and investments	\$ 4,826,504	\$ 484,249	\$ 128,305	\$ 1,292,253	\$ 6,731,311
Cash in segregated accounts	-	-	-	26,458	26,458
Receivables (net of allowance for uncollectibles):					
Income taxes	830,152	276,717	-	79,062	1,185,931
Real and other local taxes	315,201	-	-	58,664	373,865
Accounts	102,736	-	-	1,360	104,096
Accrued interest	9,013	-	-	873	9,886
Special assessments	-	-	359	-	359
Intergovernmental	46,171	-	-	154,119	200,290
Payments in lieu of taxes	-	-	640,964	-	640,964
Due from other funds	55,860	-	-	-	55,860
Prepayments	85,974	-	-	-	85,974
Materials and supplies inventory	8,136	60,056	-	48,647	116,839
Total assets	<u>\$ 6,279,747</u>	<u>\$ 821,022</u>	<u>\$ 769,628</u>	<u>\$ 1,661,436</u>	<u>\$ 9,531,833</u>
Liabilities:					
Accounts payable	\$ 2,249	\$ -	\$ -	\$ -	\$ 2,249
Accrued wages and benefits payable	60,319	10,288	-	444	71,051
Intergovernmental payable	43,924	12,653	-	24,184	80,761
Claims payable	1,548	-	-	-	1,548
Total liabilities	<u>108,040</u>	<u>22,941</u>	<u>-</u>	<u>24,628</u>	<u>155,609</u>
Deferred inflows of resources:					
Property taxes levied for the next fiscal year	287,075	-	640,964	45,912	973,951
Delinquent property tax revenue not available	23,201	-	-	3,711	26,912
Accrued interest not available	2,946	-	-	500	3,446
Special assessments revenue not available	-	-	359	-	359
Income tax revenue not available	551,439	183,813	-	52,518	787,770
Nonexchange transactions	42,327	-	-	121,582	163,909
Total deferred inflows of resources	<u>906,988</u>	<u>183,813</u>	<u>641,323</u>	<u>224,223</u>	<u>1,956,347</u>
Fund balances:					
Nonspendable	94,110	60,056	-	48,647	202,813
Restricted	-	-	128,305	592,356	720,661
Committed	-	554,212	-	771,582	1,325,794
Assigned	425,050	-	-	-	425,050
Unassigned	4,745,559	-	-	-	4,745,559
Total fund balances	<u>5,264,719</u>	<u>614,268</u>	<u>128,305</u>	<u>1,412,585</u>	<u>7,419,877</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,279,747</u>	<u>\$ 821,022</u>	<u>\$ 769,628</u>	<u>\$ 1,661,436</u>	<u>\$ 9,531,833</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2016

Total governmental fund balances	\$	7,419,877
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		20,288,587
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.		
Real and other local taxes receivable	\$ 26,912	
Income taxes receivable	787,770	
Accrued interest receivable	3,446	
Special assessments receivable	359	
Intergovernmental receivable	163,909	
Total		982,396
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		(107,499)
An internal balance is recorded in governmental activities to reflect underpayments to the internal service funds by the business-type activities.		14,927
Unamortized deferred amounts on refundings are not recognized in the governmental funds.		143,772
Unamortized bond discounts are not recognized in the governmental funds.		2,367
Unamortized bond premiums are not recognized in the governmental funds.		(376,300)
The net pension asset and net pension liability are not available to pay for current period expenditures and are not due and payable in the current period, respectively; therefore, the asset, the liability and related deferred inflows/outflows are not reported in governmental funds.		
Net pension asset	6,338	
Deferred outflows of resources	1,461,760	
Deferred inflows of resources	(59,785)	
Net pension liability	(5,114,398)	
Total		(3,706,085)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued interest payable	(8,376)	
Compensated absences payable	(455,209)	
Capital lease payable	(210,764)	
General obligation bonds payable	(2,780,000)	
Total		(3,454,349)
Net position of governmental activities	\$	21,207,693

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, 2016

	<u>General</u>	<u>20% Street Construction</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$ 3,717,017	\$ 1,247,936	\$ -	\$ 356,553	\$ 5,321,506
Real and other local taxes	343,542	-	-	130,107	473,649
Charges for services	62,218	-	-	29,292	91,510
Licenses, permits and fees	338,068	-	-	40,258	378,326
Fines and forfeitures	350	-	-	288,638	288,988
Intergovernmental	126,071	-	-	445,370	571,441
Special assessments	-	-	5,424	-	5,424
Payments in lieu of taxes	-	-	276,449	-	276,449
Investment income	66,871	-	-	12,316	79,187
Other	12,787	1,648	7,500	23,357	45,292
Decrease in fair market value of investments	(6,536)	-	-	-	(6,536)
Total revenues	<u>4,660,388</u>	<u>1,249,584</u>	<u>289,373</u>	<u>1,325,891</u>	<u>7,525,236</u>
Expenditures:					
Current:					
General government	1,246,675	-	71,584	293,271	1,611,530
Security of persons and property	2,333,371	-	-	258,627	2,591,998
Public health and welfare	-	-	-	9,973	9,973
Transportation	-	935,018	-	411,677	1,346,695
Community environment	30,550	-	-	-	30,550
Leisure time activity	94,413	-	-	46,933	141,346
Capital outlay	75,068	-	-	413,103	488,171
Debt service:					
Principal retirement	80,112	51,052	85,000	-	216,164
Interest and fiscal charges	298	6,922	55,852	7,289	70,361
Bond issuance costs	-	-	62,230	-	62,230
Total expenditures	<u>3,860,487</u>	<u>992,992</u>	<u>274,666</u>	<u>1,440,873</u>	<u>6,569,018</u>
Excess (deficiency) of revenues over (under) expenditures	<u>799,901</u>	<u>256,592</u>	<u>14,707</u>	<u>(114,982)</u>	<u>956,218</u>
Other financing sources (uses):					
Bond issuance	-	-	2,515,000	-	2,515,000
Payment to refunded bond escrow agent	-	-	(1,283,259)	-	(1,283,259)
Capital lease transaction	22,472	-	-	-	22,472
Transfers in	-	824	-	1,868,030	1,868,854
Transfers (out)	(336,168)	-	(1,535,157)	-	(1,871,325)
Premium on bond issuance	-	-	382,063	-	382,063
Total other financing sources (uses)	<u>(313,696)</u>	<u>824</u>	<u>78,647</u>	<u>1,868,030</u>	<u>1,633,805</u>
Net change in fund balances	486,205	257,416	93,354	1,753,048	2,590,023
Fund balances (deficit) at beginning of year	<u>4,778,514</u>	<u>356,852</u>	<u>34,951</u>	<u>(340,463)</u>	<u>4,829,854</u>
Fund balances at end of year	<u>\$ 5,264,719</u>	<u>\$ 614,268</u>	<u>\$ 128,305</u>	<u>\$ 1,412,585</u>	<u>\$ 7,419,877</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, 2016

Net change in fund balances - total governmental funds	\$	2,590,023
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense in the current period.		
Capital asset additions	\$	666,909
Current year depreciation		<u>(1,399,766)</u>
Total		(732,857)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
		(87,721)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Real and other local taxes		(914)
Income taxes		(177,189)
Investment income		(540)
Special assessments		(3,112)
Intergovernmental revenues		<u>2,851</u>
Total		(178,904)
Capital lease obligations are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net position.		
		(22,472)
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 position.		
		216,164
Premiums on general obligation bonds are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(382,063)
Issuance of general obligation bonds are recognized as other financing sources in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(2,515,000)
Payment to refunding bond escrow agent for the retirement of bonds is an other financing use in the governmental funds but the payment reduces long-term liabilities on the statement of net position. Deferred charges related to bond refunding are amortized over the life of the issuance in the statement of activities. The following refunding transactions occurred during the year:		
General obligation bonds refunded		1,145,000
Unamortized discount on general obligation bonds refunded		(7,832)
Deferred charges on refunding		<u>146,091</u>
Total		1,283,259

