

**CITY OF ONTARIO, OHIO**

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

***FOR THE YEAR ENDED  
DECEMBER 31, 2005***

**NANCY MOREHEAD, CITY AUDITOR**





Mary Taylor, CPA  
Auditor of State

Members of Council and Mayor  
City of Ontario  
555 Stumbo Road  
P. O. Box 166  
Ontario, Ohio 44862-0166

We have reviewed the *Independent Auditor's Report* of the City of Ontario, Richland County, prepared by Julian & Grube, Inc., for the audit period January 1, 2005 through December 31, 2005. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 12, 2008

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**CITY OF ONTARIO, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

TABLE OF CONTENTS

Independent Auditor's Report .....	1 - 2
Management's Discussion and Analysis .....	3 - 16
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	17
Statement of Activities .....	18 -19
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	20
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	23
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) - General Fund .....	24
Street Construction .....	25
Statement of Net Assets - Proprietary Funds .....	26
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds .....	27
Statement of Cash Flows - Proprietary Funds .....	28 - 29
Statement of Fiduciary Net Assets - Fiduciary Fund .....	30
Notes to the Basic Financial Statements.....	31 - 57
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Activities</i> .....	58 - 59

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**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and the special revenue fund: 25% street construction fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2007 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor  
City of Ontario  
Page Two

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

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

Julian & Grube, Inc.  
October 1, 2007

## CITY OF ONTARIO, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 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, 2005. 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 2005 are as follows:

- The total net assets of the City increased \$3,641,218. Net assets of governmental activities increased \$1,982,853 or 8.12% over 2004 and net assets of business-type activities increased \$1,658,365 or 13.63% over 2004.
- General revenues accounted for \$5,435,224 or 63.38% of total governmental activities revenue. Program specific revenues accounted for \$3,140,814 or 36.62% of total governmental activities revenue.
- The City had \$6,035,746 in expenses related to governmental activities; \$3,140,814 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,894,932 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,435,224.
- The general fund had revenues of \$4,154,170 in 2005. This represents an increase of \$658,846 from 2004 revenues. The expenditures and other financing uses of the general fund, which totaled \$3,265,334 in 2005, decreased \$17,291 from 2004. The net increase in fund balance for the general fund was \$888,836 or 80.92%.
- The 25% Street Construction fund had revenues of \$1,308,475 in 2005. This represents a increase of \$539,589 from 2004 revenues. The expenditures of the 25% Street Construction fund, which totaled \$1,430,270 in 2005, decreased \$7,968 from 2004. The net decrease in fund balance for the 25% Street Construction fund was \$121,795 or 6.82%.
- The Capital Improvement fund had revenues of \$1,239,672 in 2005. This represents an increase of \$178,126 from 2004 revenues. The expenditures and other financing uses of the Capital Improvement fund, which totaled \$2,365,338 in 2005, decreased \$424,212 from 2004. The net decrease in fund balance for the Capital Improvement fund was \$1,125,666 or 24.09%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2005 by \$1,658,365. This increase in net assets was due primarily to capital contributions in coupled with adequate charges for services revenue to cover operating expenses.

#### Using this Annual Financial Report

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

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

## CITY OF ONTARIO, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

#### Reporting the City as a Whole

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

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The statement of net assets and the statement of activities answer this question. These statements include all *assets, liabilities, revenues and expenses* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

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

##### *Fund Financial Statements*

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

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

##### *Governmental Funds*

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

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

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

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

***Proprietary Funds***

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

***Fiduciary Funds***

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

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31 - 57 of this report.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Government-Wide Financial Analysis**

The table below provides a summary of the City's net assets for 2005 and 2004:

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b><u>Assets</u></b>						
Current and other assets	\$ 10,702,104	\$ 10,542,296	\$ 2,672,651	\$ 2,485,244	\$ 13,374,755	\$ 13,027,540
Capital assets, net	17,636,057	15,328,299	12,705,444	11,762,931	30,341,501	27,091,230
Total assets	28,338,161	25,870,595	15,378,095	14,248,175	43,716,256	40,118,770
<b><u>Liabilities</u></b>						
Long-term liabilities						
outstanding	492,482	556,225	324,142	344,053	816,624	900,278
Other liabilities	1,452,438	903,982	1,228,804	1,737,338	2,681,242	2,641,320
Total liabilities	1,944,920	1,460,207	1,552,946	2,081,391	3,497,866	3,541,598
<b><u>Net Assets</u></b>						
Invested in capital						
assets, net of related debt	17,382,104	14,967,610	11,421,801	9,948,184	28,803,905	24,915,794
Restricted	6,892,411	7,856,776	-	-	6,892,411	7,856,776
Unrestricted	2,118,726	1,586,002	2,403,348	2,218,600	4,522,074	3,804,602
Total net assets	\$ 26,393,241	\$ 24,410,388	\$ 13,825,149	\$ 12,166,784	\$ 40,218,390	\$ 36,577,172

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$40,218,390. At year-end, net assets were \$26,393,241 and \$13,825,149 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 69.41% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$17,382,104 and \$11,421,801 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, 2005, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$6,892,411, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$2,118,726 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

The table below shows the changes in net assets for fiscal year 2005 and 2004.

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
Program revenues:						
Charges for services and sales	\$ 535,636	\$ 792,643	\$ 2,197,804	\$ 1,757,170	\$ 2,733,440	\$ 2,549,813
Operating grants and contributions	574,986	394,339	1,004,505	1,047,822	1,579,491	1,442,161
Capital grants and contributions	2,030,192	550,934	-	-	2,030,192	550,934
Total program revenues	<u>3,140,814</u>	<u>1,737,916</u>	<u>3,202,309</u>	<u>2,804,992</u>	<u>6,343,123</u>	<u>4,542,908</u>
General revenues:						
Property taxes	219,040	868,117	-	-	219,040	868,117
Income taxes	4,628,318	3,794,556	-	562,948	4,628,318	4,357,504
Unrestricted grants	221,214	219,469	-	-	221,214	219,469
Interest	334,199	95,986	2,652	3,210	336,851	99,196
Fair market value adjustment	(42,592)	(47,817)	-	-	(42,592)	(47,817)
Miscellaneous	75,045	95,177	9,504	2,803	84,549	97,980
Total general revenues	<u>5,435,224</u>	<u>5,025,488</u>	<u>12,156</u>	<u>568,961</u>	<u>5,447,380</u>	<u>5,594,449</u>
Total revenues	<u>8,576,038</u>	<u>6,763,404</u>	<u>3,214,465</u>	<u>3,373,953</u>	<u>11,790,503</u>	<u>10,137,357</u>
Expenses:						
General government	1,811,144	1,142,851	-	-	1,811,144	1,142,851
Security of persons and property	1,890,748	1,925,840	-	-	1,890,748	1,925,840
Public health and welfare	4,688	8,056	-	-	4,688	8,056
Transportation	2,069,900	2,158,055	-	-	2,069,900	2,158,055
Community environment	35,510	79,646	-	-	35,510	79,646
Leisure time activity	221,946	189,992	-	-	221,946	189,992
Interest and fiscal charges	1,810	1,316	-	-	1,810	1,316
Water	-	-	1,052,726	853,434	1,052,726	853,434
Sewer	-	-	1,060,813	1,138,447	1,060,813	1,138,447
Total expenses	<u>6,035,746</u>	<u>5,505,756</u>	<u>2,113,539</u>	<u>1,991,881</u>	<u>8,149,285</u>	<u>7,497,637</u>
Transfers	<u>(557,439)</u>	<u>(438,554)</u>	<u>557,439</u>	<u>438,554</u>	<u>-</u>	<u>-</u>
Change in net assets	1,982,853	819,094	1,658,365	1,820,626	3,641,218	2,639,720
Net assets at beginning of year	<u>24,410,388</u>	<u>23,591,294</u>	<u>12,166,784</u>	<u>10,346,158</u>	<u>36,577,172</u>	<u>33,937,452</u>
Net assets at end of year	<u>\$ 26,393,241</u>	<u>\$ 24,410,388</u>	<u>\$ 13,825,149</u>	<u>\$ 12,166,784</u>	<u>\$ 40,218,390</u>	<u>\$ 36,577,172</u>

**Governmental Activities**

Governmental activities net assets increased \$1,982,853 in 2005. This increase is primarily due to an increase in capital grants and contributions received in 2005 along with increased income tax revenue.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$1,890,748 of the total expenses of the City. These expenses were partially funded by \$214,340 in direct charges to users of the services. Transportation expenses totaled \$2,069,900. Transportation expenses were funded by \$43,046 in direct charges to users of the services, \$474,001 in operating grants and contributions and \$2,030,192 in capital grants and contributions.

