

CITY OF ONTARIO, OREGON

**INDEPENDENT AUDITOR'S REPORT,
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2012

Oster
Professional Group

Certified Public Accountants, PC

Burns and John Day, Oregon

CITY OF ONTARIO, OREGON
June 30, 2012

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INTRODUCTORY SECTION

CITY OF ONTARIO, OREGON
CITY COUNCIL AND OFFICIALS
June 30, 2012

<u>NAME</u>	<u>ADDRESS</u>	<u>POSITION</u>
CITY COUNCIL		
Joe Dominick	Ontario	Mayor
Norm Crume	Ontario	Council President
David Sullivan	Ontario	Councilor
Charlotte Fugate	Ontario	Councilor
Ronald Verini	Ontario	Councilor
Jackson Fox	Ontario	Councilor
Dan Jones	Ontario	Councilor
OFFICIALS		
Charles Mickelson	Ontario	Interim City Manager and Public Works Director
Tori Barnett	Ontario	City Recorder
Lisa Hansen	Ontario	Finance Director
Mark Alexander	Ontario	Chief of Police
Al Higinbotham	Ontario	Fire Chief
Kathy Daly	Ontario	Parks & Recreation Director

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

City Council
City of Ontario
Ontario, Malheur County, Oregon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the internal service fund, each major fund, and the aggregate remaining fund information of the City of Ontario as of and for the year ended June 30, 2012, 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 of Ontario's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

We were unable to obtain all information and explanations to determine the accuracy of the cash bank reconciliation. The information provided was not sufficient to provide reasonable assurance that this area was free from material misstatement.

In our opinion, except for the effects of the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the internal service fund, each major fund, and the aggregate remaining fund information of the City of Ontario, as of June 30, 2012, and the respective changes in financial position thereof 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 March 6, 2013, on our consideration of the City of Ontario's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to this required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ontario's financial statements as a whole. The required supplementary information, other supplementary information, combining and individual nonmajor fund financial statements, other financial schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information, other supplementary information, combining and individual nonmajor fund financial statements and other financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Oster Professional Group, CPA's, PC

By 

Burns, Oregon
March 6, 2013



CITY OF ONTARIO, OREGON
Management's Discussion & Analysis
June 30, 2012

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As management of the City of Ontario, Oregon, (city) we offer readers of the city's financial statements this narrative overview and analysis of the financial activities of the city for the fiscal year ended June 30, 2012. This Management's Discussion and Analysis (MD&A) is based upon currently known facts, decisions, and conditions that existed as of the date of the independent auditor's report.

The emphasis of discussions about these statements will be on current year data. This information is provided for use in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

- ❖ The assets of the city exceeded its liabilities at June 30, 2012 by \$54,227,060 (net assets). Of this amount, \$10,473,970 was unrestricted net assets and may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ At June 30, 2012, unassigned fund balance for the General Fund was \$637,967.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the city as a whole and present a longer-term view of the city's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the city's operations in more detail than the government-wide statements by providing information about the city's most significant funds.

This discussion and analysis is intended to serve as an introduction to the city's basic financial statements which is comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the city's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the city as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the city's *net assets* and changes in them. You can think of the city's net assets—the difference between assets and liabilities—as one way to measure the city's financial health,



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or *financial position*. Over time, *increases or decreases* in the city's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the city's property tax base and the condition of the city's roads, to assess the *overall health* of the city.

The Statement of Net Assets and the Statement of Activities present information about the following:

- ❖ **Governmental activities**—All of the city's basic services are considered to be governmental activities, including general government, community development, public safety, culture and recreation, and highways and streets. Property taxes, intergovernmental revenues, transient occupancy taxes, user fees, and franchise fees finance most of these activities.
- ❖ **Business-Type activities**—Operation of the city's utility system and the golf course are considered to be business-type activities, whereby all or a significant portion of the cost of operation is intended to be recovered through user fees and charges. The city's business-type activities are water, sewer, storm and golf.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the city as a whole. Some funds are required to be established by State law and by bond covenants. However, the City Council, with the help of the city's budget committee, establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The city's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

- ❖ **Governmental funds**—Most of the city's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the city's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources that can be spent in the near future to finance the city's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation section that follows the fund financial statements.



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- ❖ *Proprietary funds*—When the city charges for certain services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities.

THE CITY AS A WHOLE

Our analysis focuses on the net assets and changes in the city's net assets (Tables 1 and 2).

Table 1. Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Current and other assets	\$ 11,134,414	\$ 12,757,238	\$ 2,749,924	\$ 3,325,929	\$ 13,884,338	\$ 16,083,167
Capital assets	17,121,549	13,434,312	36,040,701	36,782,830	53,162,250	50,217,142
Total assets	<u>28,255,963</u>	<u>26,191,550</u>	<u>38,790,625</u>	<u>40,108,759</u>	<u>67,046,588</u>	<u>66,300,309</u>
Current liabilities	784,766	2,698,989	646,055	447,734	1,430,821	3,146,723
Noncurrent liabilities						
Due within one year	81,935	80,673	1,002,369	1,062,965	1,084,304	1,143,638
Due in more than one year	387,832	469,768	9,916,571	10,998,726	10,304,403	11,468,494
Total liabilities	<u>1,254,533</u>	<u>3,249,430</u>	<u>11,564,995</u>	<u>12,509,425</u>	<u>12,819,528</u>	<u>15,758,855</u>
Invested in capital assets, net of debt	16,651,782	12,883,871	25,121,761	24,721,139	41,773,543	37,605,010
Restricted net assets	995,210	561,734	984,337	984,337	1,979,547	1,546,071
Unrestricted net assets	9,354,438	9,496,515	1,119,532	1,893,858	10,473,970	11,390,373
Total net assets	<u>\$ 27,001,430</u>	<u>\$ 22,942,120</u>	<u>\$ 27,225,630</u>	<u>\$ 27,599,334</u>	<u>\$ 54,227,060</u>	<u>\$ 50,541,454</u>

Governmental Activities

The city's net assets from governmental activities increased by 18% from \$22,942,120 to \$27,001,430. This increase of \$4,059,310 comes from a -\$8,382 restatement of net assets and a current year increase of \$4,067,692 as recorded in the Statement of Activities and flows through the Statement of Net Assets. The following is an explanation of the changes between fiscal years as shown in Table 1:

- ❖ Current and other assets decreased by \$1,622,824 which is mostly made up of a large decrease in accounts receivable, mainly due to a receivable for the Airport Project in the prior year.
- ❖ Capital assets had a net increase of \$3,687,237, which is due to capital asset increases that exceeded depreciation for the year.



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- ❖ Current liabilities decreased by \$1,914,223, made up mostly of a large decrease in accounts payable.
- ❖ Long term debt decreased by \$80,674 due to principal payments on the existing debt, and no new debt in the current year.
- ❖ Unrestricted net assets decreased by \$142,077 mostly due to an increase in restricted net assets.

Business-Type Activities

The city's net assets from business-type activities decreased by 1.3% from \$27,599,334 to \$27,225,630. This decrease of \$373,704 comes from the current year change in net assets as recorded in the Statement of Activities.

- ❖ Current and other assets decreased by \$576,005 due to a decreased cash position and an amount owed to the governmental activities.
- ❖ Capital assets decreased by \$742,129 mainly due to depreciation exceeding capital asset additions in the current year.
- ❖ Long term debt decreased by \$1,142,751 due to principal payments on the existing debt with no new debt in the current year.
- ❖ Unrestricted net assets decreased by \$774,326 mainly due to the decreased current assets.