--Continued

CITY OF ONTARIO, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2016

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

Increase in accrued interest	\$	(3,528)	
Amortization of bond premium		5,763	
Amortization of deferred amounts on refunding		(2,319)	
Amortization of discount on bond issuance		(789)	
Total		(873)	(873)

Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows. 391,706

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. (708,156)

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. (39,855)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the government-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (92,572)

Change in net position of governmental activities \$ (279,321)

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, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 3,479,693	\$ 3,479,693	\$ 3,742,711	\$ 263,018
Real and other local taxes.	321,204	321,204	345,483	24,279
Licenses, permits and fees.	309,101	309,101	332,465	23,364
Fines and forfeitures	325	325	350	25
Intergovernmental.	117,835	117,835	126,742	8,907
Investment income.	65,475	65,475	70,424	4,949
Other	11,517	11,517	12,387	870
Total revenues	<u>4,305,150</u>	<u>4,305,150</u>	<u>4,630,562</u>	<u>325,412</u>
Expenditures:				
Current:				
General government	1,667,574	1,675,256	1,383,019	292,237
Security of persons and property	2,450,316	2,450,316	2,406,759	43,557
Community environment	31,675	31,675	30,452	1,223
Leisure time activity	118,500	110,818	98,660	12,158
Capital outlay	-	-	52,596	(52,596)
Total expenditures	<u>4,268,065</u>	<u>4,268,065</u>	<u>3,971,486</u>	<u>296,579</u>
Excess of expenditures over revenues	<u>37,085</u>	<u>37,085</u>	<u>659,076</u>	<u>621,991</u>
Other financing (uses):				
Transfers (out).	(252,810)	(302,810)	(336,168)	(33,358)
Total other financing (uses)	<u>(252,810)</u>	<u>(302,810)</u>	<u>(336,168)</u>	<u>(33,358)</u>
Net change in fund balances	(215,725)	(265,725)	322,908	588,633
Fund balance at beginning of year.	<u>4,566,215</u>	<u>4,566,215</u>	<u>4,566,215</u>	<u>-</u>
Fund balance at end of year	<u>\$ 4,350,490</u>	<u>\$ 4,300,490</u>	<u>\$ 4,889,123</u>	<u>\$ 588,633</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 20% STREET CONSTRUCTION FUND
 FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 1,088,691	\$ 1,088,691	\$ 1,256,501	\$ 167,810
Other	1,428	1,428	1,648	220
Total revenues	<u>1,090,119</u>	<u>1,090,119</u>	<u>1,258,149</u>	<u>168,030</u>
Expenditures:				
Current:				
Transportation	1,065,488	1,065,488	990,207	75,281
Total expenditures	<u>1,065,488</u>	<u>1,065,488</u>	<u>990,207</u>	<u>75,281</u>
Excess of expenditures over revenues	<u>24,631</u>	<u>24,631</u>	<u>267,942</u>	<u>243,311</u>
Other financing sources:				
Transfers in	714	714	824	110
Total other financing sources	<u>714</u>	<u>714</u>	<u>824</u>	<u>110</u>
Net change in fund balances	25,345	25,345	268,766	243,421
Fund balance at beginning of year.	<u>215,483</u>	<u>215,483</u>	<u>215,483</u>	<u>-</u>
Fund balance at end of year	<u>\$ 240,828</u>	<u>\$ 240,828</u>	<u>\$ 484,249</u>	<u>\$ 243,421</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Assets:				
Current assets:				
Equity in pooled cash and investments	\$ 3,178,097	\$ 1,225,229	\$ 4,403,326	\$ -
Receivables (net of allowance for uncollectables):				
Accounts	200,193	370,814	571,007	-
Materials and supplies inventory	107,278	32,029	139,307	-
Total current assets	<u>3,485,568</u>	<u>1,628,072</u>	<u>5,113,640</u>	-
Noncurrent assets:				
Net pension asset	1,047	614	1,661	-
Capital assets:				
Land and construction in progress	262,626	-	262,626	-
Depreciable capital assets, net	5,212,340	9,625,316	14,837,656	-
Total capital assets, net	<u>5,474,966</u>	<u>9,625,316</u>	<u>15,100,282</u>	-
Total noncurrent assets	<u>5,476,013</u>	<u>9,625,930</u>	<u>15,101,943</u>	-
Total assets	<u>8,961,581</u>	<u>11,254,002</u>	<u>20,215,583</u>	-
Deferred outflows of resources:				
Pension - OPERS.	102,209	59,937	162,146	-
Liabilities:				
Current liabilities:				
Accrued wages and benefits payable	5,506	3,300	8,806	-
Due to other funds	-	-	-	55,860
Intergovernmental payable	6,505	141,669	148,174	-
Accrued interest payable	4,561	1,508	6,069	-
Compensated absences payable - current	9,614	5,642	15,256	-
General obligation bonds payable	105,000	20,000	125,000	-
OPWC loans payable - current	1,838	38,169	40,007	-
Claims payable	-	-	-	51,639
Total current liabilities	<u>133,024</u>	<u>210,288</u>	<u>343,312</u>	<u>107,499</u>
Long-term liabilities:				
Compensated absences payable	46,619	31,368	77,987	-
General obligation bonds payable	1,475,000	475,000	1,950,000	-
OPWC loans payable	4,595	870,348	874,943	-
Unamortized premium on bonds	205,613	72,884	278,497	-
Net pension liability	262,671	154,034	416,705	-
Total long-term liabilities	<u>1,994,498</u>	<u>1,603,634</u>	<u>3,598,132</u>	-
Total liabilities	<u>2,127,522</u>	<u>1,813,922</u>	<u>3,941,444</u>	<u>107,499</u>
Deferred inflows of resources:				
Pension - OPERS.	8,103	4,751	12,854	-
Net position:				
Net investment in capital assets	3,682,920	8,148,915	11,831,835	-
Unrestricted	3,245,245	1,346,351	4,591,596	(107,499)
Total net position (deficit)	<u>\$ 6,928,165</u>	<u>\$ 9,495,266</u>	<u>16,423,431</u>	<u>\$ (107,499)</u>
Adjustment to reflect the consolidation of the internal service fund activities related to enterprise funds			<u>(14,927)</u>	
Net position of business-type activities			<u>\$ 16,408,504</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
Operating revenues:				
Charges for services	\$ 988,670	\$ 1,636,735	\$ 2,625,405	\$ 677,983
Other	5,456	-	5,456	-
Total operating revenues.	<u>994,126</u>	<u>1,636,735</u>	<u>2,630,861</u>	<u>677,983</u>
Operating expenses:				
Personal services	315,888	180,841	496,729	-
Contract services.	112,470	1,018,094	1,130,564	196,055
Materials and supplies.	200,805	118,229	319,034	-
Claims expense	-	-	-	589,721
Depreciation.	300,697	340,611	641,308	-
Other	5,051	3,800	8,851	-
Total operating expenses.	<u>934,911</u>	<u>1,661,575</u>	<u>2,596,486</u>	<u>785,776</u>
Operating income (loss).	<u>59,215</u>	<u>(24,840)</u>	<u>34,375</u>	<u>(107,793)</u>
Nonoperating revenues (expenses):				
Interest and fiscal charges	(9,172)	(3,180)	(12,352)	-
Interest income.	-	-	-	294
Bond issuance costs.	(51,087)	(18,754)	(69,841)	-
Total nonoperating revenues (expenses).	<u>(60,259)</u>	<u>(21,934)</u>	<u>(82,193)</u>	<u>294</u>
Loss before transfers	<u>(1,044)</u>	<u>(46,774)</u>	<u>(47,818)</u>	<u>(107,499)</u>
Transfers in.	<u>1,647</u>	<u>824</u>	<u>2,471</u>	<u>-</u>
Change in net position	603	(45,950)	(45,347)	(107,499)
Net position at beginning of year	<u>6,927,562</u>	<u>9,541,216</u>		<u>-</u>
Net position (deficit) at end of year	<u>\$ 6,928,165</u>	<u>\$ 9,495,266</u>		<u>\$ (107,499)</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.			<u>(14,927)</u>	
Change in net position of business-type activities.			<u>\$ (60,274)</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, 2016