**CITY OF ONTARIO, OHIO**

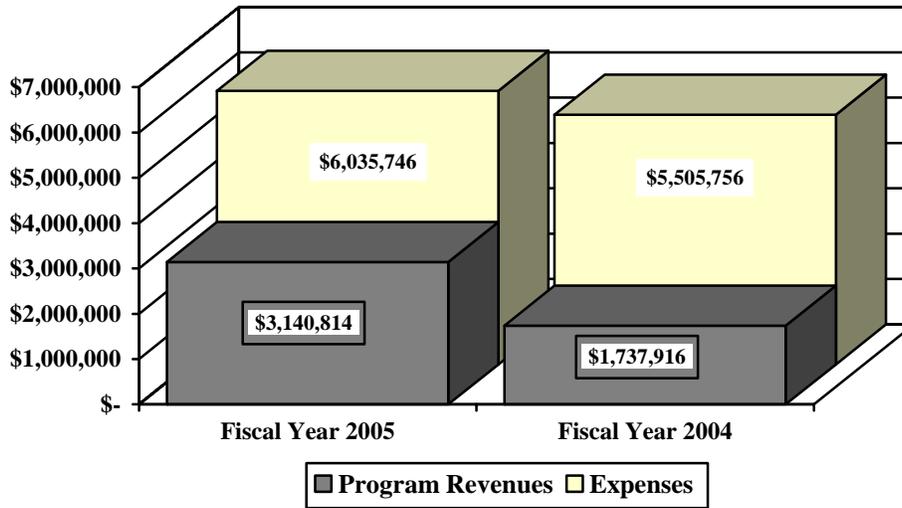
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

The state and federal government contributed to the City \$574,986 in operating grants and contributions. These revenues are restricted to a particular program or purpose. \$474,001 of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$5,435,224, and amounted to 63.38% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,847,358. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$221,214.

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

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



**CITY OF ONTARIO, OHIO**

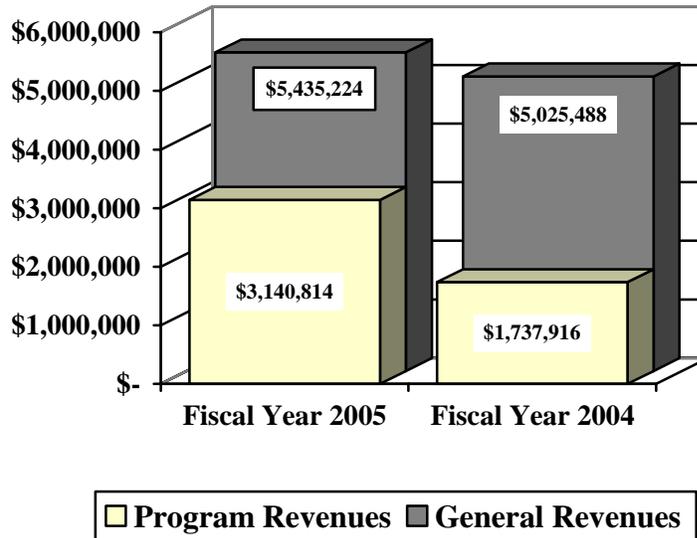
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program Expenses:				
General government	\$ 1,811,144	\$ 1,546,895	\$ 1,142,851	\$ 816,782
Security of persons and property	1,890,748	1,676,408	1,925,840	1,631,149
Public health and welfare	4,688	(101,883)	8,056	3,092
Transportation	2,069,900	(477,339)	2,158,055	1,056,258
Community environment	35,510	35,510	79,646	79,646
Leisure time activity	221,946	214,759	189,992	184,232
Interest and fiscal charges	1,810	582	1,316	(3,319)
<b>Total Expenses</b>	<b>\$ 6,035,746</b>	<b>\$ 2,894,932</b>	<b>\$ 5,505,756</b>	<b>\$ 3,767,840</b>

The dependence upon general revenues for governmental activities is apparent, with 47.96% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2005 and 2004.

**Governmental Activities – General and Program Revenues**



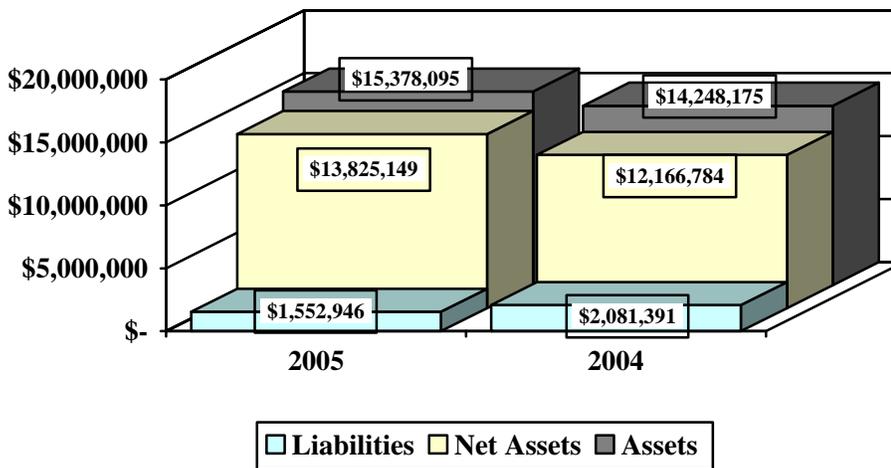
CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED

**Business-type Activities**

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$3,202,309, general revenues of \$12,126 and expenses of \$2,113,539 for 2005. The water and sewer fund received transfers in from the Capital Improvement fund of \$524,684 and \$32,755, respectively, for debt service requirements. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

**Net Assets in Business – Type Activities**



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

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$8,584,949 which is \$190,708 below last year's total of \$8,775,657.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 for all major and nonmajor governmental funds.

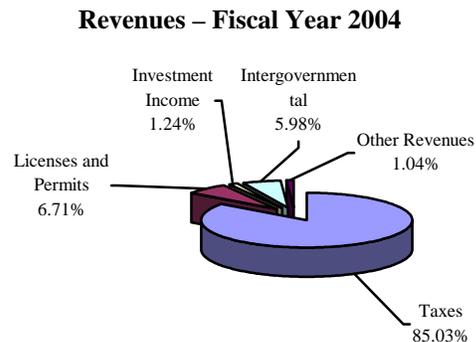
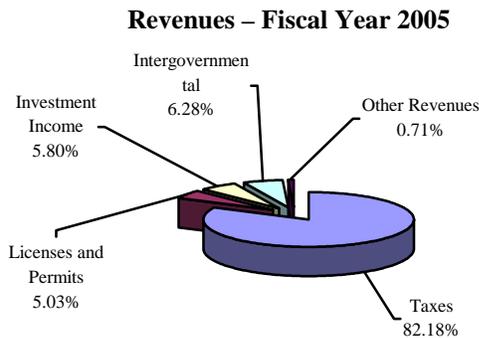
	<u>Fund Balances</u> <u>12/31/05</u>	<u>Fund Balances</u> <u>12/31/04</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 1,987,316	\$ 1,098,480	\$ 888,836
25% Street Construction	1,664,303	1,786,098	(121,795)
Capital Improvement	3,547,025	4,672,691	(1,125,666)
Other nonmajor governmental funds	<u>1,386,305</u>	<u>1,218,388</u>	<u>167,917</u>
<b>Total</b>	<b><u>\$ 8,584,949</u></b>	<b><u>\$ 8,775,657</u></b>	<b><u>\$ (190,708)</u></b>

**General Fund**

The City's general fund balance increased \$888,836, primarily due to increased income tax and investment earnings over the prior year. The table that follows assists in illustrating the revenues of the general fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b>Revenues</b>			
Taxes	\$ 3,413,963	\$ 3,012,891	13.31 %
Licenses and permits	209,160	237,733	(12.02) %
Investment income	283,462	44,013	544.04 %
Decrease in FMV of investment	(42,592)	(47,817)	10.93 %
Intergovernmental	260,854	211,783	23.17 %
Other	<u>29,323</u>	<u>36,721</u>	(20.15) %
<b>Total</b>	<b><u>\$ 4,154,170</u></b>	<b><u>\$ 3,495,324</u></b>	<b>18.85 %</b>

Tax revenue represents 82.18% of all general fund revenue. Tax revenue increased 13.31% over prior year. The increase in taxes revenue is due to increased income tax collections in 2005 versus 2004. Investment earnings increase due to higher interest rates on City investments. All other revenue remained comparable to 2004.