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Table 2. Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	6/30/2012	6/30/2011	6/30/2012	6/30/2011	6/30/2012	6/30/2011
Revenues:						
Program revenues:						
Charges for services	\$ 2,748,751	\$ 2,151,100	\$ 6,031,290	\$ 5,873,007	\$ 8,780,041	\$ 8,024,107
Operating contributions	1,280,747	1,269,375	-	-	1,280,747	1,269,375
Capital contributions	3,919,392	2,095,593	-	-	3,919,392	2,095,593
General revenues:						
Property taxes	3,111,431	3,051,480	-	-	3,111,431	3,051,480
Local taxes and fees	1,859,023	2,242,803	-	-	1,859,023	2,242,803
Unrestricted grants	97,995	89,659	-	-	97,995	89,659
Investment income	11,568	11,159	-	-	11,568	11,159
Miscellaneous	57,549	55,176	-	-	57,549	55,176
Total revenues and transfers	<u>13,086,456</u>	<u>10,966,345</u>	<u>6,031,290</u>	<u>5,873,007</u>	<u>19,117,746</u>	<u>16,839,352</u>
Expenses						
Governmental Activities						
General government	2,059,360	2,190,790	-	-	2,059,360	2,190,790
Highways and streets	705,816	918,053	-	-	705,816	918,053
Public safety	4,097,983	3,907,592	-	-	4,097,983	3,907,592
Parks and recreation	522,769	631,303	-	-	522,769	631,303
Capital outlay	1,488,888	220,624	-	-	1,488,888	220,624
Interest on debt	19,556	32,484	-	-	19,556	32,484
Business-Type Activities						
Water	-	-	2,923,937	2,585,132	2,923,937	2,585,132
Sewer	-	-	2,953,538	2,591,863	2,953,538	2,591,863
Golf course	-	-	443,935	374,641	443,935	374,641
Storm sewer	-	-	207,976	208,682	207,976	208,682
Total Expenses	<u>8,894,372</u>	<u>7,900,846</u>	<u>6,529,386</u>	<u>5,760,318</u>	<u>15,423,758</u>	<u>13,661,164</u>
Transfers in (out)	<u>(124,392)</u>	<u>(8,028)</u>	<u>124,392</u>	<u>8,028</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>4,067,692</u>	<u>3,057,471</u>	<u>(373,704)</u>	<u>120,717</u>	<u>3,693,988</u>	<u>3,178,188</u>
Net assets - beginning	<u>22,942,120</u>	<u>14,146,226</u>	<u>27,599,334</u>	<u>39,075,318</u>	<u>50,541,454</u>	<u>53,221,544</u>
Restatements	<u>(8,382)</u>	<u>5,738,423</u>	<u>-</u>	<u>(11,596,701)</u>	<u>(8,382)</u>	<u>(5,858,278)</u>
Net assets - as restated	<u>22,933,738</u>	<u>19,884,649</u>	<u>27,599,334</u>	<u>27,478,617</u>	<u>50,533,072</u>	<u>47,363,266</u>
Net assets, ending	<u>\$ 27,001,430</u>	<u>\$ 22,942,120</u>	<u>\$ 27,225,630</u>	<u>\$ 27,599,334</u>	<u>\$ 54,227,060</u>	<u>\$ 50,541,454</u>

Governmental Activities

The city's total revenues from governmental activities increased from the prior fiscal year by \$2,120,111 (19%) and the total cost of all governmental programs and services increased by \$993,526 (13%). The major increases in revenues came from charges for services and capital grants and contributions. The increases in expenses were primarily from increases in capital outlay.



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Business-Type Activities

The city's business-type activities revenues increased \$158,283 (3%) from the prior fiscal year and the total costs of the business-type activities increased \$769,068 (13%). The total business-type revenues increased mostly because of increases in water and sewer revenues. The expenses increased mainly due to increases in expenses at the golf course.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At year-end, the city's governmental funds reported combined fund balances of \$9,690,939, which is an increase of \$206,193(2%) from the prior fiscal year.

- ❖ The largest increase in fund balance was in the Street fund. The Street fund had a net change of \$2,315,418 after restatements. This was mainly due to an interfund loan booked from the General Fund for transient occupancy tax owed. Also, the fund balance increased due to receiving the 2012 transient occupancy tax allocation per City Ordinance.
- ❖ The largest decreases were in the General Fund and Grants Fund. The General Fund had a net change of -\$1,911,706, after restatements mainly due to the interfund loan owed to the Street Fund. The Grants Fund had a net change of -\$168,543, after restatements mainly due to completion of construction projects at the airport and city hall. Also, there was a large decrease in accounts receivable.

At year-end the city's proprietary funds reported combined net assets of \$25,253,719 for enterprise funds and \$1,971,911 in the internal service fund. This is a combined decrease in net assets of \$371,704.

GENERAL FUND BUDGETARY HIGHLIGHTS

The city operates on a biennial budget. Fiscal year 2011-2012 was the first year of the 11-13 budget.

Expenditures

The final appropriations in the first year of the budget for personal services for the General Fund were \$9,260,587 and the actual expenditures were \$4,594,231. This is 49.6% of the budget expended.

The final appropriations in the first year of the budget for materials and services for the General Fund were \$2,170,136 while actual expenditures were \$1,262,165. This is 58.2% of the budget expended.

Overall, appropriations were \$13,809,777 and total expenditures were \$5,916,118. This shows that 42.8% of the appropriated biennial budget was expended in fiscal year ended June 30, 2012.

Revenues

48% of the budgeted revenues for the 11-13 biennial budget have been received.



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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012 the city shows \$53,162,250 of capital assets, net of depreciation, this is an increase of \$2,945,108 from the prior year. The city has \$17,121,549 of capital assets in governmental activities and \$36,040,701 in business-type activities. The city had large projects at the airport and within the city hall that helped increase the capital assets in governmental activities. The business-type activities had some infrastructure additions.

Debt

The city had a total of \$11,388,707 in long-term debt at June 30, 2012; this is a decrease of \$1,223,425. The decrease is due to payments being applied to the principal of the debt. \$10,918,940 of this debt is being paid out of the proprietary funds and the remaining \$469,767 is paid from governmental activities. There was no new debt in fiscal year ended June 30, 2012.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The economy of the city is based primarily on agriculture; however, there are a great deal of retail jobs within Ontario as it serves as the shopping hub for the Treasure Valley.

The city adopted its fourth Biennial Budget for 2011-2013. This was used beginning fiscal year 2011-2012. This budget takes into account the projected property tax rates and valuations, historical trends in transient occupancy taxes, rate increases as allowed by ordinance for water services and the balance of project expenditures.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City of Ontario'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 the Finance Director at 444 SW 4th Street, Ontario, Oregon 97914.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ONTARIO, OREGON
STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 8,238,021	\$ 2,446,788	\$ 10,684,809
Receivables			
Property tax	321,982	-	321,982
Customer accounts receivable	-	548,465	548,465
Accounts	823,556	-	823,556
Street assessments	405,506	-	405,506
Loans	330,483	-	330,483
Due from other funds	589,251	(589,251)	-
Inventories	-	252,496	252,496
Restricted assets			
System development charges	151,035	-	151,035
Customer deposits	-	91,426	91,426
Deposits held in trust	274,581	-	274,581
Capital assets not being depreciated	10,508,191	4,112,532	14,620,723
Capital assets being depreciated (net of accumulated depreciation)	6,613,358	31,928,169	38,541,527
Total assets	<u>28,255,964</u>	<u>38,790,625</u>	<u>67,046,589</u>
LIABILITIES			
Accounts payable	207,668	220,159	427,827
Accrued liabilities	5,018	121,814	126,832
Accrued interest payable	9,025	212,656	221,681
Customer deposits	-	91,426	91,426
Deposits held in trust	246,663	-	246,663
Compensated absences	316,393	-	316,393
Long-term liabilities			
Portion due or payable within one year			
Current portion of note payable	81,935	1,002,369	1,084,304
Portion due or payable after one year			
Note payable	387,832	9,916,571	10,304,403
Total liabilities	<u>1,254,534</u>	<u>11,564,995</u>	<u>12,819,529</u>
NET ASSETS			
Invested in capital assets, net of related debt	16,651,782	25,121,761	41,773,543
Restricted for			
Street projects	631,008	-	631,008
Debt service	213,167	984,337	1,197,504
System development	151,035	-	151,035
Unrestricted	9,354,438	1,119,532	10,473,970
Total net assets	<u>\$ 27,001,430</u>	<u>\$ 27,225,630</u>	<u>\$ 54,227,060</u>

See notes to the basic financial statements.