	<u>Business-type Activities - Enterprise Funds</u>			Governmental
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	Activities - Internal Service Fund
Cash flows from operating activities:				
Cash received from customers	\$ 1,055,070	\$ 1,687,454	\$ 2,742,524	\$ 677,983
Cash received from other operations	5,456	-	5,456	-
Cash payments for personal services	(319,481)	(155,674)	(475,155)	-
Cash payments for contract services	(121,122)	(1,078,484)	(1,199,606)	(196,055)
Cash payments for materials and supplies	(189,330)	(117,675)	(307,005)	-
Cash payments for other expenses	(5,051)	(3,800)	(8,851)	-
Cash payments for claims	-	-	-	(538,082)
Net cash provided by (used in) operating activities	<u>425,542</u>	<u>331,821</u>	<u>757,363</u>	<u>(56,154)</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	1,647	824	2,471	-
Cash received from interfund loans	-	-	-	55,860
Net cash provided by noncapital financing activities	<u>1,647</u>	<u>824</u>	<u>2,471</u>	<u>55,860</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(39,258)	(5,000)	(44,258)	-
Principal retirement on OPWC loans	(1,838)	(38,168)	(40,006)	-
Principal retirement on notes	(1,895,000)	(595,000)	(2,490,000)	-
Interest paid on bonds and notes	(18,897)	(5,933)	(24,830)	-
Bond issuance	1,580,000	495,000	2,075,000	-
Premium on bond issuance	208,884	73,687	282,571	-
Bond issuance costs	(51,087)	(18,754)	(69,841)	-
Interest income	-	-	-	294
Net cash provided by (used in) capital and related financing activities	<u>(217,196)</u>	<u>(94,168)</u>	<u>(311,364)</u>	<u>294</u>
Net increase in cash and cash equivalents	209,993	238,477	448,470	-
Cash and investments at beginning of year	<u>2,968,104</u>	<u>986,752</u>	<u>3,954,856</u>	<u>-</u>
Cash and investments at end of year	<u>\$ 3,178,097</u>	<u>\$ 1,225,229</u>	<u>\$ 4,403,326</u>	<u>\$ -</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 59,215	\$ (24,840)	\$ 34,375	\$ (107,793)
Adjustments:				
Depreciation	300,697	340,611	641,308	-
Changes in assets and liabilities:				
Decrease in materials and supplies inventory	11,475	554	12,029	-
Decrease in accounts receivable	66,400	50,719	117,119	-
(Increase) in net pension asset	(135)	(217)	(352)	-
(Increase) in deferred outflows - pension - OPERS.	(63,935)	(43,304)	(107,239)	-
(Decrease) in accounts payable	(8,652)	(3,974)	(12,626)	-
Increase in accrued wages and benefits	797	921	1,718	-
(Decrease) in intergovernmental payable	(2,701)	(57,228)	(59,929)	-
Increase in compensated absences payable	5,863	2,909	8,772	-
Increase in net pension liability	52,645	62,758	115,403	-
Increase in deferred inflows - pension - OPERS.	3,873	2,912	6,785	-
Increase in claims payable	-	-	-	51,639
Net cash provided by (used in) operating activities	<u>\$ 425,542</u>	<u>\$ 331,821</u>	<u>\$ 757,363</u>	<u>\$ (56,154)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2016**

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

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

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

B. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activities of the internal service funds are eliminated to avoid “doubling up” revenues and expenses. 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, 2016

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

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

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

C. Fund Accounting

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

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

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

20% street construction fund - The 20% street construction fund receives income tax revenues for constructing, maintaining and repairing City streets.

Debt service fund - This fund accounts for and reports the accumulation of restricted payments in lieu of tax revenues for the payment of general obligation debt principal and interest.

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

Proprietary Funds - Proprietary fund reporting focuses on changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

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

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

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

Internal service fund - Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's only internal service fund is the Self-Insurance fund which reports on the payments of premiums and claims for healthcare.

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

D. Measurement Focus and Basis of Accounting

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

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

E. Basis of Accounting

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

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, See Note 16 for deferred outflows of resources related the City's net pension liability. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, payments in lieu of taxes and unavailable revenue. Property taxes and payments in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2016, but which were levied to finance 2017 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes, but is not limited to, income taxes, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the City, See Note 16 for deferred inflows of resources related to the City's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position. In addition, deferred inflows of resources include a deferred gain on debt refunding.

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

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

F. Budgetary Process

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

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

G. Cash and Investments

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

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

During 2016, investments were limited to nonnegotiable certificates of deposits, federal agency securities, U.S. government money market mutual funds and STAR Ohio. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

During 2016, the City invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The City measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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 2016 amounted to \$66,871, which includes \$31,368 assigned from other funds of the City.

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/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, 2016, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

J. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

All reported capital assets are depreciated except for land, easements 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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

K. Compensated Absences

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at December 31, 2016 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Activity

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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

N. Interfund Balances

On fund financial statements, receivables and payables resulting from negative cash balances are classified as “due to/due from other funds”. These amounts are eliminated in the governmental and business-type activities columns of the statement of net position.

O. Fund Balance

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

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

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

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

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

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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

P. Debt Issuance Costs, Discounts and Premiums

On government-wide financial statements, issuance costs are expensed during the year in which they were incurred. Bond discounts and premiums are deferred and accreted over the terms of the bonds. Bond discounts and premiums are presented as a reduction to the face amount of the bonds.

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

Q. Estimates

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

R. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. The City did not receive any contributions of capital during 2016.

S. Net Position

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

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

T. 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 for water, sewer and self-insurance programs. 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.

U. 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 2016.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

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

V. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

W. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For 2016, the City has implemented GASB Statement No. 72, "Fair Value Measurement and Application", GASB Statement No. 73 "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" and GASB Statement No. 79, "Certain External Investment Pools and Pool Participants".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the City's fiscal year 2016 financial statements (see Note 4); however, there was no effect on beginning net position/fund balance

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the City.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the City.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government's tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the City.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the City.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. The City participates in STAR Ohio which implemented GASB Statement No. 79 for 2016. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the City.

B. Deficit Fund Balances

Fund balances at December 31, 2016 included the following individual fund deficit:

<u>Nonmajor funds</u>	<u>Deficit</u>
Self-insurance fund	\$ 107,499

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Obligations of the City.

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

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

A. Cash in Segregated Accounts

The City has depository accounts outside of the City treasury to account for Mayor's Court operations. The carrying amount of these depository accounts at December 31, 2016 was \$26,458. These depository accounts are included in "deposits with financial institutions" below.