**CITY OF ONTARIO, OHIO**

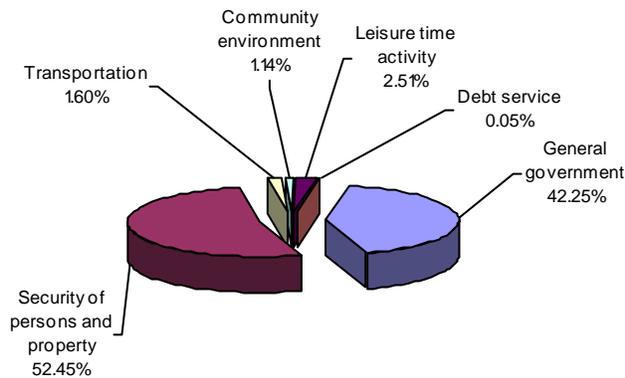
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

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

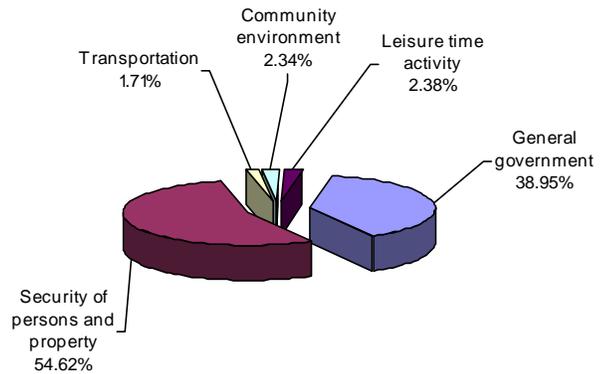
	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Percentage Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 1,317,636	\$ 1,227,389	7.35 %
Security of persons and property	1,635,822	1,720,774	(4.94) %
Transportation	49,740	53,868	(7.66) %
Community environment	35,510	73,780	(51.87) %
Leisure time activity	78,398	75,023	4.50 %
Debt service	<u>1,529</u>	<u>-</u>	100.00 %
 Total	 <u>\$ 3,118,635</u>	 <u>\$ 3,150,834</u>	 (1.02) %

The most significant decrease was in the area of community environment. The decrease in community environment was due to a shift in the cost to other funds eligible to support the program. The largest expenditure line item, security of persons and property, decreased slightly, which is primarily attributed to wage and benefit controls and overall cost controls in purchased goods and services.

**Expenditures - Fiscal Year 2005**



**Expenditures - Fiscal Year 2004**



**25% Street Construction Fund**

The 25% Street Construction fund had revenues of \$1,308,475 and expenditures of \$1,430,270 in 2005. The 25% Street Construction fund's fund balance decreased \$121,795 from \$1,786,098 to \$1,664,303.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

***Capital Improvement Fund***

The Capital Improvement fund had revenues of \$1,239,672 and expenditures of \$1,807,899 in 2005. In addition, the Capital Improvements fund had \$557,439 in transfers out to the water and sewer funds for debt service payments. The Capital Improvement fund's fund balance decreased \$1,125,666 from \$4,672,691 to \$3,547,025.

***Budgeting Highlights – General Fund***

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

In the general fund, actual revenues of \$4,228,077 were less than final budgeted revenues by \$9,923. Another significant change was between the final budgeted expenditures and other financing uses and actual expenditures and other financing uses. Actual expenditures and other financing uses were \$556,863 lower than the final budgeted amounts.

***Proprietary Funds***

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

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the City had \$30,341,501 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. Of this total, \$17,636,057 was reported in governmental activities and \$12,705,444 was reported in business-type activities. The following table shows fiscal 2005 balances compared to 2004:

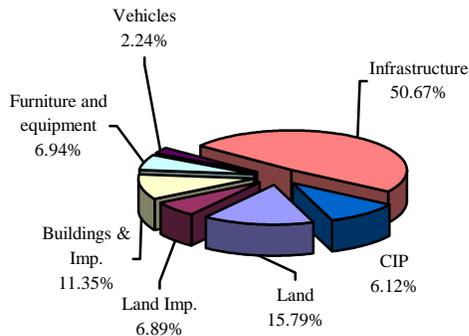
**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	2005	2004	2005	2004	2005	2004
Land	\$ 2,572,154	\$ 2,504,452	\$ 262,626	\$ 262,626	\$ 2,834,780	\$ 2,767,078
Construction in progress	1,816,493	550,934	21,690	181,557	1,838,183	732,491
Land improvements	1,139,423	1,227,613	27,922	31,207	1,167,345	1,258,820
Buildings and improvements	1,855,552	1,930,515	1,217,120	1,269,651	3,072,672	3,200,166
Furniture and equipment	1,156,292	1,199,240	1,320,059	1,180,359	2,476,351	2,379,599
Vehicles	432,482	390,577	-	-	432,482	390,577
Infrastructure	<u>8,663,661</u>	<u>7,524,968</u>	<u>9,856,027</u>	<u>8,837,531</u>	<u>18,519,688</u>	<u>16,362,499</u>
Totals	<u>\$ 17,636,057</u>	<u>\$ 15,328,299</u>	<u>\$ 12,705,444</u>	<u>\$ 11,762,931</u>	<u>\$ 30,341,501</u>	<u>\$ 27,091,230</u>

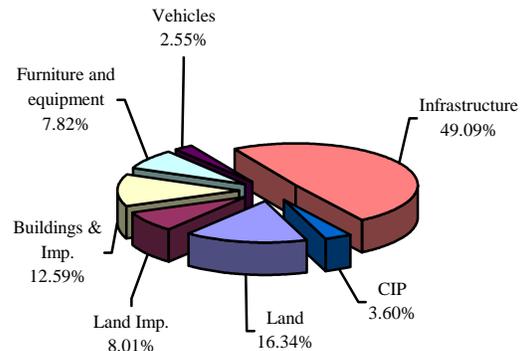
**CITY OF ONTARIO, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**  
**UNAUDITED**

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

**Capital Assets - Governmental Activities 2005**



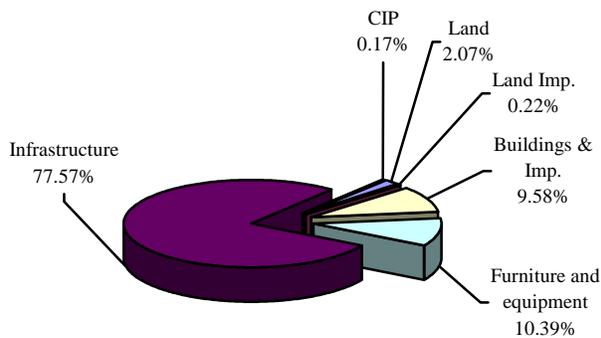
**Capital Assets - Governmental Activities 2004**



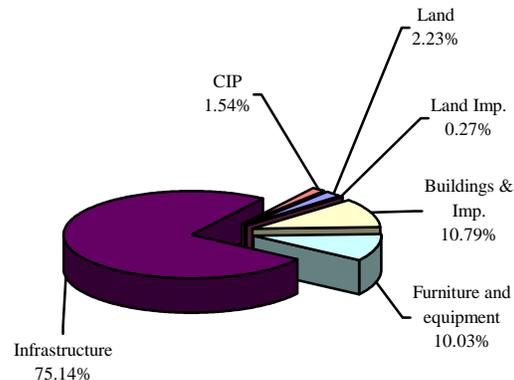
The City's largest capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 50.67% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2005 and 2004.

**Capital Assets - Business-Type Activities 2005**



**Capital Assets - Business-Type Activities 2004**



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 77.57% of the City's total business-type capital assets.

See Note 9 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, 2005  
UNAUDITED**

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

	Governmental Activities	
	2005	2004
Lewis Road Bonds - 1997	\$ 7,200	\$ 10,800
Park Land Acquisition Bonds - 2000	33,500	67,000
Beer Property Bonds	198,999	265,332
Capital Lease Payable	14,254	17,557
Total long-term obligations	\$ 253,953	\$ 360,689
	Business-type Activities	
	2005	2004
OPWC Water Treatment Loan - 2000	\$ 25,726	\$ 27,563
Sewer Improvement Note	29,269	58,536
Lease - Purchase Agreement	228,648	228,648
Total long-term obligations	\$ 283,643	\$ 314,747

In addition to the above, the City also has a Water System Improvement Note which had a balance at December 31, 2005 and 2004 of \$1,000,000 and \$1,500,000, respectively. The Water system Improvement Note is described in Note 14 to the basic financial statements.

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

**Economic Conditions and Outlook**

For 2006, the City will be moving forward on the Lindaire Sanitary Sewer Project. This project will be a \$385,000 improvement. The City will also be working on the sewer line test project on Rock Road. Both of these improvements will benefit the residents of the City, and insure their health and safety.