CITY OF ONTARIO, OREGON
STATEMENT OF ACTIVITIES
June 30, 2012

Functions/ Programs	Program Revenues				Net (Expense) Revenue and Change in Net Assets		Total
	Expenses	Charges for services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Primary Government							
Governmental activities							
General government	\$ 2,059,360	\$ 1,126,938	\$ 6,245	\$ -	\$ (926,177)	\$ -	\$ (926,177)
Highways and streets	705,816	753,525	931,381	52,837	1,031,927	-	1,031,927
Public safety	4,097,983	144,780	307,765	386,414	(3,259,024)	-	(3,259,024)
Parks and recreation	522,769	182,132	35,356	-	(305,281)	-	(305,281)
Capital outlay	1,488,888	541,376	-	3,480,141	2,532,629	-	2,532,629
Interest on long term debt	19,556	-	-	-	(19,556)	-	(19,556)
Total governmental activities	<u>8,894,372</u>	<u>2,748,751</u>	<u>1,280,747</u>	<u>3,919,392</u>	<u>(945,482)</u>	<u>-</u>	<u>(945,482)</u>
Business-Type activities							
Water	2,923,937	2,778,457	-	-	-	(145,480)	(145,480)
Sewer	2,953,538	2,955,477	-	-	-	1,939	1,939
Golf course	443,935	191,675	-	-	-	(252,260)	(252,260)
Storm sewer	207,976	105,681	-	-	-	(102,295)	(102,295)
Total business type activities	<u>6,529,386</u>	<u>6,031,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(498,096)</u>	<u>(395,801)</u>
Total primary government	<u>\$ 15,423,758</u>	<u>\$ 8,780,041</u>	<u>\$ 1,280,747</u>	<u>\$ 3,919,392</u>	<u>(945,482)</u>	<u>(498,096)</u>	<u>(1,341,283)</u>
General revenues							
Property and other city tax levied for:							
General purposes					3,111,431	-	3,111,431
Local transit taxes and fees					1,859,023	-	1,859,023
Grants and contributions not restricted							
to specific purpose					97,995	-	97,995
Unrestricted investments earnings					11,568	-	11,568
Miscellaneous					57,549	-	57,549
Transfers					(124,392)	124,392	-
Total general revenues and transfers					<u>5,013,174</u>	<u>124,392</u>	<u>5,137,566</u>
Changes in net assets							
					4,067,692	(373,704)	3,693,988
Net assets, July 1, 2011, before restatement							
					22,942,120	27,599,334	50,541,454
Restatement, see note 13							
					(8,382)	-	(8,382)
Net assets, July 1, 2011, after restatement							
					<u>22,933,738</u>	<u>27,599,334</u>	<u>50,533,072</u>
Net assets June 30, 2012							
					<u>\$ 27,001,430</u>	<u>\$ 27,225,630</u>	<u>\$ 54,227,060</u>

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

CITY OF ONTARIO, OREGON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Grants Fund	Street Fund	Capital Projects Fund	Nonmajor Funds	Total June 30, 2012
ASSETS						
Cash and investments	\$2,117,635	\$ -	\$ 624,206	\$ 2,991,950	\$ 2,504,230	\$ 8,238,021
Receivables						
Property taxes	321,982	-	-	-	-	321,982
Special assessments	-	-	-	101,172	634,817	735,989
Other	410,698	290,951	41,828	45,982	34,097	823,556
Due from other funds	995,250	-	1,894,474	-	-	2,889,724
Restricted cash						
Cash held in trust	-	-	-	-	274,581	274,581
System development charges	-	-	-	151,035	-	151,035
Total assets	<u>\$3,845,565</u>	<u>\$ 290,951</u>	<u>\$2,560,508</u>	<u>\$ 3,290,139</u>	<u>\$ 3,447,725</u>	<u>\$13,434,888</u>
LIABILITIES AND FUND BALANCES						
Current liabilities						
Accounts payable	\$ 47,486	\$ 58,484	\$ 35,026	\$ 290	\$ 66,382	\$ 207,668
Deferred revenues	265,370	-	-	100,505	618,252	984,127
Payroll liabilities	5,018	-	-	-	-	5,018
Due to other funds	1,894,474	404,958	-	-	1,041	2,300,473
Deposits held in trust	-	-	-	-	246,663	246,663
Total liabilities	<u>2,212,348</u>	<u>463,442</u>	<u>35,026</u>	<u>100,795</u>	<u>932,338</u>	<u>3,743,949</u>
Fund balances						
Nonspendable	995,250	-	1,894,474	-	-	2,889,724
Spendable						
Restricted	-	-	631,008	151,035	213,167	995,210
Committed	-	-	-	3,038,309	2,320,867	5,359,176
Unassigned	637,967	(172,491)	-	-	(18,647)	446,829
Total fund balances	<u>1,633,217</u>	<u>(172,491)</u>	<u>2,525,482</u>	<u>3,189,344</u>	<u>2,515,387</u>	<u>9,690,939</u>
Total liabilities and fund balances	<u>\$3,845,565</u>	<u>\$ 290,951</u>	<u>\$2,560,508</u>	<u>\$ 3,290,139</u>	<u>\$ 3,447,725</u>	<u>\$13,434,888</u>

CITY OF ONTARIO, OREGON
RECONCILIATION OF GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT TO NET ASSETS
June 30, 2012

TOTAL FUND BALANCES \$ 9,690,939

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets are not financial resources and, therefore, are not reported in the governmental funds

Cost	\$24,283,038	
Accumulated depreciation	<u>(7,161,490)</u>	17,121,548

Compensated absences are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements. (316,392)

Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. 984,127

Long-term liabilities not payable in the current year are not reported as governmental fund liabilities. Interest in long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.

Note payable	(469,767)	
Accrued interest	<u>(9,025)</u>	(478,792)

TOTAL NET ASSETS \$27,001,430

CITY OF ONTARIO, OREGON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended
June 30, 2012

	General Fund	Grants Fund	Street Fund	Capital Projects Fund	Nonmajor Funds	Total June 30, 2012
Revenues						
Property taxes	\$ 3,070,657	\$ -	\$ -	\$ -	\$ -	\$ 3,070,657
Other taxes	82,165	-	345,093	-	310,769	738,027
Special assessments collected	-	-	-	-	33,502	33,502
Franchise fees	1,421,222	-	-	-	-	1,421,222
Licenses and permits	192,537	-	-	-	-	192,537
Intergovernmental revenues	635,968	3,497,164	905,951	13,068	84,467	5,136,618
Charges for services	294,216	-	-	4,297	3,880	302,393
Fines and forfeits	5,602	-	-	-	-	5,602
Miscellaneous revenues	66,350	-	12,195	258,471	1,731	338,747
Donations	24,511	-	-	-	-	24,511
Interest on investments	9,407	-	-	2,161	30,796	42,364
Loan repayments	-	-	-	-	55,037	55,037
System development charges	-	-	-	84,436	-	84,436
Utilities capitalization charges	-	-	-	452,644	-	452,644
Administration	712,788	-	321,372	-	-	1,034,160
Total revenues	6,515,423	3,497,164	1,584,611	815,077	520,182	12,932,457
Expenditures						
General government	1,548,844	-	-	-	273,821	1,822,665
Highways and streets	-	-	808,078	-	-	808,078
Public safety	3,874,181	-	-	-	513,460	4,387,641
Parks and recreation	433,371	-	-	-	-	433,371
Capital outlay	59,722	3,657,325	371,089	832,110	144,412	5,064,658
Debt service						
Principal	-	-	-	-	55,377	55,377
Interest	-	-	-	-	21,700	21,700
Total expenditures	5,916,118	3,657,325	1,179,167	832,110	1,008,770	12,593,490
Excess of revenues over (under) expenditures	599,305	(160,161)	405,444	(17,033)	(488,588)	338,967
Other financing sources (uses)						
Operating transfers in	31,460	-	15,500	-	508,105	555,065
Operating transfers out	(647,997)	-	-	-	(31,460)	(679,457)
Total other sources (uses)	(616,537)	-	15,500	-	476,645	(124,392)
Net change in fund balances	(17,232)	(160,161)	420,944	(17,033)	(11,943)	214,575
Fund balances, July 1, before restatement	3,544,923	(3,948)	210,064	3,206,377	2,527,330	9,484,746
Restatement, see note 13	(1,894,474)	(8,382)	1,894,474	-	-	(8,382)
Fund balances, July 1, after restatement	1,650,449	(12,330)	2,104,538	3,206,377	2,527,330	9,476,364
Fund balances, June 30	\$ 1,633,217	\$ (172,491)	\$ 2,525,482	\$ 3,189,344	\$ 2,515,387	\$ 9,690,939

CITY OF ONTARIO, OREGON
**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended
June 30, 2012

NET CHANGE IN FUND BALANCES \$ 214,575

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Expenditures for capital assets	\$ 4,128,114	
Less current year depreciation	<u>(440,877)</u>	3,687,237

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Assets.