B. Deposits with Financial Institutions

At December 31, 2016, the carrying amount of all City deposits was \$7,486,400. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2016, \$6,412,983 of the City's bank balance of \$7,786,794 was exposed to custodial risk as discussed below, while \$1,373,811 was covered by the FDIC.

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of December 31, 2016, the City had the following investments and maturities:

<u>Investment type</u>	<u>Measurement Amount</u>	<u>Investment Maturities</u>				
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 60 months</u>	<u>Greater than 24 months</u>
Fair value:						
FHLMC - noncallable	\$ 274,643	\$ -	\$ -	\$ 274,643	\$ -	\$ -
FHLMC - callable	248,122	-	-	248,122	-	-
FNMA - noncallable	1,386,585	250,098	275,259	249,300	-	611,928
FNMA - callable	538,346	-	-	-	-	538,346
FFCB - noncallable	500,985	-	500,985	-	-	-
FHLB - noncallable	249,247	-	-	249,247	-	-
U.S. Government money market funds	22,209	22,209	-	-	-	-
Amortized cost:						
STAR Ohio	<u>500,353</u>	<u>500,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,720,490</u>	<u>\$ 772,660</u>	<u>\$ 776,244</u>	<u>\$ 1,021,312</u>	<u>\$ -</u>	<u>\$ 1,150,274</u>

The City investments in federal agency securities, are valued using quoted market prices (Level 2 inputs).

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

Credit Risk: STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City's investments in federal agency securities were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Negotiable certificates of deposit are not rated. The City's investment policy does not specifically address credit risk beyond requiring the City to only invest in securities authorized by State statute.

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2016:

<u>Measurement/ Investment type</u>	<u>Measurement Amount</u>	<u>% of Total</u>
FHLMC - noncallable	\$ 274,643	7.38
FHLMC - callable	248,122	37.26
FNMA - noncallable	1,386,585	13.47
FNMA - callable	538,346	6.70
FFCB - noncallable	500,985	6.67
FHLB - noncallable	249,247	14.47
STAR Ohio	500,353	13.45
U.S. Government money market funds	22,209	0.60
Total	<u>\$ 3,720,490</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of December 31, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 7,486,400
Investments	<u>3,720,490</u>
Total	<u>\$ 11,206,890</u>
 <u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 6,757,769
Business-type activities	4,403,326
Agency funds	<u>45,795</u>
Total	<u>\$ 11,206,890</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended December 31, 2016, consisted of the following as reported on the fund financial statements:

Transfers from the general fund to:

20% street construction fund	\$ 824
Sewer fund	824
Water fund	1,647
Nonmajor governmental funds	<u>332,873</u>
Total transfers from general fund	<u>\$ 336,168</u>

Transfers from the debt service fund:

Nonmajor governmental funds	\$ 1,535,157
Total transfers from the debt service fund	<u>\$ 1,535,157</u>

Total	\$ <u>1,871,325</u>
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Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The City transferred \$1,535,157 on GAAP-basis from the debt service fund to the street construction, nonmajor special revenue fund and the capital improvement nonmajor capital projects fund to retire the 2015 series notes payable that matured in 2016. The notes matured on October 21, 2016 and proceeds of the 2016 bond issue were used to retire the notes, which were reported as a fund liability at December 31, 2015. See Note 14 for detail.

Transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Transfers between enterprise funds are eliminated for reporting on the government-wide financial statements.

- B.** Due to/from other funds consisted of the following at December 31, 2016, as reported on the fund financial statements:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Internal service fund	\$ 55,860

The primary purpose of the amount due to the general fund from the internal service fund was to eliminate a negative cash balance. The amount will be repaid once cash is received.

Amounts due to/from between governmental funds are eliminated on the government-wide statements.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 6 - PROPERTY TAXES

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

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2016 public utility property taxes became a lien December 31, 2015, are levied after October 1, 2016, and are collected in 2017 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Ontario. County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2016 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by a deferred inflow of resources since the current taxes were not levied to finance 2016 operations and the collection of delinquent taxes has been offset by a deferred inflow of resources since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is a deferred inflow of resources.

The full tax rate for all City operations for the year ended December 31, 2016 was \$2.20 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2016 property tax receipts were based are as follows:

<u>Real Property</u>	
Residential/Agricultural	\$ 99,447,130
Commercial/Industrial/Mineral	77,510,850
<u>Public Utility</u>	
Real/Personal	<u>5,409,750</u>
Total Assessed Value	<u>\$ 182,367,730</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 7 - LOCAL INCOME TAX

The City levies and collects an income tax of 1.5% on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of .5% of the tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. During 2016, by City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvement fund, and the 20% street construction fund. On the modified accrual basis of accounting, total income tax revenue was \$5,321,506 in 2016.

NOTE 8 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Insurance

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

NOTE 9 - TAX INCREMENT FINANCING DISTRICT (TIF)

The City, pursuant to the Ohio Revised Code and City ordinances, has established six TIFs with the addition of the Campus District, Ontario Triangle Development, Lexington-Springmill/Ferguson Road and Beer Road Industrial Park TIF agreements during 2016. A TIF represents a geographic area wherein property values created after the commencement date of the TIF are exempt, in whole or in part, from property taxes. Owners of such property, however, must pay amounts equal to the property taxes, known as “payments in lieu of taxes (PILOT)”, as though the TIF had not been established. These “PILOTS” are then dedicated to the payments for various public improvements within or adjacent to the TIF area. Property values existing before the commencement date of a TIF continue to be subjected to property taxes.

During 2016, the City received PILOT revenue of \$276,449 in the debt service fund. The TIFs have a longevity of the shorter period of 30 years or until the public improvements are paid for. The property tax exemption then ceases; PILOT’s cease and property taxes then apply to the increased property values.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 10 - RECEIVABLES

Receivables at December 31, 2016, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements, shared revenue and payments in lieu of taxes. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:

Income taxes	\$ 1,185,931
Real and other taxes	373,865
Accounts	104,096
Special assessments	359
Accrued interest	9,886
Intergovernmental	200,290
Payments in lieu of taxes	640,964

Business-type activities:

Accounts	571,007
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Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

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CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

<u>Governmental activities:</u>	Balance 1/1/2016	Additions	Disposals	Balance 12/31/2016
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,492,488	\$ -	\$ -	\$ 2,492,488
Easements	<u>19,705</u>	<u>-</u>	<u>-</u>	<u>19,705</u>
Total capital assets, not being depreciated	<u>2,512,193</u>	<u>-</u>	<u>-</u>	<u>2,512,193</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,733,046	16,450	-	2,749,496
Buildings and improvements	3,214,880	6,880	-	3,221,760
Furniture and equipment	3,516,654	36,267	(97,467)	3,455,454
Vehicles	1,825,946	122,129	(21,382)	1,926,693
Infrastructure	<u>26,933,504</u>	<u>485,183</u>	<u>-</u>	<u>27,418,687</u>
Total capital assets, being depreciated	<u>38,224,030</u>	<u>666,909</u>	<u>(118,849)</u>	<u>38,772,090</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,950,674)	(85,774)	-	(2,036,448)
Buildings and improvements	(2,134,308)	(71,045)	-	(2,205,353)
Furniture and equipment	(2,942,189)	(122,418)	9,746	(3,054,861)
Vehicles	(1,221,880)	(109,574)	21,382	(1,310,072)
Infrastructure	<u>(11,378,007)</u>	<u>(1,010,955)</u>	<u>-</u>	<u>(12,388,962)</u>
Total accumulated depreciation	<u>(19,627,058)</u>	<u>(1,399,766)</u>	<u>31,128</u>	<u>(20,995,696)</u>
Total capital assets, being depreciated, net	<u>18,596,972</u>	<u>(732,857)</u>	<u>(87,721)</u>	<u>17,776,394</u>
Governmental activities capital assets, net	<u>\$ 21,109,165</u>	<u>\$ (732,857)</u>	<u>\$ (87,721)</u>	<u>\$ 20,288,587</u>