The City continues to improve streets. During 2005, the City began the improvement of the Walker Lake/Springmill Road widening and new turn lane. The final work will be completed in 2006. In addition to this project, the City also will be resurfacing several streets in 2006.

The City is working on the OSU Bike trail and Beer Road Nature Preserve. Both projects will improve the community and will add pleasure and enjoyment for all citizens.

A new computer server was purchased to upgrade the City's computer system. The previous server was over 11 years old. This has eliminated costly maintenance on the old server. The elimination of costly maintenance agreements has saved the City's approximately \$15,000.

The City also plans to purchase new phones. The current phones are leased. Purchasing the phone system will allow the City to save approximately \$3,000 over the next three years; and a total of \$10,000 by the end of six years.

The abovementioned projects and cost-saving ventures are for the benefit of the citizens of the City. It is the City's goal to provide a safe, happy and cost-efficient place for people to live.

**CITY OF ONTARIO, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Contacting the City's Financial Management**

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

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF ONTARIO, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents . . . . .	\$ 8,626,689	\$ 2,016,726	\$ 10,643,415
Cash in segregated accounts . . . . .	19,912	-	19,912
Cash with fiscal agent. . . . .	-	21,143	21,143
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	909,417	-	909,417
Real and other taxes . . . . .	604,793	-	604,793
Accounts . . . . .	31,150	546,123	577,273
Special assessments . . . . .	19,138	-	19,138
Accrued interest . . . . .	11,857	-	11,857
Intergovernmental . . . . .	262,888	-	262,888
Loans. . . . .	15,737	-	15,737
Prepayments . . . . .	50,520	-	50,520
Materials and supplies inventory . . . . .	150,003	88,659	238,662
Capital assets:			
Land . . . . .	2,572,154	262,626	2,834,780
Construction in progress . . . . .	1,816,493	21,690	1,838,183
Depreciable capital assets, net . . . . .	13,247,410	12,421,128	25,668,538
Total capital assets, net . . . . .	<u>17,636,057</u>	<u>12,705,444</u>	<u>30,341,501</u>
Total assets. . . . .	<u>28,338,161</u>	<u>15,378,095</u>	<u>43,716,256</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	431,555	185,289	616,844
Contracts payable. . . . .	317,553	2,410	319,963
Retainage payable . . . . .	-	21,143	21,143
Accrued wages and benefits . . . . .	32,213	4,739	36,952
Intergovernmental payable . . . . .	118,605	9,847	128,452
Deferred revenue . . . . .	548,809	-	548,809
Accrued interest payable . . . . .	30	5,376	5,406
Note payable . . . . .	-	1,000,000	1,000,000
Claims payable . . . . .	3,673	-	3,673
Long-term liabilities:			
Due within one year . . . . .	161,974	146,250	308,224
Due in more than one year . . . . .	330,508	177,892	508,400
Total liabilities . . . . .	<u>1,944,920</u>	<u>1,552,946</u>	<u>3,497,866</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	17,382,104	11,421,801	28,803,905
Restricted for:			
Capital projects . . . . .	3,742,090	-	3,742,090
Debt service . . . . .	211,179	-	211,179
Transportation improvement projects . . . . .	2,701,674	-	2,701,674
Court computerization. . . . .	34,456	-	34,456
Cemetery . . . . .	13,333	-	13,333
Recreation . . . . .	1,259	-	1,259
Law enforcement and education . . . . .	4,405	-	4,405
Other purposes. . . . .	184,015	-	184,015
Unrestricted . . . . .	2,118,726	2,403,348	4,522,074
Total net assets. . . . .	<u>\$ 26,393,241</u>	<u>\$ 13,825,149</u>	<u>\$ 40,218,390</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Program Revenues</b>			
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating and Contributions</b>	<b>Capital Grants and Contributions</b>
<b>Governmental Activities:</b>				
General government . . . . .	\$ 1,811,144	\$ 264,249	\$ -	\$ -
Security of persons and property . . . . .	1,890,748	214,340	-	-
Public health and welfare . . . . .	4,688	5,586	100,985	-
Transportation . . . . .	2,069,900	43,046	474,001	2,030,192
Community environment . . . . .	35,510	-	-	-
Leisure time activity . . . . .	221,946	7,187	-	-
Interest and fiscal charges . . . . .	1,810	1,228	-	-
<b>Total governmental activities . . . . .</b>	<b>6,035,746</b>	<b>535,636</b>	<b>574,986</b>	<b>2,030,192</b>
<b>Business-type Activities:</b>				
Water . . . . .	1,052,726	952,666	459,548	-
Sewer . . . . .	1,060,813	1,245,138	544,957	-
<b>Total business-type activities . . . . .</b>	<b>2,113,539</b>	<b>2,197,804</b>	<b>1,004,505</b>	<b>-</b>
<b>Total primary government . . . . .</b>	<b>\$ 8,149,285</b>	<b>\$ 2,733,440</b>	<b>\$ 1,579,491</b>	<b>\$ 2,030,192</b>

**General Revenues:**

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

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (1,546,895)	\$ -	\$ (1,546,895)
(1,676,408)	-	(1,676,408)
101,883	-	101,883
477,339	-	477,339
(35,510)	-	(35,510)
(214,759)	-	(214,759)
(582)	-	(582)
<u>(2,894,932)</u>	<u>-</u>	<u>(2,894,932)</u>
-	359,488	359,488
-	729,282	729,282
-	1,088,770	1,088,770
<u>(2,894,932)</u>	<u>1,088,770</u>	<u>(1,806,162)</u>
192,430	-	192,430
26,610	-	26,610
2,931,166	-	2,931,166
1,336,678	-	1,336,678
360,474	-	360,474
221,214	-	221,214
291,607	2,652	294,259
75,045	9,504	84,549
5,435,224	12,156	5,447,380
<u>(557,439)</u>	<u>557,439</u>	<u>-</u>
1,982,853	1,658,365	3,641,218
<u>24,410,388</u>	<u>12,166,784</u>	<u>36,577,172</u>
<u>\$ 26,393,241</u>	<u>\$ 13,825,149</u>	<u>\$ 40,218,390</u>

CITY OF ONTARIO, OHIO

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 1,756,457	\$ 1,581,238	\$ 3,811,677	\$ 1,477,317	\$ 8,626,689
Cash in segregated accounts . . . . .	-	-	-	19,912	19,912
Receivables (net of allowance for uncollectibles):					
Income taxes . . . . .	500,179	318,296	90,942	-	909,417
Real and other taxes . . . . .	529,358	-	-	75,435	604,793
Accounts . . . . .	26,150	5,000	-	-	31,150
Accrued interest . . . . .	11,857	-	-	-	11,857
Special assessments . . . . .	-	-	-	19,138	19,138
Intergovernmental . . . . .	62,773	-	-	200,115	262,888
Loans . . . . .	15,737	-	-	-	15,737
Prepayments . . . . .	50,520	-	-	-	50,520
Materials and supplies inventory . . . . .	2,973	147,030	-	-	150,003
Total assets . . . . .	<u>\$ 2,956,004</u>	<u>\$ 2,051,564</u>	<u>\$ 3,902,619</u>	<u>\$ 1,791,917</u>	<u>\$ 10,702,104</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 36,762	\$ 231,856	\$ -	\$ 162,937	\$ 431,555
Contracts payable . . . . .	-	-	317,553	-	317,553
Accrued wages and benefits . . . . .	24,980	7,233	-	-	32,213
Compensated absences payable . . . . .	12,239	-	-	-	12,239
Intergovernmental payable . . . . .	103,575	15,030	-	-	118,605
Claims payable . . . . .	3,673	-	-	-	3,673
Deferred revenue . . . . .	787,459	133,142	38,041	242,675	1,201,317
Total liabilities . . . . .	<u>968,688</u>	<u>387,261</u>	<u>355,594</u>	<u>405,612</u>	<u>2,117,155</u>
<b>Fund Balances:</b>					
Reserved for encumbrances . . . . .	79,869	97,007	865,568	45,323	1,087,767
Reserved for prepayments . . . . .	50,520	-	-	-	50,520
Reserved for materials and supplies inventory . . . . .	2,973	147,030	-	-	150,003
Reserved for loans . . . . .	15,737	-	-	-	15,737
Reserved for debt service . . . . .	-	-	-	192,071	192,071
Unreserved, undesignated, reported in:					
General fund . . . . .	1,838,217	-	-	-	1,838,217
Special revenue funds . . . . .	-	1,420,266	-	992,964	2,413,230
Capital projects funds . . . . .	-	-	2,681,457	155,947	2,837,404
Total fund balances . . . . .	<u>1,987,316</u>	<u>1,664,303</u>	<u>3,547,025</u>	<u>1,386,305</u>	<u>8,584,949</u>
Total liabilities and fund balances . . . . .	<u>\$ 2,956,004</u>	<u>\$ 2,051,564</u>	<u>\$ 3,902,619</u>	<u>\$ 1,791,917</u>	<u>\$ 10,702,104</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005