Debt principal repaid		80,674
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Interest on long-term debt is not accrued in the governmental funds but is expensed when paid.

Interest accrued		2,015
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Certain revenues not collected for several months after year end are not considered available revenue and is deferred in the governmental funds. The change in deferred revenue is not reflected in the governmental funds, but is in the Statement of Activities as a change in revenues.

52,738

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences		30,453
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CHANGE IN NET ASSETS		<u><u>\$ 4,067,692</u></u>
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PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF ONTARIO, OREGON
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended
June 30, 2012

	Enterprise Funds				Total June 30, 2012	Internal Service Fund
	Water Fund	Sewer Fund	Storm Sewer Fund	Golf Course Fund		
ASSETS						
Cash and investments	\$ 958,323	\$ 1,250,943	\$ -	\$ -	\$ 2,209,266	\$ 237,522
Receivables						
Customer accounts receivable	271,111	228,675	8,259	11,747	519,792	28,673
Due from other funds	-	235,014	-	-	235,014	-
Inventories	121,198	121,198	10,100	-	252,496	-
Restricted cash						
Customer deposits	11,103	-	-	1,000	12,103	79,323
Capital assets, net of accumulated depreciation	11,901,397	18,623,955	2,800,001	883,383	34,208,736	1,831,965
Total assets	13,263,132	20,459,785	2,818,360	896,130	37,437,407	2,177,483
LIABILITIES						
Current liabilities						
Accounts payable	89,950	54,952	690	35,715	181,307	38,852
Accrued compensated absences	13,530	20,887	-	-	34,417	87,397
Accrued interest	97,219	115,437	-	-	212,656	-
Deposit liability	11,103	-	-	1,000	12,103	79,323
Due to other funds	-	-	235,014	589,251	824,265	-
Current portion of non-current liabilities	218,867	783,502	-	-	1,002,369	-
Total current liabilities	430,669	974,778	235,704	625,966	2,267,117	205,572
Non-current liabilities						
Notes payable	3,796,319	6,120,252	-	-	9,916,571	-
Total liabilities	4,226,988	7,095,030	235,704	625,966	12,183,688	205,572
NET ASSETS						
Invested in capital assets, net of related debt	7,886,211	11,720,201	2,800,001	883,383	23,289,796	1,831,965
Restricted net assets						
Debt service	-	984,337	-	-	984,337	-
Unrestricted net assets	1,149,933	660,217	(217,345)	(613,219)	979,586	139,946
Total net assets	\$ 9,036,144	\$ 13,364,755	\$ 2,582,656	\$ 270,164	\$ 25,253,719	\$ 1,971,911

CITY OF ONTARIO, OREGON
**RECONCILIATION OF ENTERPRISE FUNDS STATEMENT OF NET ASSETS
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2012

TOTAL ENTERPRISE FUNDS NET ASSETS \$25,253,719

Amounts reported for business-type activities in the Statement of Net Assets are different because:

The internal service fund is used by management to charge the costs of certain activities to individual funds. The internal service fund predominately serves the enterprise funds, so the assets and liabilities of the internal service fund is included in Business-Type Activities in the Statement of Net Assets as follows:

Cash and cash equivalents	\$ 316,845	
Accounts receivable	28,673	
Capital assets, net of depreciation	1,831,965	
Accounts payable	(38,852)	
Compensated absences payable	(87,397)	
Deposit liability	<u>(79,323)</u>	
		1,971,911

TOTAL NET ASSETS \$27,225,630

CITY OF ONTARIO, OREGON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended
June 30, 2012

	Enterprise Funds				Total June 30, 2012	Internal Service Fund
	Water Fund	Sewer Fund	Storm Sewer Fund	Golf Course Fund		
Operating revenues						
Consumer receipts	\$ 2,778,457	\$ 2,942,391	\$ 105,681	\$ 191,675	\$ 6,018,204	\$ 2,261,949
Miscellaneous	-	13,086	-	-	13,086	100,355
Total operating revenues	<u>2,778,457</u>	<u>2,955,477</u>	<u>105,681</u>	<u>191,675</u>	<u>6,031,290</u>	<u>2,362,304</u>
Operating expenses						
Wages and salaries	206,597	192,212	12,206	81,977	492,992	875,132
Employee benefits	91,442	82,997	6,938	8,913	190,290	332,872
Contract labor	82,116	9,372	-	117,672	209,160	38,010
Depreciation	428,321	526,873	104,111	52,228	1,111,533	76,079
Insurance	41,686	32,031	-	3,817	77,534	28,759
Miscellaneous expense	10,741	47,884	-	14,382	73,007	27,376
Repairs and maintenance	115,160	106,386	3,853	52,389	277,788	65,669
Supplies - general	123,079	43,046	-	38,285	204,410	85,806
Supplies - petroleum	4,043	4,795	-	15,175	24,013	46,625
Telephone	3,912	5,418	-	-	9,330	6,624
Travel and school	3,392	4,974	-	-	8,366	10,641
Utilities	294,150	190,691	-	45,896	530,737	51,444
Administrative	1,289,985	1,291,377	85,913	-	2,667,275	625,728
Capital outlay	39,882	141,439	-	13,200	194,521	-
Total operating expenses	<u>2,734,506</u>	<u>2,679,495</u>	<u>213,021</u>	<u>443,934</u>	<u>6,070,956</u>	<u>2,270,765</u>
Net income from operations	43,951	275,982	(107,340)	(252,259)	(39,666)	91,539
Non operating income (expenses)						
Interest earned on investments	-	-	-	-	-	34,585
Interest expenses	(249,971)	(337,983)	-	-	(587,954)	-
Bond premium	-	3,400	-	-	3,400	-
Total non operating income (expenses)	<u>(249,971)</u>	<u>(334,583)</u>	<u>-</u>	<u>-</u>	<u>(584,554)</u>	<u>34,585</u>
Net income	(206,020)	(58,601)	(107,340)	(252,259)	(624,220)	126,124
Other financing sources (uses)						
Transfers in	-	-	-	124,392	124,392	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>124,392</u>	<u>124,392</u>	<u>-</u>
Net change in net assets	(206,020)	(58,601)	(107,340)	(127,867)	(499,828)	126,124
Net assets beginning of year	9,242,164	13,423,356	2,689,996	398,031	25,753,547	1,845,787
Net assets end of year	<u>\$ 9,036,144</u>	<u>\$ 13,364,755</u>	<u>\$ 2,582,656</u>	<u>\$ 270,164</u>	<u>\$ 25,253,719</u>	<u>\$ 1,971,911</u>

CITY OF ONTARIO, OREGON
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS OF
ENTERPRISE FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended
June 30, 2012

NET CHANGE IN ENTERPRISE FUNDS NET ASSETS \$ (499,828)

Amounts reported for business-type activities in the Statement of
Activities are different because:

Internal service funds are used by management to charge the
costs of certain activities to individual funds. The net revenue
(expense) of the internal service fund is allocated to
business-type activities.