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

Governmental activities:

General government	\$ 57,119
Security of persons and property	92,662
Transportation	1,158,160
Leisure time activity	<u>91,825</u>
Total depreciation expense - governmental activities	<u>\$ 1,399,766</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 11 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	Balance 1/1/2016	Additions	Disposals	Balance 12/31/2016
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Total capital assets, not being depreciated	262,626	-	-	262,626
<i>Capital assets, being depreciated:</i>				
Land improvements	62,292	17,200	-	79,492
Buildings and improvements	4,752,755	-	-	4,752,755
Furniture and equipment	3,449,883	27,058	-	3,476,941
Infrastructure:				
Sewer lines	10,653,890	-	-	10,653,890
Water lines	6,898,956	-	-	6,898,956
Total capital assets, being depreciated	25,817,776	44,258	-	25,862,034
<i>Less: accumulated depreciation:</i>				
Land improvements	(55,966)	(814)	-	(56,780)
Buildings and improvements	(1,328,127)	(122,753)	-	(1,450,880)
Furniture and equipment	(2,577,961)	(84,741)	-	(2,662,702)
Infrastructure:				
Sewer lines	(3,597,122)	(228,921)	-	(3,826,043)
Water lines	(2,823,894)	(204,079)	-	(3,027,973)
Total accumulated depreciation	(10,383,070)	(641,308)	-	(11,024,378)
Total capital assets, being depreciated, net	15,434,706	(597,050)	-	14,837,656
Business-type activities capital assets, net	\$ 15,697,332	\$ (597,050)	\$ -	\$ 15,100,282

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

Business-type activities:

Water	\$ 300,697
Sewer	340,611
Total depreciation expense - business-type activities	\$ 641,308

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

During 2015, the City entered into capitalized leases for vehicles and software. In previous years, the City entered into capitalized leases for a vehicles and software. These leases meet the criteria of a capital lease as defined by generally accepted accounting principles which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment and vehicles have been capitalized in the amount of \$392,122. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2016 was \$92,467, leaving a current book value of 299,655. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments on the leases, totaled \$80,112 and \$298, respectively, in the general fund, \$51,052 and \$6,922 principal and interest paid out of the 20% street construction fund, respectively.

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, 2016.

<u>Year Ending December 31,</u>	<u>Total</u>
2017	\$ 72,305
2018	71,496
2019	71,497
2020	5,089
2021	<u>3,816</u>
Total future minimum lease payments	224,203
Less: amount representing interest	<u>(13,439)</u>
Present value of future minimum lease payments	<u>\$ 210,764</u>

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CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - LONG-TERM OBLIGATIONS

A. During 2016, the following activity occurred in governmental and business-type activities long-term obligations:

	Balance 1/1/2016	Additions	Disposals	Balance 12/31/2016	Due within One Year
<u>Governmental activities:</u>					
<i><u>General obligation bonds:</u></i>					
Walker lake road bonds, 2009	\$ 1,495,000	\$ -	\$ (1,230,000)	\$ 265,000	\$ 85,000
Walker lake road refunding bonds, 2016	-	1,130,000	-	1,130,000	-
Urwin parkway improvement bonds, 2016	-	700,000	-	700,000	25,000
Ferguson road improvement bonds, 2016	-	455,000	-	455,000	-
Sidewalk improvement bonds	-	230,000	-	230,000	10,000
Total general obligation bonds	<u>1,495,000</u>	<u>2,515,000</u>	<u>(1,230,000)</u>	<u>2,780,000</u>	<u>120,000</u>
Capital lease payable	319,456	22,472	(131,164)	210,764	72,305
Net pension liability	3,930,394	1,184,004	-	5,114,398	-
Compensated absences	415,354	109,290	(69,435)	455,209	71,064
	<u>\$ 6,160,204</u>	<u>\$ 3,830,766</u>	<u>\$ (1,430,599)</u>	8,560,371	<u>\$ 263,369</u>
Unamortized premiums on bonds				376,300	
Unamortized discount on bonds				<u>(2,367)</u>	
Total governmental activities				<u>\$ 8,934,304</u>	
<u>Business-type activities:</u>					
<i><u>General obligation bonds:</u></i>					
Water meter reading system improvement bonds, 2016	\$ -	\$ 745,000	\$ -	\$ 745,000	\$ 75,000
Mabee road water tower improvement bonds, 2016	-	295,000	-	295,000	10,000
Waterline repair improvement bonds, 2016	-	540,000	-	540,000	20,000
Tappan road lift station improvement bonds, 2016	-	495,000	-	495,000	20,000
Total general obligation bonds	<u>-</u>	<u>2,075,000</u>	<u>-</u>	<u>2,075,000</u>	<u>125,000</u>
OPWC water treatment loan	8,271	-	(1,838)	6,433	1,838
OPWC sewer improvement loan	383,332	-	(16,667)	366,665	16,667
OPWC I/I reduction phase 2 loan	327,633	-	(13,373)	314,260	13,373
OPWC above ground equalization tank loan	235,720	-	(8,128)	227,592	8,129
Total OPWC loans	<u>954,956</u>	<u>-</u>	<u>(40,006)</u>	<u>914,950</u>	<u>40,007</u>
Net pension liability	301,302	115,403	-	416,705	-
Compensated absences	84,471	22,834	(14,062)	93,243	15,256
	<u>\$ 1,340,729</u>	<u>\$ 2,213,237</u>	<u>\$ (54,068)</u>	\$ 3,499,898	<u>\$ 180,263</u>
Unamortized premiums on bonds				278,497	
Total business-type activities				<u>\$ 3,778,395</u>	

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The City's capital lease obligations are described in Note 12.

Compensated absences for governmental activities will be paid from the fund from which the employee is paid which, for the City, is the general fund and the 20% street construction and maintenance fund.

The City's net pension liability is described in Note 16.

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

On October 19, 2016, the City issued general obligation refunding and improvement bonds in the amount of \$4,590,000 to advance refund a portion of the Walker Lake Road general obligation bonds, series 2009 (\$1,145,000) and were used to retire the Urwin Parkway Improvements bond anticipation notes (\$775,000), the Ferguson Road Improvement bond anticipation notes (\$495,000), the sidewalk improvements bond anticipation notes (\$250,000), the water meter reading system bond anticipation notes (\$885,000), the Maybee Road water tower bond anticipation notes (\$355,000), the waterline repair bond anticipation notes (\$655,000), and the Tappan Road lift station bond anticipation notes (\$595,000). The reacquisition price exceeded the net carrying amount of the Walker Lake Road refunding bonds by \$146,091. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being charged to interest expense through maturity on December 1, 2029 for the Walker Lake Road refunding bonds using the straight-line method. The refunding bond issue had a net present value benefit of \$86,412.

The governmental activities improvement bonds carry interest rates ranging from 2.00% and 4.05% and will mature on December 1, 2035 (The Urwin Parkway and sidewalk improvement bonds) and on December 1, 2025 (The Ferguson Road improvement bonds). The business-type activities improvement bonds carry interest rates between 2.00% and 4.05% and will mature on December 1, 2025 (The water meter reading systems bonds) and on December 1, 2035 (The Maybee Road water tower, waterline repair and Tappan Road lift station improvement bonds).