<b>Total governmental fund balances</b>		\$ 8,584,949
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		17,636,057
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 40,241	
Income taxes	380,406	
Special assessments	19,138	
Intergovernmental revenues	206,735	
Accrued interest receivable	<u>5,988</u>	
Total		652,508
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	(226,290)	
Accrued interest payable	(30)	
Capital lease payable	(14,254)	
Bonds payable	<u>(239,699)</u>	
		<u>(480,273)</u>
<b>Net assets of governmental activities</b>		<u><u>\$ 26,393,241</u></u>

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, 2005

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Municipal income taxes . . . . .	\$ 2,941,893	\$ 1,258,523	\$ 322,433	\$ -	\$ 4,522,849
Property and other taxes . . . . .	472,070	-	-	73,950	546,020
Charges for services . . . . .	-	-	-	16,238	16,238
Licenses and permits . . . . .	209,160	16,737	-	37,518	263,415
Fines and forfeitures . . . . .	-	-	-	250,450	250,450
Intergovernmental . . . . .	260,854	-	874,129	521,764	1,656,747
Special assessments . . . . .	-	-	-	4,127	4,127
Investment income . . . . .	240,870	12,050	32,425	5,628	290,973
Rental income . . . . .	4,305	-	-	-	4,305
Other . . . . .	25,018	21,165	10,685	18,177	75,045
Total revenues . . . . .	<u>4,154,170</u>	<u>1,308,475</u>	<u>1,239,672</u>	<u>927,852</u>	<u>7,630,169</u>
<b>Expenditures:</b>					
Current:					
General government . . . . .	1,317,636	-	217,278	272,563	1,807,477
Security of persons and property . . . . .	1,635,822	-	-	208,307	1,844,129
Public health and welfare . . . . .	-	-	-	4,688	4,688
Transportation . . . . .	49,740	1,430,270	-	203,487	1,683,497
Community environment . . . . .	35,510	-	-	-	35,510
Leisure time activity . . . . .	78,398	-	-	32,552	110,950
Capital outlay . . . . .	-	-	1,490,788	177,838	1,668,626
Debt service:					
Principal retirement . . . . .	1,101	-	99,833	5,802	106,736
Interest and fiscal charges . . . . .	428	-	-	1,397	1,825
Total expenditures . . . . .	<u>3,118,635</u>	<u>1,430,270</u>	<u>1,807,899</u>	<u>906,634</u>	<u>7,263,438</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>1,035,535</u>	<u>(121,795)</u>	<u>(568,227)</u>	<u>21,218</u>	<u>366,731</u>
<b>Other financing sources (uses):</b>					
Transfers in . . . . .	-	-	-	146,699	146,699
Transfers out . . . . .	<u>(146,699)</u>	<u>-</u>	<u>(557,439)</u>	<u>-</u>	<u>(704,138)</u>
Total other financing sources (uses) . . . . .	<u>(146,699)</u>	<u>-</u>	<u>(557,439)</u>	<u>146,699</u>	<u>(557,439)</u>
Net change in fund balances . . . . .	888,836	(121,795)	(1,125,666)	167,917	(190,708)
<b>Fund balances at beginning of year . . . . .</b>	<u>1,098,480</u>	<u>1,786,098</u>	<u>4,672,691</u>	<u>1,218,388</u>	<u>8,775,657</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,987,316</u>	<u>\$ 1,664,303</u>	<u>\$ 3,547,025</u>	<u>\$ 1,386,305</u>	<u>\$ 8,584,949</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, 2005

**Net change in fund balances - total governmental funds** \$ (190,708)

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

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

Capital outlay	\$	2,069,687	
Current year depreciation		<u>(915,824)</u>	
 Total			 1,153,863

Capital contributions from developers are not reported in the funds. 1,156,063

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (2,168)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (210,194)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 106,736

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 15

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (30,754)

**Change in net assets of governmental activities** \$ 1,982,853

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, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 3,418,750	\$ 3,418,750	\$ 3,003,431	\$ (415,319)
Property and other taxes . . . . .	450,000	450,000	470,335	20,335
Fines, licenses and permits. . . . .	124,704	124,704	207,293	82,589
Intergovernmental . . . . .	163,934	163,934	272,506	108,572
Investment income . . . . .	53,175	53,175	228,903	175,728
Rental income . . . . .	2,590	2,590	4,305	1,715
Loan payment . . . . .	15,074	15,074	25,058	9,984
Other . . . . .	9,773	9,773	16,246	6,473
Total revenues. . . . .	<u>4,238,000</u>	<u>4,238,000</u>	<u>4,228,077</u>	<u>(9,923)</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	1,529,786	1,618,517	1,358,857	259,660
Security of persons and property . . . . .	1,820,976	1,824,169	1,660,842	163,327
Transportation . . . . .	61,676	61,676	61,547	129
Community environment . . . . .	76,314	76,924	37,668	39,256
Leisure time activity . . . . .	98,058	95,075	78,410	16,665
Total expenditures . . . . .	<u>3,586,810</u>	<u>3,676,361</u>	<u>3,197,324</u>	<u>479,037</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>651,190</u>	<u>561,639</u>	<u>1,030,753</u>	<u>469,114</u>
<b>Other financing uses:</b>				
Transfers out . . . . .	<u>(146,687)</u>	<u>(225,000)</u>	<u>(147,174)</u>	<u>77,826</u>
Total other financing uses . . . . .	<u>(146,687)</u>	<u>(225,000)</u>	<u>(147,174)</u>	<u>77,826</u>
Net change in fund balance . . . . .	504,503	336,639	883,579	546,940
Fund balance at beginning of year . . . . .	742,574	742,574	742,574	-
Prior year encumbrances appropriated . . . . .	<u>74,710</u>	<u>74,710</u>	<u>74,710</u>	<u>-</u>
Fund balance at end of year. . . . .	<u>\$ 1,321,787</u>	<u>\$ 1,153,923</u>	<u>\$ 1,700,863</u>	<u>\$ 546,940</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)  
 25% STREET CONSTRUCTION  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 500,938	\$ 500,938	\$ 1,161,493	\$ 660,555
Licenses and permits . . . . .	11,737	11,737	11,737	-
Investment income . . . . .	5,197	5,197	12,050	6,853
Other . . . . .	9,128	9,128	21,165	12,037
<b>Total revenues . . . . .</b>	<u>527,000</u>	<u>527,000</u>	<u>1,206,445</u>	<u>679,445</u>
<b>Expenditures:</b>				
Current:				
Transportation . . . . .	<u>1,784,637</u>	<u>1,993,887</u>	<u>1,630,624</u>	<u>363,263</u>
<b>Total expenditures . . . . .</b>	<u>1,784,637</u>	<u>1,993,887</u>	<u>1,630,624</u>	<u>363,263</u>
Net change in fund balance . . . . .	(1,257,637)	(1,466,887)	(424,179)	1,042,708
<b>Fund balance at beginning of year . . . . .</b>	1,476,849	1,476,849	1,476,849	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>201,277</u>	<u>201,277</u>	<u>201,277</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 420,489</u>	<u>\$ 211,239</u>	<u>\$ 1,253,947</u>	<u>\$ 1,042,708</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2005