126,124

CHANGE IN NET ASSETS

\$ (373,704)

CITY OF ONTARIO, OREGON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended
June 30, 2012

	Enterprise Funds					Internal Service Fund
	Water Fund	Sewer Fund	Storm Sewer Fund	Golf Course Fund	Total	
Cash flows from operating activities						
Cash received from customers	\$ 2,811,196	\$ 2,934,792	\$ 104,949	\$ 189,119	\$ 6,040,056	\$ 2,251,047
Cash payment to employees for services	(305,791)	(282,364)	(19,144)	(208,561)	(815,860)	(1,195,332)
Cash payment to suppliers for goods and services	(1,937,870)	(1,827,923)	(87,948)	(176,734)	(4,030,475)	(965,732)
Other operating revenues	-	13,086	-	-	13,086	100,355
Net cash provided by operating activities	<u>567,535</u>	<u>837,591</u>	<u>(2,143)</u>	<u>(196,176)</u>	<u>1,206,807</u>	<u>190,338</u>
Cash flows from noncapital financing activities						
Operating transfers-in from funds	-	-	-	124,392	124,392	-
Interfund loans	-	(2,143)	2,143	71,784	71,784	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>(2,143)</u>	<u>2,143</u>	<u>196,176</u>	<u>196,176</u>	<u>-</u>
Cash flows from capital and related financing activities						
Acquisition and construction of capital assets	(15,430)	(354,619)	-	-	(370,049)	(75,434)
Interest paid on notes payable	(177,566)	(336,509)	-	-	(514,075)	-
Payment on notes	(212,985)	(926,366)	-	-	(1,139,351)	-
Net cash used for capital and related financing activities	<u>(405,981)</u>	<u>(1,617,494)</u>	<u>-</u>	<u>-</u>	<u>(2,023,475)</u>	<u>(75,434)</u>
Cash flows from investing activities						
Interest and dividends on investments	-	-	-	-	-	34,585
Net cash provided (used) in investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,585</u>
Net increase (decrease) in cash and cash equivalents	161,554	(782,046)	-	-	(620,492)	149,489
Cash and cash equivalents at beginning of year	807,872	2,032,989	-	1,000	2,841,861	167,356
Cash and cash equivalents at end of year	<u>\$ 969,426</u>	<u>\$ 1,250,943</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 2,221,369</u>	<u>\$ 316,845</u>
Reconciliation of operating income to net cash provided by operating activities						
Net Income	\$ 43,951	\$ 275,982	\$ (107,340)	\$ (252,259)	\$ (39,666)	\$ 91,539
Adjustments to reconcile net income to net cash provided (used) by operating activities						
Depreciation expense	428,321	526,873	104,111	52,228	1,111,533	76,079
(Increase) decrease in accounts receivable	32,739	(7,599)	(732)	(2,556)	21,852	(17,355)
(Increase) decrease in inventories	13,786	13,786	1,149	-	28,721	-
Increase (decrease) in accounts payable	56,490	35,704	669	6,411	99,274	20,950
Increase (decrease) in accrued compensated absences	(7,752)	(7,155)	-	-	(14,907)	12,672
Net increase (decrease) in customer deposits	-	-	-	-	-	6,453
Total adjustments	<u>523,584</u>	<u>561,609</u>	<u>105,197</u>	<u>56,083</u>	<u>1,246,473</u>	<u>98,799</u>
Net cash provided (used) by operating activities	<u>\$ 567,535</u>	<u>\$ 837,591</u>	<u>\$ (2,143)</u>	<u>\$ (196,176)</u>	<u>\$ 1,206,807</u>	<u>\$ 190,338</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets						
Current assets						
Cash and investments	\$ 958,323	\$ 1,250,943	\$ -	\$ -	\$ 2,209,266	\$ 237,522
Restricted assets						
Water and sewer deposits	11,103	-	-	1,000	12,103	79,323
Total cash and cash equivalents at year end	<u>\$ 969,426</u>	<u>\$ 1,250,943</u>	<u>\$ -</u>	<u>\$ 1,000</u>	<u>\$ 2,221,369</u>	<u>\$ 316,845</u>

See notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Note 1. Significant Accounting Policies

Organizational Authority

The City of Ontario operates under a charter adopted in 1954, The City Council, composed of the mayor and six council members, comprises the legislative branch of the city. Each councilor and the mayor are elected for a term of four years. Individual departments are under direction of the City Manager, who is appointed by the City Council. The City of Ontario provides numerous services to citizens, including public safety, public works and general government services. It also operates the airport, golf course and provides water and sewer utilities.

A. The Reporting Entity

The City Council exercises governance responsibilities over all entities related to city activity. The city receives funding from local, state, and federal sources. However, the City of Ontario is not included in any other governmental reporting entity as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Council members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

In evaluating how to define the city for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the primary government's financial accountability. The criteria used to determine financial accountability include whether the primary government appoints a voting majority, the primary government can impose its will on the component unit, whether there is financial benefit or burden on the primary government, and if the component unit has a fiscal dependency on the primary government. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the city is financially accountable. No other entities met requirements for inclusion in the basic financial statements of the City of Ontario.

B. Fund Accounting

The accounts of the city are organized based on funds and account groups, each of which is considered a separate accounting entity. The operations of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures, or expenses as appropriate. City resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds are grouped, in the financial statements in this report, into two broad fund categories: governmental funds and proprietary funds.

GOVERNMENTAL FUNDS

General Fund—The General Fund is the general operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds—Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF ONTARIO, OREGON
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Debt Service Funds—Debt service funds are used to account for interest and principal payments for debt.

Capital Project Funds—Capital project funds are generally used to account for financial resources to be used for the acquisitions or construction of major capital facilities.

PROPRIETARY FUNDS

Enterprise Funds—Enterprise funds are used to account for water and sewer services and golf course services provided to the community. Principal revenue sources are fees charged to consumers for services.

Internal Service Fund—The Internal service fund is used to charge the costs of certain activities to individual funds. The internal service fund is predominately used by enterprise funds.

C. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information on all the nonfiduciary activities of the city. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are financed primarily through property taxes and intergovernmental revenues, and are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the city's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each of its functions/programs. Direct expenses are those that are specifically associated with a function and, therefore, are clearly identifiable to that function. Eliminations have been made to minimize the double counting of internal activities in the Statement of Activities. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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Fund Financial Statements

The fund financial statements provide information about the city's funds. Separate financial statements are provided for each fund category (governmental and proprietary). The emphasis of fund financial statements is on major funds, each displayed in a separate column. The nonmajor funds are shown in the aggregate.

The city reports the following major governmental funds:

General Fund—The General Fund is the general operating fund of the city. It is used to account for all financial resources except those required to be accounted for in another fund.

Grants Fund—The Grants Fund is a special revenue fund used to account for grant resources received for specific project.

Street Fund— The Street Fund is a special revenue fund used to account for maintenance of the city's streets and street lighting. The major sources of revenue for the Street Fund come from the state of Oregon with tax on motor vehicle fuel and the Surface Transportation Program funds.

Capital Projects Fund—The Capital Projects Fund is used to account for financial resources to be used for the acquisitions or construction of major capital facilities.

The city reports on the following major proprietary funds:

Water Fund – The Water Fund is an enterprise fund used to account for the operation of the city's water system.

Sewer Fund – The Sewer Fund is an enterprise fund used to account for the operation of the city's sewer system.

Storm Sewer Fund – The Storm Sewer Fund is an enterprise fund used to account for the operation services and maintenance of the city's storm drainage system.

Golf Course Fund – The Golf Course Fund is an enterprise fund used to account for the operation of the city's golf course.

Public Works Internal Service Fund – The Public Works Internal Service Fund is used to charge the costs of certain activities to individual funds. The internal service fund is predominately used by enterprise funds.

D. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless when related cash flows take place. Property tax is recognized as revenue in the year for which the taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be

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available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the city.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the city funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the city's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the city apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the city's proprietary funds are charges to customers for services and products. Operating expenses for the city's proprietary funds include the cost of services, administrative expenses, capital outlay and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Budgets and Budgetary Accounting

A biennial budget is prepared for each city fund in accordance with the modified accrual basis of accounting and legal requirements set forth in the Oregon local budget law. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, materials and services, capital outlay, debt service, transfers and contingencies by fund are the levels of control. The detail budget document, however, is required to contain more specific detailed information for the above mentioned expenditure categories. All appropriations lapse at June 30.

Unexpected additional resources may be added to the budget by a supplemental budget and appropriations resolution. A supplemental budget may require hearings before the public, publications in newspapers, and approval by the council. Original and supplemental budgets may be modified by using appropriations transfers between the levels of control. Such transfers require approval by the council. The budget for the General Fund, special revenue funds, and proprietary funds includes capital outlay expenditures in each program for capital outlay applicable to that program.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

F. Capital Assets

Capital assets, which include property, equipment, vehicles, and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at original or estimated original cost. Donated capital assets are recorded at their estimated fair market value on the date donated. The city defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of one reporting period. Interest incurred during construction is not capitalized. The cost of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives.

Buildings and improvements	20 to 50 years
Improvements other than buildings	20 years
Equipment	5 to 30 years
Vehicles	8 years
Infrastructure	10 to 65 years

G. Property Taxes Receivable

Property taxes assessed but not yet collected are reported on the balance sheet, but are offset by deferred revenue accounts. The city levies taxes on a fiscal year from July 1 to June 30. The current levy becomes a lien on July 1. Taxes are due November 15 and become delinquent May 15. Foreclosure is started three years after taxes become delinquent. The city turns all tax collection duties over to Malheur County, Oregon.