The interest-free OPWC water treatment loan was entered into during July 2000 to finance improvements to the water treatment plant. The OPWC water treatment loan will all be paid from the water fund.

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

During 2009, the City entered into a loan with the OPWC for the I/I reduction phase 2 project. This is an interest-free OPWC loan and has an outstanding balance of \$314,260.

During 2014, the City entered into another OPWC loan agreement for the purpose of building an above ground equalization tank. The loan is interest free and the outstanding balance as of December 31, 2016 was \$227,592.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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

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

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2016 are as follows:

Year Ending December 31,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>General Obligation Bonds Payable</u>			<u>General Obligation Bonds Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 120,000	\$ 102,184	\$ 222,184	\$ 125,000	\$ 74,050	\$ 199,050
2018	180,000	98,828	278,828	125,000	71,550	196,550
2019	185,000	93,990	278,990	125,000	69,050	194,050
2020	195,000	87,900	282,900	130,000	65,300	195,300
2021	195,000	82,050	277,050	140,000	61,400	201,400
2022 - 2026	1,005,000	299,000	1,304,000	685,000	225,400	910,400
2027 - 2031	650,000	114,600	764,600	380,000	120,200	500,200
2032 - 2035	250,000	25,400	275,400	365,000	37,200	402,200
Total	<u>\$ 2,780,000</u>	<u>\$ 903,952</u>	<u>\$ 3,683,952</u>	<u>\$ 2,075,000</u>	<u>\$ 724,150</u>	<u>\$ 2,799,150</u>

Year Ending December 31,	<u>Business-type Activities</u>				
	<u>OPWC Water Treatment Loan Principal</u>	<u>OPWC Sewer Improvement Loan Principal</u>	<u>OPWC Sewer I/I Reduction Phase 2 Principal</u>	<u>OPWC Sewer Equalization Tank Principal</u>	<u>Total OPWC Loans</u>
	2017	\$ 1,838	\$ 16,667	\$ 13,373	\$ 8,129
2018	1,838	16,667	13,323	8,128	39,956
2019	1,838	16,667	13,372	8,128	40,005
2020	919	16,667	13,372	8,129	39,087
2021	-	16,667	13,373	8,128	38,168
2022 - 2026	-	83,335	66,864	40,642	190,841
2027 - 2031	-	83,332	66,864	40,641	190,837
2032 - 2036	-	83,330	66,864	40,642	190,836
2037 - 2041	-	33,333	46,855	40,641	120,829
2042 - 2044	-	-	-	24,384	24,384
Total	<u>\$ 6,433</u>	<u>\$ 366,665</u>	<u>\$ 314,260</u>	<u>\$ 227,592</u>	<u>\$ 914,950</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

B. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2016, the City's overall legal debt margin was \$16,496,917 and the unvoted debt margin was \$10,158,530.

NOTE 14 - NOTES PAYABLE

	<u>Balance</u> <u>12/31/2015</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2016</u>
<u>Governmental fund notes</u>				
Various purpose improvement notes - series 2015:				
Urwin Parkway improvements	\$ 775,000	\$ -	\$ (775,000)	\$ -
Ferguson Road improvements	495,000	-	(495,000)	-
Sidewalk improvements	250,000	-	(250,000)	-
Add: unamortized premium	<u>4,912</u>	<u>-</u>	<u>(4,912)</u>	<u>-</u>
Total governmental fund notes	<u>\$ 1,524,912</u>	<u>\$ -</u>	<u>\$ (1,524,912)</u>	<u>\$ -</u>
	<u>Balance</u> <u>12/31/2015</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>12/31/2016</u>
<u>Enterprise fund notes</u>				
Water - various purpose improvement notes:				
Water meter reading system, series 2015	\$ 885,000	\$ -	\$ (885,000)	\$ -
Maybe Road water tower, series 2015	355,000	-	(355,000)	-
Waterline repair, series 2015	655,000	-	(655,000)	-
Add: unamortized premium	<u>7,329</u>	<u>-</u>	<u>(7,329)</u>	<u>-</u>
Total water fund notes	<u>1,902,329</u>	<u>-</u>	<u>(1,902,329)</u>	<u>-</u>
Sewer - various purpose improvement notes:				
Tappan Road lift station, series 2015	595,000	-	(595,000)	-
Add: unamortized premium	<u>2,301</u>	<u>-</u>	<u>(2,301)</u>	<u>-</u>
Total sewer fund notes	<u>597,301</u>	<u>-</u>	<u>(597,301)</u>	<u>-</u>
Total enterprise fund notes	<u>\$ 2,499,630</u>	<u>\$ -</u>	<u>\$ (2,499,630)</u>	<u>\$ -</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 14 - NOTES PAYABLE - (Continued)

The City issued \$4,010,000 in various purpose improvement notes, Series 2015, on October 21, 2015. The notes bore an interest rate of 1.00% and matured on October 21, 2016. On October 19, 2016 the notes were retired with funds received from the City's refunding and improvement bond issuance. See Note 13 for further details.

All notes were backed by the full faith and credit of the City. The note liability was reflected in the fund which received the proceeds. The notes were issued in anticipation of long-term bond financing and were retired with the proceeds of the 2016 general obligation bond issue (See Note 13 for detail).

NOTE 15 - RISK MANAGEMENT

A. Comprehensive

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2016, the City contracted with the Ohio Plan for various types of insurance.

The coverage and deductible are as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
General Liability	\$ 0	\$5,000,000/\$7,000,000
Employers Liability	0	5,000,000
Employee Benefits	0	5,000,000/7,000,000
Law Enforcement Officers Liability	5,000	5,000,000/7,000,000
Public Officials Liability	5,000	5,000,000/7,000,000
Automobile	0	5,000,000
Property	1,000	26,910,373
Special Property Coverage	1,000	1,792,375
Electronic Equipment/Media Coverage	1,000	233,083
Public Employee Dishonesty	0	25,000
Boiler and Machinery	1,000	26,910,373

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

B. Workers' Compensation

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 15 - RISK MANAGEMENT - (Continued)

C. Dental and Vision Self-Insurance

The City operates a self-insurance plan for dental and vision benefits. The activity of the plan is recorded in the City's general fund. The claims liability of \$1,548 reported on the financial statements at December 31, 2016 is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported.

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

<u>Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2016	\$ 2,652	\$ 33,135	\$ (34,239)	\$ 1,548
2015	2,152	40,829	(40,329)	2,652

D. Medical Self-Insurance

Medical insurance is offered to employees through a self-insurance internal service fund. The City is a member of the JHP Health Benefits Program, a risk and cost saving pool, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the City's behalf. The claims liability of \$51,639 reported in the internal service fund at December 31, 2016 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the past fiscal year is as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2016	\$ -	\$ 589,721	\$ (538,082)	\$ 51,639

NOTE 16 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability/Asset

The net pension liability/asset reported on the statement of net position represents a liability or asset to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

The net pension liability/asset represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability/asset calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes any net pension liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits or overfunded benefits is presented as a long-term *net pension liability* or *net pension asset*, respectively, on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the Member-Directed Plan and the Combined Plan, substantially all employee members are in OPERS' Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Pension Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	Group B 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Group C Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.0% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS CAFR.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	State and Local
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
 2016 Actual Contribution Rates	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0 %
Total Employer	14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

The City's contractually required contribution for the Traditional Pension Plan, the Combined Plan and Member-Directed Plan was \$187,460 for 2016. Of this amount, \$27,577 is reported as intergovernmental payable.