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Assets:</b>			
Current assets:			
Equity in pooled cash and cash equivalents . . . . .	\$ 868,927	\$ 1,147,799	\$ 2,016,726
Cash with fiscal agent . . . . .	21,143	-	21,143
Receivables (net of allowance for uncollectibles):			
Accounts . . . . .	232,490	313,633	546,123
Materials and supplies inventory . . . . .	64,160	24,499	88,659
Total current assets . . . . .	<u>1,186,720</u>	<u>1,485,931</u>	<u>2,672,651</u>
Noncurrent assets:			
Capital assets:			
Land . . . . .	262,626	-	262,626
Construction in progress. . . . .	-	21,690	21,690
Depreciable capital assets, net . . . . .	6,181,426	6,239,702	12,421,128
Total capital assets, net . . . . .	<u>6,444,052</u>	<u>6,261,392</u>	<u>12,705,444</u>
Total assets . . . . .	<u>7,630,772</u>	<u>7,747,323</u>	<u>15,378,095</u>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable. . . . .	25,828	159,461	185,289
Contracts payable. . . . .	-	2,410	2,410
Retainage payable. . . . .	21,143	-	21,143
Accrued wages and benefits . . . . .	3,175	1,564	4,739
Compensated absences . . . . .	2,975	2,118	5,093
Intergovernmental payable . . . . .	6,596	3,251	9,847
OPWC loan payable . . . . .	1,837	-	1,837
Notes payable. . . . .	1,000,000	29,269	1,029,269
Accrued interest payable . . . . .	5,210	166	5,376
Lease-purchase agreement payable. . . . .	55,026	55,025	110,051
Total current liabilities . . . . .	<u>1,121,790</u>	<u>253,264</u>	<u>1,375,054</u>
Long-term liabilities:			
OPWC loan payable . . . . .	23,889	-	23,889
Compensated absences. . . . .	27,813	7,593	35,406
Lease-purchase agreement payable . . . . .	59,298	59,299	118,597
Total long-term liabilities. . . . .	<u>111,000</u>	<u>66,892</u>	<u>177,892</u>
Total liabilities . . . . .	<u>1,232,790</u>	<u>320,156</u>	<u>1,552,946</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt. . . . .	5,304,002	6,117,799	11,421,801
Unrestricted . . . . .	1,093,980	1,309,368	2,403,348
Total net assets . . . . .	<u>\$ 6,397,982</u>	<u>\$ 7,427,167</u>	<u>\$ 13,825,149</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Operating revenues:</b>			
Charges for services . . . . .	\$ 952,666	\$ 1,245,138	\$ 2,197,804
Other. . . . .	9,504	-	9,504
Total operating revenues . . . . .	962,170	1,245,138	2,207,308
<b>Operating expenses:</b>			
Personal services . . . . .	269,369	164,197	433,566
Contract services . . . . .	143,279	712,057	855,336
Materials and supplies . . . . .	314,164	-	314,164
Depreciation . . . . .	301,196	181,237	482,433
Total operating expenses. . . . .	1,028,008	1,057,491	2,085,499
Operating income (loss) . . . . .	(65,838)	187,647	121,809
<b>Nonoperating revenues (expenses):</b>			
Interest revenue. . . . .	1,768	884	2,652
Interest expense and fiscal charges . . . . .	(24,718)	(3,322)	(28,040)
Total nonoperating revenues (expenses) . . . . .	(22,950)	(2,438)	(25,388)
Income before capital contributions and transfers . . . . .	(88,788)	185,209	96,421
Capital contributions . . . . .	459,548	544,957	1,004,505
Transfers in. . . . .	524,684	32,755	557,439
Changes in net assets . . . . .	895,444	762,921	1,658,365
<b>Net assets at beginning of year . . . . .</b>	<b>5,502,538</b>	<b>6,664,246</b>	<b>12,166,784</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 6,397,982</b>	<b>\$ 7,427,167</b>	<b>\$ 13,825,149</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>			
Cash received from customers . . . . .	\$ 819,537	\$ 1,072,849	\$ 1,892,386
Cash received from other operations. . . . .	9,504	-	9,504
Cash payments for personal services . . . . .	(257,742)	(160,103)	(417,845)
Cash payments for contract services . . . . .	(143,205)	(470,100)	(613,305)
Cash payments for materials and supplies . . . . .	(137,817)	(129,844)	(267,661)
Net cash provided by operating activities . . . . .	<u>290,277</u>	<u>312,802</u>	<u>603,079</u>
<b>Cash flows from noncapital financing activities:</b>			
Cash received from transfers in . . . . .	524,684	32,755	557,439
Net cash provided by noncapital financing activities . . . . .	<u>524,684</u>	<u>32,755</u>	<u>557,439</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets . . . . .	(29,126)	(514,271)	(543,397)
Principal retirement on OPWC loan . . . . .	(1,837)	-	(1,837)
Principal retirement on notes. . . . .	(1,500,000)	(29,267)	(1,529,267)
Proceeds of notes. . . . .	1,000,000	-	1,000,000
Interest and fiscal charges. . . . .	(24,684)	(3,488)	(28,172)
Net cash used in capital and related financing activities . . . . .	<u>(555,647)</u>	<u>(547,026)</u>	<u>(1,102,673)</u>
<b>Cash flows from investing activities:</b>			
Interest received. . . . .	1,768	884	2,652
Net cash provided by investing activities. . . . .	<u>1,768</u>	<u>884</u>	<u>2,652</u>
Net increase (decrease) in cash and cash equivalents . . . . .	261,082	(200,585)	60,497
Cash and cash equivalents at beginning of year . . . . .	628,988	1,348,384	1,977,372
Cash and cash equivalents at end of year. . . . .	<u>\$ 890,070</u>	<u>\$ 1,147,799</u>	<u>\$ 2,037,869</u>

- - continued

**CITY OF ONTARIO, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS (CONTINUED)  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>			
Operating income (loss) . . . . .	\$ (65,838)	\$ 187,647	\$ 121,809
Adjustments:			
Depreciation . . . . .	301,196	181,237	482,433
Changes in assets and liabilities:			
(Increase) decrease in materials and supplies inventory . . . . .	189,755	(11,247)	178,508
(Increase) in accounts receivable . . . . .	(133,129)	(172,289)	(305,418)
Increase (decrease) in accounts payable . . . . .	(13,408)	123,360	109,952
Increase (decrease) in accrued wages and benefits. . . . .	166	(116)	50
Increase in retainage payable . . . . .	74	-	74
Increase in due to other governments . . . . .	3,119	1,359	4,478
Increase in compensated absences payable . . . . .	8,342	2,851	11,193
Net cash provided by operating activities . . . . .	<u>\$ 290,277</u>	<u>\$ 312,802</u>	<u>\$ 603,079</u>

**Non-Cash Transactions:**

The Sewer and Water funds received \$544,957 and \$459,548, respectively, in capital contributions from developers. At December 31, 2005 and 2004, the Sewer fund purchased \$2,410 and \$125,366, respectively, in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF ONTARIO, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
DECEMBER 31, 2005

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents . . . . .	<u>\$ 57,886</u>
<b>Liabilities:</b>	
Deposits held and due to others . . . . .	<u>\$ 57,886</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, 2005

#### NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

##### A. Reporting Entity

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

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

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

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

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

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

#### C. Fund Accounting

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

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

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

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

Capital Improvements Fund - The capital improvements fund receives income tax revenues for the construction and maintenance of capital items.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

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

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

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

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

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

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

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

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

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

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

##### **E. Basis of Accounting**

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 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 tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

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

**F. Budgetary Process**

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

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

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

**G. Cash and Cash Equivalents**

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

The City has segregated bank accounts for Mayor's Court 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.

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

During 2005, investments were limited to certificates of deposit, overnight repurchase agreements, investments in the State Treasury Asset Reserve of Ohio (STAR Ohio), federal agency securities and money market accounts. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold at December 31, 2005.

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 2005 amounted to \$240,870, which includes \$206,766 assigned from other funds of the City.

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

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

**H. Inventory**

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

**I. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

**J. Capital Assets**

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

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

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

**K. Compensated Absences**

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, 2005 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 judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the governmental fund financial statements when due.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

**M. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” On fund financial statements, long-term interfund loans are classified as “advances to/from other funds” on the financial statements and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources. These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances. The City did not have any interfund balances at December 31, 2005.

**N. Interfund Activity**

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

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

**O. Fund Balance Reserves**

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

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

**P. Estimates**

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

**Q. Contributions of Capital**

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

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

**R. Net Assets**

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

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

**S. Operating Revenues and Expenses**

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

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither of these transactions occurred in 2005.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**Change in Accounting Principles**

For fiscal year 2005, the City has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures", and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have an effect on the financial statements of the City; however, additional note disclosure can be found in Note 4 for GASB Statement No. 40.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

#### NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim moneys 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 to 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% 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 number (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 Treasurer's investment pool (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% 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.

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

Protection of 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 Finance Director 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 Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the City had \$350 in undeposited cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents."

**B. 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, 2005 was \$19,912. These depository accounts are included in "Deposits with Financial Institutions" below.

**C. Cash with Fiscal Agent**

The City has a retainage account for the various construction projects throughout the City. The carrying amount of this depository account at December 31, 2005 was \$21,143. This depository account is included in "Deposits with Financial Institutions" below.

**D. Deposits with Financial Institutions**

At December 31, 2005, the carrying amount of all City deposits was \$3,144,002. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2005, \$2,658,372 of the City's bank balance of \$3,198,765 was exposed to custodial risk as discussed below, while \$540,393 was covered by Federal Deposit Insurance Corporation.