Uncollected property taxes are recorded on the statement of net assets. Uncollected taxes are deemed to be substantially collected or recoverable through liens; therefore, no allowance for uncollectible taxes has been established. All property taxes receivable are due from property owners within the city.

H. Deferred Revenues

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental funds financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

I. Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefit Amounts

The city maintains a policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for non-vested unpaid accumulated sick pay benefits. All vacation pay and vested sick pay benefits is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Benefits are normally paid from the General, 911, Street, Water, Sewer, Storm Sewer and Public Works Fund. The compensated absences liability was \$316,393 at June 30, 2012 and \$346,846 at June 30, 2011.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

J. Cash and Investments

The city's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All short-term cash surpluses are maintained in savings accounts and the state of Oregon Local Government Investment Pool and allocated to each fund based on the amount of excess cash each fund has deposited.

Oregon statutes and local ordinances authorize the city to invest (short-term and long-term) in certificates of deposit (considered deposits for risk categorization purposes), certain bond obligations of civil subdivisions, general obligations of the states of Oregon, Washington, Idaho, and California, certain interest bearing bonds of a county, port, or school district, certain interest bearing bonds of any city in the state of Oregon, life insurance and annuity contracts, pooled deferred compensation trusts, banker's acceptances, and certain corporate bonds.

K. Encumbrances

The city does not use encumbrance accounting.

L. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Interfund receivables and payables between funds are eliminated in the statement of net assets.

M. Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

N. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the city considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary fund types are pooled with the city's pooled cash and investments.

O. Inventories

Inventory in the Water, Sewer and Storm Sewer Funds are determined by physical count and are stated at the lower of cost (first in, first out) or market. Expenses are recognized when inventories are consumed.

P. Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the basic financial statements and reported amounts of revenues and expenses/expenditures during the reporting period.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Q. Fund Balances

GASB Statement No. 54 requires analysis and presentation of fund balances in five categories; the fund balance categories are:

- *Nonspendable*—Includes items not immediately converted to cash, such as prepaid items, interfund receivables and inventory.
- *Restricted*—Includes items that are restricted by external creditors, grantors or contributors, or restricted by legal constitutional provisions.
- *Committed*—Includes items committed by the city council, by formal council action.
- *Assigned*—Includes items assigned for specific uses, authorized by the city council or their designee.
- *Unassigned*—This is the residual classification used for those balances not assigned to another category.

The city council authorized the council or a designee to make assignments of ending fund balance. Assignments of fund balances can be done at any time, including after fiscal year end date.

Finally, GASB 54 requires a spending policy, as it relates to ending fund balance. The spending policy states in what order fund balance categories are spent. The council approved the following fund balance order of spending policy:

1. Restricted Fund Balance
2. Committed Fund Balance
3. Assigned Fund Balance
4. Unassigned Fund Balance

Note 2. Retirement Plans

Oregon Public Employees Retirement System

Plan Description - The city contributes to two pension plans administered by the Oregon Public Employees Retirement System (PERS). The Oregon Public Employees Retirement Fund (OPERF) applies to the city's contribution for qualifying employees who were hired before August 29, 2003, and is a cost-sharing multiple-employer defined benefit pension plan. The Oregon Public Service Retirement Plan (OPSRP) is a hybrid successor plan to the OPERF and consists of two programs: The Pension Program, the defined benefit portion of the plan, applies to qualifying city employees hired after August 29, 2003. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service. Beginning January 1, 2004, all PERS member contributions go into the Individual Account Program (IAP), the defined contribution portion of the plan. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member IAP, not the member's PERS account.

Both PERS plans provide retirement and disability benefits, post employment health care benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is administered under

CITY OF ONTARIO, OREGON
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Oregon Revised Statute (ORS) Chapter 238, which establishes the Public Employees Retirement Board as the governing body of PERS. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report can be obtained by writing PERS, P.O. Box 23700, Tigard, OR 97281-3700 or by calling 1-503-598-7377.

Funding Policy - Members of PERS are required to contribute 6% of their salary covered under the plan, which is invested in the OPSRP Individual Account Program. The city is required by ORS 238.225 to contribute at an actuarially determined rate for the qualifying employees under the OPSRP plan. The OPERF and the OPSRP rates in effect for the year ended June 30, 2012 were 17.87% and 14.34% for general service employees and 17.05% for police and fire employees. The contribution requirements for plan members are established by the ORS Chapter 238 and may be amended by an act of the Oregon Legislature.

Annual Pension Costs – The city’s contributions to PERS for the years ending June 30, 2012, 2011, and 2010 were \$976,278, \$837,662, and \$809,724, respectively, which equaled the required contributions for the year.

Deferred Compensation Plan

Plan Description – The city offers employees a deferred compensation plan (the Plan) sponsored by the City. The Plan is a defined contribution plan created in accordance with Internal Revenue Code Section 457. The Plan is available to all represented and non-represented city employees, and permits them to defer a portion of their salary until future years. Contributions are made through salary deductions from participating employees up to the amounts specified in the Code. No contributions are required from the city. As of June 30, 2012, 55 individuals were participating in the 457 plan. Amounts deferred are not available to employees until termination, retirement, death, or unforeseeable emergency. All assets and income of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. No Plan assets have been used for purposes other than the payment of benefits.

At June 30, 2012, the amount deferred and investments earnings thereon, adjusted to fair market value, amount to \$1,400,267. The Plan assets are held in custodial accounts by the plan provider for the exclusive benefit of the participants or their beneficiaries. The city does not perform the investing function and has no fiduciary accountability for the plan. Therefore, plan assets and any related liability to plan participants are not reported in the city financial statements as of June 30, 2012.

Note 3. Other Post Employment Benefits—GASB 45

For the fiscal year ended June 30, 2009, the city implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. This statement addresses how state and local governments should account for and report their costs and obligations related to Other Postemployment Benefits (OPEB). The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. For the fiscal year ended June 30, 2012, the city’s participation in the City County Insurance Services (CCIS) health plans have been determined to constitute community-rated coverage, as allowed by GASB 45, therefore, there is no implicit subsidy to value and no liability accrued in the financial statements.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Note 4. Accounts Receivable

The governmental funds of the city have accounts receivable as follows:

General Fund	Property taxes	\$ 321,982
General Fund	Other	410,698
Grants Fund	Grants	290,951
Street Fund	Grants	4,987
Street Fund	Occupancy tax	36,841
Nonmajor funds	Special Assessments	634,817
Nonmajor funds	Other	34,097
Capital Projects Fund	Local Improvement District	101,172
Capital Projects Fund	Other	<u>45,982</u>
	TOTAL	<u><u>\$ 1,881,527</u></u>

The proprietary funds of the city have service billing revenues receivable as follows:

Water Fund	\$ 271,111
Sewer Fund	228,675
Storm Sewer Fund	8,259
Golf Course Fund	11,747
Internal Service Fund	<u>28,673</u>
	<u><u>\$ 548,465</u></u>

The city has not set up any allowance for doubtful accounts at June 30, 2012.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Note 5. Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

Description	Balance 6/30/2011	Increases	Decreases	Balance 6/30/2012	Due within one year
GOVERNMENTAL ACTIVITIES					
Oshkosk Capital	\$ 79,739	\$ -	\$ 25,297	\$ 54,442	\$ 26,558
US Bank-LID 44 and 45	470,702	-	55,377	415,325	55,377
BUSINESS-TYPE ACTIVITIES					
Water Revenue Bonds	173,384	-	86,677	86,707	86,707
WTP Upgrade OECDD	4,054,787	-	126,308	3,928,479	132,160
OECDD-Wastewater System Improvements	3,783,011	-	102,554	3,680,457	103,081
Oregon DEQ loans	3,972,598	-	823,812	3,148,786	680,421
Bond premium	77,911	-	3,400	74,511	3,400
Total Long-term Debt	<u>\$ 12,612,132</u>	<u>\$ -</u>	<u>\$ 1,223,425</u>	<u>\$ 11,388,707</u>	<u>\$ 1,087,704</u>

Governmental Activities

US Bank Special Assessment Debt

The city issued \$830,650 of special assessment debt to provide funding for local improvement districts previously funded by the city. These bonds bear interest rates of 4.75%, payable first from collections of assessment liens receivable and second, if necessary, from general property taxes. Payments are made from the Debt Service Fund. Final payment is due September 1, 2019.