Plan Description – Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>Police</u>
2016 Statutory Maximum Contribution Rates	
Employer	19.50 %
Employee	12.25 %
2016 Actual Contribution Rates	
Employer:	
Pension	19.00 %
Post-employment Health Care Benefits	<u>0.50 %</u>
Total Employer	<u><u>19.50 %</u></u>
Employee	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$243,174 for 2016. Of this amount \$32,584 is reported as intergovernmental payable.

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CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Pension Liabilities/Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability and net pension asset for the OPERS Traditional Pension Plan and Combined Plan and Member-Directed Plan, respectively, were measured as of December 31, 2015, and the total pension liability or asset used to calculate the net pension liability or asset was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability or asset was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS	OP&F	Total
Proportion of the net pension liability prior measurement date	0.011831%	0.0541430%	
Proportion of the net pension liability current measurement date	<u>0.011585%</u>	<u>0.0547860%</u>	
Change in proportionate share	<u>0.000246%</u>	<u>0.0006430%</u>	
Proportion of the net pension asset prior measurement date	0.016101%		
Proportion of the net pension asset current measurement date	<u>0.018873%</u>		
Change in proportionate share	<u>0.002772%</u>		
Proportionate share of the net pension liability	\$ 2,006,668	\$ 3,524,435	\$ 5,531,103
Proportionate share of the net pension asset	7,999	-	7,999
Pension expense	277,752	483,929	761,681

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 64	\$ -	\$ 64
Net difference between projected and actual earnings on pension plan investments	593,300	573,641	1,166,941
Changes in employer's proportionate percentage/ difference between employer contributions	-	26,267	26,267
City contributions subsequent to the measurement date	187,460	243,174	430,634
Total deferred outflows of resources	<u>\$ 780,824</u>	<u>\$ 843,082</u>	<u>\$ 1,623,906</u>
Deferred inflows of resources			
Differences between expected and actual experience	42,421	9,896	52,317
Changes in employer's proportionate percentage/ difference between employer contributions	19,479	843	20,322
Total deferred inflows of resources	<u>\$ 61,900</u>	<u>\$ 10,739</u>	<u>\$ 72,639</u>

\$430,634 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/asset in the year ending December 31, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
2017	\$ 120,075	\$ 153,928	\$ 274,003
2018	130,187	153,928	284,115
2019	149,149	153,928	303,077
2020	133,821	123,630	257,451
2021	(451)	3,154	2,703
Thereafter	(1,317)	601	(716)
Total	<u>\$ 531,464</u>	<u>\$ 589,169</u>	<u>\$ 1,120,633</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability/asset in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.75 percent
Future salary increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or ad hoc COLA	Pre 1/7/2013 retirees: 3 percent, simple Post 1/7/2013 retirees: 3 percent, simple through 2018, then 2.80% simple
Investment rate of return	8 percent
Actuarial cost method	Individual entry age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

The most recent experience study was completed for the five year period ended December 31, 2010.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 401 (h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.40 percent for 2015.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the OPERS Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed income	23.00 %	2.31 %
Domestic equities	20.70	5.84
Real estate	10.00	4.25
Private equity	10.00	9.25
International equities	18.30	7.40
Other investments	18.00	4.59
Total	100.00 %	5.27 %

Discount Rate - The discount rate used to measure the total pension liability/asset was 8 percent for both the Traditional Pension Plan, the Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the City's proportionate share of the net pension liability/asset calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability/asset would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability (asset):			
Traditional Pension Plan	\$ 3,197,112	\$ 2,006,668	\$ 1,002,566
Combined Plan	(164)	(7,990)	(14,285)
Member-Directed Plan	25	(9)	(25)

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions – OP&F

OP&F’s total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F’s actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8.25 percent
Projected salary increases	4.25 percent to 11 percent
Payroll increases	3.75 percent
Inflation assumptions	3.25 percent
Cost of living adjustments	2.60 and 3.00 percent simple

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed for the five-year period ended December 31, 2011. The recommended assumption changes based on this experience study were adopted by OPF’s Board and were effective beginning with the January 1, 2012 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF’s target asset allocation as of December 31, 2015 are summarized below:

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 16 - DEFINED BENEFIT PENSION PLANS - (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return **</u>	<u>30 Year Expected Real Rate of Return **</u>
Cash and Cash Equivalents	- %		
Domestic Equity	16.00	4.47 %	7.80 %
Non-US Equity	16.00	4.47	8.00
Core Fixed Income *	20.00	1.62	5.35
Global Inflation			
Protected Securities *	20.00	1.33	4.73
High Yield	15.00	3.39	7.21
Real Estate	12.00	3.93	7.43
Private Markets	8.00	6.98	10.73
Timber	5.00	4.92	7.35
Master Limited Partnerships	8.00	7.03	10.75
Total	<u>120.00 %</u>		

* levered 2x

** numbers include inflation

OPF's Board of Trustees has incorporated the "risk parity" concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate - The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 4,648,240	\$ 3,524,435	\$ 2,572,437

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

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

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

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (800) 222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2016, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan and Combined Plan for 2016 was 2.00%.

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

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2016, 2015, and 2014 were \$31,722, \$30,587, and \$14,505, respectively; 87.42% has been contributed for 2016 and 100% has been contributed for 2015 and 2014. The remaining 2016 post-employment health care benefits liability has been reported as intergovernmental payable on the basic financial statements.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under State Bill 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4.00% of the employer contributions toward the health care fund after the end of the transition period.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

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

OP&F provides access to post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

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

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

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

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

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. The portion of employer contributions allocated to health care was .5% of covered payroll from January 1, 2016 thru December 31, 2016. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers was \$6,399 for the year ended December 31, 2016, \$6,315 for the year ended December 31, 2015, \$60,021 for the year ended December 31, 2014. 100% has been contributed for 2015 and 2014. 86.94% has been contributed for police for 2016. The remaining 2016 post-employment health care benefits liability has been reported as intergovernmental payable on the basic financial statements.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

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

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and the 20% street construction fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for the general fund and the 20% street construction fund.

Net Change in Fund Balance

	<u>General fund</u>	<u>20% Street Construction fund</u>
Budget basis	\$ 322,908	268,766
Net adjustment for revenue accruals	29,826	(8,565)
Net adjustment for expenditure accruals	110,999	(2,785)
Adjustment for financing sources (uses)	<u>22,472</u>	<u>-</u>
GAAP basis	<u>\$ 486,205</u>	<u>\$ 257,416</u>

NOTE 19 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, 2016.

B. Litigation

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

NOTE 20 - FUND BALANCE

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

Fund balance	General	20% Street Construction	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Materials and supplies inventory	\$ 8,136	\$ 60,056	\$ -	\$ 48,647	\$ 116,839
Prepays	<u>85,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,974</u>
Total nonspendable	<u>94,110</u>	<u>60,056</u>	<u>-</u>	<u>48,647</u>	<u>202,813</u>
Restricted:					
Debt service	-	-	128,305	-	128,305
Transportation improvement projects	-	-	-	380,715	380,715
Mayor's court programs	-	-	-	37,266	37,266
Cemetery	-	-	-	40,946	40,946
Police programs	-	-	-	78,064	78,064
Other purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,365</u>	<u>55,365</u>
Total restricted	<u>-</u>	<u>-</u>	<u>128,305</u>	<u>592,356</u>	<u>720,661</u>
Committed:					
Capital outlays	-	-	-	771,582	771,582
Transportation improvement projects	<u>-</u>	<u>554,212</u>	<u>-</u>	<u>-</u>	<u>554,212</u>
Total committed	<u>-</u>	<u>554,212</u>	<u>-</u>	<u>771,582</u>	<u>1,325,794</u>
Assigned:					
Subsequent year appropriations	<u>425,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>425,050</u>
Total assigned	<u>425,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>425,050</u>
Unassigned (deficit)	<u>4,745,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,745,559</u>
Total fund balances	<u>\$ 5,264,719</u>	<u>\$ 614,268</u>	<u>\$ 128,305</u>	<u>\$ 1,412,585</u>	<u>\$ 7,419,877</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

NOTE 21 - TAX ABATEMENTS

As of December 31, 2016, the City provides tax abatements through an income tax credit agreement and Community Reinvestment Area (CRA) programs. This program relates to the abatement of property taxes.