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.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

**E. Investments**

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 or more months</u>
Money Market	\$ 692,112	\$ 692,112	\$ -	\$ -	\$ -
STAR Ohio	174,136	174,136	-	-	-
FHLMC	734,874	248,985	-	485,889	-
FHLMC Discount Note	717,125	477,850	239,275	-	-
FFCB Discount Note	498,400	498,400	-	-	-
FNMA Discount Note	530,060	-	530,060	-	-
FHLB	2,474,456	1,738,049	488,594	-	247,813
FNMA	1,522,191	1,041,408	-	243,517	237,266
Repurchase Agreement	255,000	255,000	-	-	-
	<u>\$ 7,598,354</u>	<u>\$ 5,125,940</u>	<u>\$ 1,257,929</u>	<u>\$ 729,406</u>	<u>\$ 485,079</u>

The weighted average maturity of investments is .32 years.

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

*Credit Risk:* The City's investments, except for the repurchase agreement discussed below and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*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. Of the City's investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the City. 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 treasurer or qualified trustee.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**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 each investment type held by the City at December 31, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Money Market	\$ 692,112	9.11%
STAR Ohio	174,136	2.29%
FHLMC	734,874	9.67%
FHLMC Discount Note	717,125	9.44%
FFCB Discount Note	498,400	6.56%
FNMA Discount Note	530,060	6.98%
FHLB	2,474,456	32.57%
FNMA	1,522,191	20.03%
Repurchase Agreement	<u>255,000</u>	<u>3.35%</u>
	<u>\$ 7,598,354</u>	<u>100.00%</u>

**F. Reconciliation of Cash and Investment to Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,144,002
Investments	<u>7,598,354</u>
Total	<u>\$ 10,742,356</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 8,646,601
Business type activities	2,037,869
Agency funds	<u>57,886</u>
Total	<u>\$ 10,742,356</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported in the fund financial statements:

<u>Transfers from General Fund to:</u>	
Nonmajor governmental funds	\$ 146,699
 <u>Transfers from Capital Improvement fund to:</u>	
Water	524,684
Sewer	<u>32,755</u>
Total	<u>\$ 704,138</u>

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 5 - INTERFUND TRANSFERS - (Continued)**

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 transfers from the Capital Improvement fund to the Water and Sewer fund are required to transfer debt service payments to the funds which report the liabilities.

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

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2005. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2005 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real property tax	\$ 201,399,020
Public utility property	5,205,940
Tangible personal property	<u>75,699,742</u>
Total assessed valuation	<u><u>\$ 282,304,702</u></u>

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

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

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005. Although total property tax collections for the next year are measurable, they are generally not collected during the available period and; therefore, recorded as deferred revenue.

**NOTE 7 - LOCAL INCOME TAX**

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, Capital Improvement fund, and the 25% Street Construction fund. On the modified accrual basis of accounting, total income tax revenue was \$4,522,849 in 2005.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2005, consisted of taxes, accrued interest, loans, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, shared revenue. Receivables have been recorded to the extent that they are measurable at December 31, 2005, as well as intended to finance fiscal 2005 operations.

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

**Governmental Activities:**

Income taxes	\$ 909,417
Real and other taxes	604,793
Accounts	31,150
Special assessments	19,138
Intergovernmental	262,888
Accrued interest	11,857
Loans	15,737

**Business-type Activities:**

Accounts	546,123
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Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 9 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance			Balance
<b><u>Governmental Activities:</u></b>	<u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,504,452	\$ 67,702	\$ -	\$ 2,572,154
Construction in progress	<u>550,934</u>	<u>1,265,559</u>	<u>-</u>	<u>1,816,493</u>
Total capital assets, not being depreciated	<u>3,055,386</u>	<u>1,333,261</u>	<u>-</u>	<u>4,388,647</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,937,493	17,792	-	1,955,285
Buildings and improvements	3,100,552	7,680	-	3,108,232
Furniture and equipment	2,295,827	154,915	(4,957)	2,445,785
Vehicles	1,032,691	126,797	(14,860)	1,144,628
Infrastructure	<u>10,793,413</u>	<u>1,585,305</u>	<u>-</u>	<u>12,378,718</u>
Total capital assets, being depreciated	<u>19,159,976</u>	<u>1,892,489</u>	<u>(19,817)</u>	<u>21,032,648</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(709,880)	(105,982)	-	(815,862)
Buildings and improvements	(1,170,037)	(82,643)	-	(1,252,680)
Furniture and equipment	(1,096,587)	(195,695)	2,789	(1,289,493)
Vehicles	(642,114)	(84,892)	14,860	(712,146)
Infrastructure	<u>(3,268,445)</u>	<u>(446,612)</u>	<u>-</u>	<u>(3,715,057)</u>
Total accumulated depreciation	<u>(6,887,063)</u>	<u>(915,824)</u>	<u>17,649</u>	<u>(7,785,238)</u>
Total capital assets, being depreciated, net	<u>12,272,913</u>	<u>976,665</u>	<u>(2,168)</u>	<u>13,247,410</u>
Governmental activities capital assets, net	<u>\$ 15,328,299</u>	<u>\$ 2,309,926</u>	<u>\$ (2,168)</u>	<u>\$ 17,636,057</u>

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

**Governmental activities:**

General government	\$ 62,471
Security of persons and property	99,159
Transportation	643,915
Leisure time activity	<u>110,279</u>
Total depreciation expense - governmental activities	<u>\$ 915,824</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 9 - CAPITAL ASSETS - (Continued)**

<b><u>Business-type Activities:</u></b>	<u>Balance</u> 12/31/04	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> 12/31/05
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Construction in progress	<u>181,557</u>	<u>108,036</u>	<u>(267,903)</u>	<u>21,690</u>
Total capital assets, not being depreciated	<u>444,183</u>	<u>108,036</u>	<u>(267,903)</u>	<u>284,316</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	54,622	-	-	54,622
Buildings and improvements	1,940,410	-	-	1,940,410
Furniture and equipment	2,214,826	312,405	-	2,527,231
Infrastructure:				
Sewer lines	6,554,253	812,860	-	7,367,113
Water lines	<u>4,960,492</u>	<u>459,548</u>	<u>-</u>	<u>5,420,040</u>
Total capital assets, being depreciated	<u>15,724,603</u>	<u>1,584,813</u>	<u>-</u>	<u>17,309,416</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(23,415)	(3,285)	-	(26,700)
Buildings and improvements	(670,759)	(52,531)	-	(723,290)
Furniture and equipment	(1,034,467)	(172,705)	-	(1,207,172)
Infrastructure:				
Sewer lines	(1,473,950)	(131,689)	-	(1,605,639)
Water lines	<u>(1,203,264)</u>	<u>(122,223)</u>	<u>-</u>	<u>(1,325,487)</u>
Total accumulated depreciation	<u>(4,405,855)</u>	<u>(482,433)</u>	<u>-</u>	<u>(4,888,288)</u>
Total capital assets, being depreciated, net	<u>11,318,748</u>	<u>1,102,380</u>	<u>-</u>	<u>12,421,128</u>
Business-type activities capital assets, net	<u>\$11,762,931</u>	<u>\$ 1,210,416</u>	<u>\$(267,903)</u>	<u>\$12,705,444</u>

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

**Business-type activities:**

Water	\$ 301,196
Sewer	<u>181,237</u>
Total depreciation expense - business-type activities	<u>\$ 482,433</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 10 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

**B. Insurance**

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

**NOTE 11 - CAPITAL LEASES - LESSEE DISCLOSURE**

In a prior year, the City entered into a capitalized lease for two copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment has been capitalized in the amount of \$18,858. This amount represents the present value of the minimum lease payments at the time of acquisition. During 2005, principal and interest payments on the lease, totaling \$1,101 and \$428, respectively, were made out of the general fund while principal and interest payments on the lease, totaling \$2,202 and \$857, respectively, were made out of the Mayors' Court Computer fund (a nonmajor governmental fund).

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2005.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2006	\$ 4,589
2007	4,588
2008	4,589
2009	<u>2,677</u>
Total future minimum lease payments	16,443
Less: amount representing interest	<u>(2,189)</u>
Present value of future minimum lease payments	<u>\$ 14,254</u>

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 12 - LEASE-PURCHASE AGREEMENT**

In 2004, the City entered into a lease-purchase agreement with Huntington National Bank for the purchase of a datamatic fire-fly system. The source of revenue to fund the principal and interest payments is derived from the water and sewer fund. The City made no principal payments on the lease-purchase agreement during 2005. The future lease payments will be recorded as expenditures in the water and sewer funds.