Fiscal Year Ending June 30,	Principal	Interest	Remaining Balance
			\$ 415,325
2013	\$ 55,377	\$ 19,070	359,948
2014	55,377	16,440	304,571
2015	55,377	13,810	249,194
2016	55,377	11,179	193,817
2017	55,377	8,549	138,440
2018-2019	138,440	9,864	-
	<u>\$ 415,325</u>	<u>\$ 78,912</u>	

Capital Lease – Oshkosk Capital

The city has entered into a capital lease agreement as lessee for financing of a pumper truck. This lease qualifies as a capital lease and therefore the vehicle was recorded at the present value of the minimum lease payments as of the date of inception.

	Balance of Lease	Interest Rate
Pierce KW Pumper	\$ 54,442	4.99%

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
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A schedule of future minimum lease payments is as follows:

Fiscal year Ending June 30,	Total
2013	\$ 29,275
2014	29,275
Total minimum lease payments	58,550
Less: interest included in payments	(4,108)
Present value of minimum lease payment	\$ 54,442

Business-Type Activities

Water Revenue Bonds

The city issued Water Revenue Bonds, Series 2002, on December 13, 2002 in the amount of \$866,799, with interest at 4.5%. Interest is payable semiannually on the 15th day of December and June each year. Principal payments of \$86,680 are payable annually on December 15th. Final payment is due December 15, 2012. The bonds are not subject to redemption at the option of the city.

Fiscal Year Ending June 30,	Principal	Interest	Balance
2013	\$ 86,707	\$ 1,950	-
Total	\$ 86,707	\$ 1,950	

Water Treatment Plant Upgrade Oregon Economic Community Development Department

The city converted water treatment facility improvements interim-financing from the Oregon Economic and Community Development Department (OECDD) to a promissory note in the amount of \$4,482,580 on May 1, 2007. Principal and interest, at rates from 4.0% to 4.375%, is payable annually. The final payment is due December 1, 2031. The city has pledged its full faith and credit and the net operating revenues of the water system to repay the note.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Fiscal Year Ending June 30,	Principal	Interest	Remaining Balance
			\$ 3,928,479
2013	\$ 132,160	\$ 166,661	3,796,319
2014	138,047	161,374	3,658,272
2015	138,969	155,852	3,519,303
2016	144,927	150,294	3,374,376
2017	150,924	144,497	3,223,452
2018-2022	856,167	626,089	2,367,285
2023-2027	1,059,741	428,515	1,307,544
2028-2032	1,307,544	176,167	-
	<u>\$ 3,928,479</u>	<u>\$ 2,009,449</u>	

Wastewater System Improvements - Oregon Economic and Community Development Department

The city converted sewer treatment facilities improvements interim-financing from the Oregon Economic and Community Development Department (OECD) to a promissory note in the amount of \$3,976,600 on May 27, 2009. Principal and interest, at rates from 3.0% to 5.25%, is payable annually. The final payment is due December 1, 2033. The city has pledged its full faith and credit and the net operating revenues of the sewer system to repay the note.

Fiscal Year Ending June 30,	Principal	Interest	Balance	Interest Rate
			\$ 3,680,457	
2013	\$ 103,081	\$ 168,310	3,577,376	3.0%
2014	108,714	164,702	3,468,662	3.5%
2015	109,368	160,897	3,359,294	3.5%
2016	115,143	156,522	3,244,151	4.0%
2017	120,949	151,916	3,123,202	4.0%
2018-2022	683,422	680,379	2,439,780	4% to 4.5%
2023-2027	853,129	509,258	1,586,651	4% to 5.25%
2028-2032	1,078,244	279,209	508,407	4.5% to 5.25%
2033-2034	508,407	36,510	-	4.8%
	<u>\$ 3,680,457</u>	<u>\$ 2,307,703</u>		

Oregon Department of Environmental Quality

The city has notes payable to the state of Oregon Department of Environmental Quality for utility system improvements. Interest rates range from 3.0% to 3.98% over a term of 20 years. Semi-annual payments of principal and interest are required and recorded in the Sewer Fund.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Loan 70610 - 3% interest

Fiscal Year Ending June 30,	Principal	Interest	Balance
			\$ 1,257,355
2013	\$ 502,942	\$ 33,948	754,413
2014	502,942	18,860	251,471
2015	251,471	3,772	-
	<u>\$ 1,257,355</u>	<u>\$ 56,580</u>	

Loan 70611 - 3.98% interest

Fiscal Year Ending June 30,	Principal	Interest	Fees	Balance
				\$ 661,504
2013	\$ 99,680	\$ 29,198	\$ 3,061	561,824
2014	103,687	21,339	2,552	458,137
2015	107,855	17,171	2,024	350,282
2016	112,191	12,836	1,474	238,091
2017	116,700	8,326	902	121,391
2018	121,391	3,635	306	-
	<u>\$ 661,504</u>	<u>\$ 92,505</u>	<u>\$ 10,319</u>	

Loan 70612 - 3.69% interest

Fiscal Year Ending June 30,	Principal	Interest	Fees	Balance
				\$ 1,229,927
2013	\$ 77,799	\$ 22,692	\$ 6,150	1,152,128
2014	159,930	41,052	5,364	992,198
2015	165,886	35,096	4,550	826,312
2016	172,064	28,918	3,705	654,248
2017	178,471	22,511	2,829	475,777
2018-2020	475,777	26,655	2,898	-
	<u>\$ 1,229,927</u>	<u>\$ 176,924</u>	<u>\$ 25,496</u>	

Total DEQ

Fiscal Year Ending June 30,	Principal	Interest	Fees	Balance
				\$ 3,148,786
2013	\$ 680,421	\$ 85,838	\$ 9,211	2,468,365
2014	766,559	81,251	7,916	1,701,806
2015	525,212	56,039	6,574	1,176,594
2016	284,255	41,754	5,179	892,339
2017	295,171	30,837	3,731	597,168
2018-2020	597,168	30,290	3,204	-
	<u>\$ 3,148,786</u>	<u>\$ 326,009</u>	<u>\$ 35,815</u>	

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Note 6. Risk Management

The city is exposed to various risks of loss related to torts; theft or damage to and destruction of assets; errors and omissions; and natural disasters for which the city carries commercial insurance. The city does not engage in risk financing activities where the risk is retained (self-insurance).

The City of Ontario is a member of the City County Insurance Services (CCIS) trust. This trust was established in 1981, by the League of Oregon Cities (LOC) and the Association of Oregon Counties (AOC) to provide risk management services including insurance and loss control to member entities. The city participates for property and liability insurance coverage.

Note 7. Deposits and Investments

The city maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as cash and investments.

Cash and investments are comprised of the following at June 30, 2012:

Deposits with banks	\$	1,708,250
Investments		9,492,251
Cash on hand		1,350
		\$ 11,201,851

Cash and investments are shown on the basic financial statements as:

Statement of Net Assets		
Cash and investments	\$	10,684,809
Restricted cash		517,042
		\$ 11,201,851

As of June 30, 2012, the city held the following investments and maturities:

Investment type	Fair Value	% of investment portfolio
Local Government Investment Pool	\$ 8,915,140	93.9%
Certificates of Deposit	577,111	6.1%
	\$ 9,492,251	100%

Deposits

The Governmental Accounting Standards Board has adopted accounting principles generally accepted in the United States of America (GAAP), which include standards to categorize deposits to give an indication of the level of custodial risk assumed by the city at June 30, 2012. If bank deposits at year end are not entirely insured or collateralized with securities held by the city or by its agent in the city's name, the city must disclose the custodial credit risk (below) that exists. Deposits with financial institutions are comprised of bank demand deposits. For deposits in excess of federal depository insurance, Oregon Revised Statutes require depository institutions to be in compliance with ORS 295.