CRA - Under the authority of Ohio Revised Code (ORC) Section 3735.67, the CRA program is an economic development tool administered by municipal and county governments that provides real property tax exemptions for property owners who renovate existing or construct new buildings. CRA's are areas of land in which property owners can receive tax incentives for investing in real property improvements. Under the CRA program, local governments petition to the Ohio Development Services Agency (ODSA) for confirmation of a geographical area in which investment in housing is desired. Once an area is confirmed by the ODSA, local governments may offer real property tax exemptions to taxpayers that invest in that area. Property owners in the CRA can receive temporary tax abatements for renovation of existing structures and new construction in these areas. Property owners apply to the local legislative authority for approval to renovate or construct in the CRA. Upon approval and certification of completion, the amount of the abatement is deducted from the individual or entity's property tax bill. As of December 31, 2016, there were no participants in the City's CRA programs.

Income Tax Credit Agreement - Under Ordinance No. 14-79 the City established an income tax abatement agreement with Cole Tool & Die. Under the agreement, the City agrees to offer a tax credit to Cole Tool and Die of 50% of their annual withholding taxes. This credit is reduced by any profit in Cole Tool and Die's business account. The agreement was established on December 18, 2014 and will remain in effect for seven years.

The City has entered into an agreement to abate income taxes through this program. During 2016, the City's income tax revenues were reduced as a result of this agreement as follows:

<u>Tax Abatement Program</u>	<u>City Taxes Abated</u>
Income tax abatement	\$ 11,221
Total	<u>\$ 11,221</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ONTARIO, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY/NET PENSION ASSET
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>Traditional Plan:</i>			
City's proportion of the net pension liability	0.011585%	0.011831%	0.011831%
City's proportionate share of the net pension liability	\$ 2,006,668	\$ 1,426,951	\$ 1,394,721
City's covered-employee payroll	\$ 1,469,617	\$ 1,428,825	\$ 1,255,554
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	136.54%	99.87%	111.08%
Plan fiduciary net position as a percentage of the total pension liability	81.08%	86.45%	86.36%
<i>Combined Plan:</i>			
City's proportion of the net pension asset	0.016420%	0.016101%	0.016101%
City's proportionate share of the net pension asset	\$ 7,990	\$ 6,199	\$ 1,689
City's covered-employee payroll	\$ 59,750	\$ 58,858	\$ -
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	13.37%	10.53%	0.00%
Plan fiduciary net position as a percentage of the total pension asset	116.90%	114.83%	104.56%
<i>Member Directed Plan:</i>			
City's proportion of the net pension asset	0.002453%	n/a	n/a
City's proportionate share of the net pension asset	\$ 9	n/a	n/a
City's covered-employee payroll	\$ 17,253	n/a	n/a
City's proportionate share of the net pension asset as a percentage of its covered-employee payroll	0.05%	n/a	n/a
Plan fiduciary net position as a percentage of the total pension asset	103.91%	n/a	n/a

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ONTARIO, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST THREE YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's proportion of the net pension liability	0.05478600%	0.05414130%	0.05414130%
City's proportionate share of the net pension liability	\$ 3,524,435	\$ 2,804,745	\$ 2,636,851
City's covered-employee payroll	\$ 1,229,737	\$ 1,185,121	\$ 1,163,180
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	286.60%	236.66%	226.69%
Plan fiduciary net position as a percentage of the total pension liability	66.77%	72.20%	73.00%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the City's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ONTARIO, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Traditional Plan:</i>				
Contractually required contribution	\$ 178,730	\$ 176,354	\$ 171,459	\$ 163,222
Contributions in relation to the contractually required contribution	<u>(178,730)</u>	<u>(176,354)</u>	<u>(171,459)</u>	<u>(163,222)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,489,417	\$ 1,469,617	\$ 1,428,825	\$ 1,255,554
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Combined Plan:</i>				
Contractually required contribution	\$ 7,170	\$ 7,170	\$ 7,063	\$ -
Contributions in relation to the contractually required contribution	<u>(7,170)</u>	<u>(7,170)</u>	<u>(7,063)</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 59,750	\$ 59,750	\$ 58,858	\$ -
Contributions as a percentage of covered-employee payroll	12.00%	12.00%	12.00%	13.00%
<i>Member Directed Plan:</i>				
Contractually required contribution	\$ 1,560	\$ 1,639		
Contributions in relation to the contractually required contribution	<u>(1,560)</u>	<u>(1,639)</u>		
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>		
City's covered-employee payroll	\$ 16,421	\$ 17,253		
Contributions as a percentage of covered-employee payroll	9.50%	9.50%		

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 107,308	\$ 139,796	\$ 125,405	\$ 125,560	\$ 112,257	\$ 221,871
<u>(107,308)</u>	<u>(139,796)</u>	<u>(125,405)</u>	<u>(125,560)</u>	<u>(112,257)</u>	<u>(221,871)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,073,080	\$ 1,397,960	\$ 1,406,411	\$ 1,545,354	\$ 1,603,671	\$ 2,657,138
10.00%	10.00%	8.92%	8.13%	7.00%	8.35%
\$ -	\$ 442	\$ 539			
<u>-</u>	<u>(442)</u>	<u>(539)</u>			
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			
\$ -	\$ 5,560	\$ 5,564			
7.95%	7.95%	9.69%			

CITY OF ONTARIO, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CITY CONTRIBUTIONS
OHIO POLICE AND FIRE (OP&F) PENSION FUND

LAST TEN YEARS

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Police:</i>				
Contractually required contribution	\$ 243,174	\$ 233,650	\$ 225,173	\$ 184,713
Contributions in relation to the contractually required contribution	<u>(243,174)</u>	<u>(233,650)</u>	<u>(225,173)</u>	<u>(184,713)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,279,863	\$ 1,229,737	\$ 1,185,121	\$ 1,162,936
Contributions as a percentage of covered-employee payroll	19.00%	19.00%	19.00%	15.88%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 148,315	\$ 140,294	\$ 139,907	\$ 141,930	\$ 148,472	\$ 196,361
<u>(148,315)</u>	<u>(140,294)</u>	<u>(139,907)</u>	<u>(141,930)</u>	<u>(148,472)</u>	<u>(196,361)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,163,255	\$ 1,100,345	\$ 1,097,310	\$ 1,113,176	\$ 1,164,486	\$ 1,540,086
12.75%	12.75%	12.75%	12.75%	12.75%	12.75%

CITY OF ONTARIO, OHIO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2014-2016.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. See the notes to the basic financial statements for the methods and assumptions in this calculation.

CITY OF ONTARIO, OHIO



Yellow Book Report

December 31, 2016

PLATTENBURG
Certified Public Accountants

**INDEPENDENT AUDITOR'S 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***

Honorable Mayor and City Council
City of Ontario

We have audited, in accordance with the 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, 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 (the City), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.

Cincinnati, Ohio

June 23, 2017

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Dave Yost • Auditor of State

CITY OF ONTARIO

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 12, 2017