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of December 31, 2005.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2006	\$125,416
2007	62,709
2008	<u>62,708</u>
Total future minimum lease payments	250,833
Less: amount representing interest	<u>(22,185)</u>
Present value of future minimum lease payments	<u>\$228,648</u>

**NOTE 13 - LONG-TERM OBLIGATIONS**

A. The City's long term obligations at December 31, 2005 were as follows:

<u>Debt Issue</u>	<u>Interest</u> <u>Rate</u>	<u>Original</u> <u>Issue Amount</u>	<u>Date of Maturity</u>
<b>Governmental Activities</b>			
Lewis Road Bonds - 1997	2.500%	\$ 36,000	12/01/07
Park Land Acquisition Bonds - 2000	0.000%	536,000	12/01/06
Beer Property Bonds - 2004	0.000%	331,665	12/01/08
<b>Business-Type Activities</b>			
OPWC Water Treatment Loan - 2000	0.000%	36,749	01/01/20
Sewer Improvement Notes - 1988	6.810%	556,080	12/01/06
Lease-Purchase Agreement	3.800%	291,356	12/01/08

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

During the fiscal year 2005, the following changes occurred in the City's long-term obligations:

	Balance			Balance	Due in
	<u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/05</u>	<u>One Year</u>
<b><u>Governmental activities:</u></b>					
Lewis Road Bonds - 1997	\$ 10,800	\$ -	\$ (3,600)	\$ 7,200	\$ 3,600
Park Land Acquisition Bonds - 2000	67,000	-	(33,500)	33,500	33,500
Beer Property Bonds - 2004	265,332	-	(66,333)	198,999	66,333
Capital Lease Payable	17,557	-	(3,303)	14,254	3,577
Compensated Absences	<u>195,536</u>	<u>92,847</u>	<u>(49,854)</u>	<u>238,529</u>	<u>54,964</u>
Total governmental activities	<u>\$ 556,225</u>	<u>\$ 92,847</u>	<u>\$ (156,590)</u>	<u>\$ 492,482</u>	<u>\$ 161,974</u>
<b><u>Business-Type Activities:</u></b>					
OPWC Water Treatment Loan - 2000	\$ 27,563	\$ -	\$ (1,837)	\$ 25,726	\$ 1,837
Sewer Improvement Note	58,536	-	(29,267)	29,269	29,269
Lease-Purchase Agreement	228,648	-	-	228,648	110,051
Compensated absences	<u>29,306</u>	<u>16,579</u>	<u>(5,386)</u>	<u>40,499</u>	<u>5,093</u>
Total business-type activities	<u>\$ 344,053</u>	<u>\$ 16,579</u>	<u>\$ (36,490)</u>	<u>\$ 324,142</u>	<u>\$ 146,250</u>

The Lewis Road Bonds were issued in 1997 for the purpose of road improvements. These bonds will be paid from the general fund and debt service fund (a nonmajor governmental fund).

The Park Land Acquisition bonds were issued in May 2000 by the City to four individuals for the purpose of acquiring real property adjacent to Marshall Park for recreational use. The first payment on the bonds was made in May of 2001 and the final was to be made in May of 2004. However, one individual did not redeem their bonds in both 2001 and 2002. The bonds will be redeemed in 2005 and 2006. The Park Land Acquisition bonds are paid from the Capital Improvement fund.

On December 2, 2004, the City issued bonds to purchase the Beer property. These are non-interest bearing bonds. The bonds are paid from the Capital Improvement fund.

The City's capital lease obligation is described in Note 11.

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, the Street Construction and Maintenance fund (a nonmajor governmental fund) and the Community Drug and Alcohol fund (a nonmajor governmental fund).

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

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

The City's lease-purchase agreement obligation is described in Note 12.

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, 2005 are as follows:

Year Ending	Lewis Road Bonds			Park Land Acquisition	Beer Property
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Bonds</u>	<u>Bonds</u>
<u>December 31</u>				<u>Principal</u>	<u>Principal</u>
2006	\$ 3,600	\$ 360	\$ 3,960	\$ 33,500	\$ 66,333
2007	3,600	180	3,780	-	66,333
2008	-	-	-	-	66,333
Total	<u>\$ 7,200</u>	<u>\$ 540</u>	<u>\$ 7,740</u>	<u>\$ 33,500</u>	<u>\$ 198,999</u>

Year Ending	OPWC Water	Sewer Improvement Note		
	Treatment Loan	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>December 31</u>	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,837	\$ 29,269	\$ 1,495	\$ 30,764
2007	1,837	-	-	-
2008	1,837	-	-	-
2009	1,837	-	-	-
2010	1,837	-	-	-
2011 - 2015	9,185	-	-	-
2016 - 2019	<u>7,356</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 25,726</u>	<u>\$ 29,269</u>	<u>\$ 1,495</u>	<u>\$ 30,764</u>

- B.** As of December 31, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$29,539,371 and the unvoted legal debt margin was \$15,424,136.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 14 - NOTES PAYABLE**

A summary of the note transactions for the year ended December 31, 2005, follows:

<b>Business-Type Activities:</b>	<u>Outstanding</u> <u>12/31/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/05</u>
2.07% Water System Improvement Note	\$ 1,500,000	\$ 1,000,000	\$ (1,500,000)	\$ 1,000,000
	<u>\$ 1,500,000</u>	<u>\$ 1,000,000</u>	<u>\$ (1,500,000)</u>	<u>\$ 1,000,000</u>

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

**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 2005, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
General Liability	\$ 0	\$5,000,000/\$7,000,000
Employers Liability	0	5,000,000
Employee Benefits	0	1,000,000/3,000,000
Law Enforcement Officers Liability	2,500	5,000,000/7,000,000
Public Officials Liability	2,500	5,000,000/7,000,000
Automobile	0	5,000,000
Property	1,000	15,634,506
Special Property Coverage	1,000	1,443,818
Electronic Equipment/Media Coverage	1,000	219,638
Public Employee Dishonesty	0	25,000
Boiler and Machinery	1,000	15,634,506

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

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

**B. Workers' Compensation**

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

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

Beginning in 2005, the City established a self-insurance plan for dental, vision and life benefits. The activity of the plan is recorded in the City's general fund. Monies are transferred on a monthly basis to the general fund from the other participating funds. The claims liability of \$3,673 reported on the financial statements at December 31, 2005 is based on the requirements of GASB Statement No. 10, "Account and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by FASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported.

Changes in the claims liability amount for the last year follows:

<u>Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ <u>          -</u>	\$ <u>  29,685</u>	\$ <u>  (26,012)</u>	\$ <u>      3,673</u>

**NOTE 16 - PENSION PLANS**

**A. Ohio Public Employees Retirement System**

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2005 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's contributions for pension obligations to OPERS for the years ended December 31, 2005, 2004, and 2003 were \$213,786, \$176,974, and \$142,796, respectively; 98.79% has been contributed for 2005 and 100% for 2004 and 2003. The unpaid contribution to fund pension obligations for 2005, in the amount of \$2,593 is recorded as a liability.

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

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions for pension obligations to OP&F for the years ended December 31, 2005, 2004, and 2003 were \$170,684, \$184,874, and \$116,600, respectively; 70.35% has been contributed for 2005 and 100% for 2004 and 2003. The unpaid contribution to fund pension obligations for 2005, in the amount of \$50,612, is recorded as a liability.

#### NOTE 17 - POSTRETIREMENT BENEFIT PLANS

#### **A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute.

## CITY OF ONTARIO, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

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

The 2005 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 376,109 as of December 31, 2005. The City's actual employer contributions for 2005 which were used to fund postemployment benefits were \$63,110. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 were \$11.1 billion. At December 31, 2005, the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional fund to be allocated to the health care plan.

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

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

**CITY OF ONTARIO, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

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

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$67,762 for police and firefighters. The OP&F's total health care expense for the year ended December 31, 2005 was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**NOTE 18 - BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund and 25% Street Construction fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Investments are reported as fair value (GAAP basis) rather than cost (budget basis).

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

	<b>Net Change in Fund Balance</b>	
	<u>General</u>	<u>25% Street Construction</u>
Budget basis	\$ 883,579	\$ (424,179)
Net adjustment for revenue accruals	(73,907)	102,030
Net adjustment for expenditure accruals	(19,497)	(126,937)
Net adjustment for other sources/(uses)	475	-
Adjustment for encumbrances	<u>98,186</u>	<u>327,291</u>
GAAP basis	<u>\$ 888,836</u>	<u>\$ (121,795)</u>

**CITY OF ONTARIO, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 19 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2005.

**B. Litigation**

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



**Julian & Grube, Inc.**  
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**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County (the "City") as of and for the year ended December 31, 2005, and have issued our report thereon dated October 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the management of the City in a separate letter dated October 1, 2007.

Members of Council and Mayor  
City of Ontario

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain matter that we reported to the management of the City in a separate letter dated October 1, 2007.

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

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

Julian & Grube, Inc.  
October 1, 2007





**Mary Taylor, CPA**  
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  
MAY 22, 2008