At June 30, 2012, the carrying amount of the city's deposits was \$1,708,250 and the bank balance was \$1,907,114. Of these deposits, all were covered by federal depository insurance or were in qualified depositories. The insurance and collateral requirements for deposits are established by banking regulations and

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Oregon law. Federal depository insurance (FDIC) of \$250,000 applies to the deposits in each depository. Where balances continually exceed \$250,000, ORS 295.018 requires the depositor to verify that deposit accounts are only maintained at financial institutions on the list of qualified depositories found on the Oregon state treasurer's website. Qualifying depository banks must pledge securities with a particular value based on the banks level of capitalization. The city deposits were in compliance with requirements of ORS 295.018.

Custodial credit risk—Custodial credit risk for deposits is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The city does not have a policy for custodial credit risk for deposits.

Effective July 1, 2008, House Bill 2901 created a shared liability structure for participating bank depositories in Oregon. Barring any exceptions, a qualifying bank depository is required to pledge collateral valued at least 10% of their quarter-end public fund deposits if they are well capitalized, 25% of their quarter-end public fund deposits if they are adequately capitalized, or 110% of their quarter-end public fund deposits if they are undercapitalized or assigned to pledge 110% by the Office of State Treasurer. In the event of a bank failure, the entire pool of collateral pledged by all qualified Oregon public bank depositories is available to repay the deposits of public funds of government entities.

Investments

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
<i>Cash and cash equivalents</i>			
Local Government Investment Pool (LGIP)	\$ 8,915,140	50% less than 90-days, no more than 25% over one year, and no investment over three years	Unrated
Certificates of Deposit	577,111	5/6/2013	Unrated
<i>Total cash and cash equivalents</i>	100.00% 9,492,251		
	100.00% <u>\$ 9,492,251</u>		

At June 30, 2012, the city held \$9,492,251 of investments, which is all classified as cash and investments on the Statement of Net Assets. The city has no policy for managing interest rate risk or credit risk.

The city has invested funds in the Oregon Short-term Fund Local Government Investment Pool (LGIP) during fiscal year 2012. The Local Government Investment Pool was created to meet the financial and administrative responsibilities of federal arbitrage regulations. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). The Local Government Investment Pool is an external investment pool managed by the State Treasurer's office, which allows governments within the state to pool their funds for investment purposes. The amounts invested in the pool are not classified by risk categories because they are not evidenced by securities that exist in physical or book entry form as defined by GASB Statement No. 40.

In addition, the Oregon LGIP distributed investment income on an amortized cost basis and participant's equity in the pool is determined by the amount of participant deposits, adjusted for withdrawals and distributed income. Accordingly, the adjustment to fair value would not represent an expendable increase in the city's cash position.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Investments in the Oregon LGIP are made under the provisions of ORS 194.180. These funds are held in the city's name and are not subject to collateralization requirements of ORS 295.018. Investments are stated at cost, which approximated fair value.

A separate financial report for the Oregon Short-term Fund Local Government Investment Pool is prepared by the Secretary of State Audits Division in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investment Pools*. Copies of the report can be obtained from the Oregon Audits Division 255 Capitol Street NE, Suite 500 Salem, OR 97310 or online at <http://www.sos.state.or.us/audits/index.html>.

Oregon statutes restrict the types of investments in which the city may invest. Authorized investments included obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, time certificates of deposit, certain commercial paper, and the Oregon Local Government Investment Pool (LGIP). As of June 30, 2012 and for the year then ended, the city was in compliance with the aforementioned Oregon statutes.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes authorize the city to invest primarily in general obligations of the United States Government and its agencies, certain bonded obligations of Oregon municipalities, bank repurchase agreements, bankers' acceptances, certain commercial paper, and the Oregon Local Government Investment Pool, among others. The city has no formal investment policy that further restricts its investment choices.

Concentration of Credit Risk—Concentration of credit risk is the risk of a loss attributed to the magnitude of a government's investment in a single issuer. The city is required to provide information about the concentration of credit risk associated with its investments in one issuer that represents 5 percent or more of the total investments, excluding investments in external investment pools or those issued and explicitly guaranteed by the United States Government. The city has no such investments.

Interest Rate Risk—The city's investment policy limits long-term investments to 25% of the investment portfolio using specific identification. The city defines long-term as having a maturity of greater than 18 months to a maximum of 36 months. As of June 30, 2012, all of the city's investments were classified as short-term.

Foreign Currency Risk—The city is prohibited from investments that are not US dollar-denominated; therefore, the city is not exposed to this risk.

Note 8. Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by these agencies, principally the federal government and the state of Oregon. Any disallowed claims, including amount already collected, may constitute a liability to the city. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although city management expects such amounts, if any, to be immaterial.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2012

Note 9 .Related Parties

Related party transactions for fiscal year ending June 30, 2012 are as follows:

Council Member/ Official	Company	Relationship	Transaction Description	Amount Paid
Joe Dominick	Dominicks Quick Print Company	Owner	Printing Services	\$ 1,306
Total				<u>\$ 1,306</u>

Note 10. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Governmental Funds			Proprietary Funds		
Transfers in	Transfer from	Amount	Transfers in	Transfer from	Amount
General Fund	Nonmajor funds	\$ 31,460	Golf Course Fund	General Fund	\$ 124,392
Street Fund	General Fund	15,500			
Nonmajor funds	General Fund	508,105			
Total transfers in for governmental funds		<u>\$ 555,065</u>	Total transfers in for proprietary funds		<u>\$ 124,392</u>
Transfers out	Transfer to		Transfers out	Transfer to	
General Fund	Golf Fund	\$ (124,392)			
	Street Fund	(15,500)			
	Nonmajor funds	(508,105)			
Nonmajor funds	General Fund	(31,460)			
Total transfers out for governmental funds		<u>(679,457)</u>	Total transfers out for proprietary funds		<u>-</u>
Total transfers for governmental funds		<u>\$ (124,392)</u>	Total transfers for proprietary funds		<u>\$ 124,392</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. These transfers represent budgeted expectations.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Note 11. Schedule of Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance January 2, 1900
Governmental activities				
Capital assets not being depreciated				
Land	\$ 4,770,446	\$ -	\$ -	\$ 4,770,446
Construction in progress	2,527,048	3,902,768	692,071	5,737,745
Total capital assets not being depreciated	<u>7,297,494</u>	<u>3,902,768</u>	<u>692,071</u>	<u>10,508,191</u>
Capital assets being depreciated				
Equipment and vehicles	4,128,741	5,559	-	4,134,300
Buildings and improvements	8,085,948	687,858	-	8,773,806
Infrastructure	642,742	224,000	-	866,742
Total capital assets being depreciated	<u>12,857,431</u>	<u>917,417</u>	<u>-</u>	<u>13,774,848</u>
Less accumulated depreciation for				
Equipment and vehicles	2,640,753	246,052	-	2,886,805
Buildings and improvements	4,045,547	160,410	-	4,205,957
Infrastructure	34,313	34,415	-	68,728
Total accumulated depreciation	<u>6,720,613</u>	<u>440,877</u>	<u>-</u>	<u>7,161,490</u>
Total capital assets being depreciated, net	6,136,818	476,540	-	6,613,358
Governmental activities capital assets, net	<u>\$ 13,434,312</u>	<u>\$ 4,379,308</u>	<u>\$ 692,071</u>	<u>\$ 17,121,549</u>
Business type activities				
Capital assets not being depreciated				
Land	\$ 2,645,560	\$ -	\$ -	\$ 2,645,560
Construction in progress	1,515,374	15,430	63,832	1,466,972
Total capital assets not being depreciated	<u>4,160,934</u>	<u>15,430</u>	<u>63,832</u>	<u>4,112,532</u>
Capital assets being depreciated				
Equipment and vehicles	35,663,836	103,834	-	35,767,670
Buildings and improvements	30,102,790	358,993	-	30,461,783
Infrastructure	8,353,884	31,058	-	8,384,942
Total capital assets being depreciated	<u>74,120,510</u>	<u>493,885</u>	<u>-</u>	<u>74,614,395</u>
Less accumulated depreciation for				
Equipment and vehicles	30,493,905	429,147	-	30,923,052
Buildings and improvements	10,348,423	627,465	-	10,975,888
Infrastructure	656,286	131,000	-	787,286
Total accumulated depreciation	<u>41,498,614</u>	<u>1,187,612</u>	<u>-</u>	<u>42,686,226</u>
Total capital assets being depreciated, net	32,621,896	(693,727)	-	31,928,169
Business type activities capital assets, net	<u>\$ 36,782,830</u>	<u>\$ (678,297)</u>	<u>\$ 63,832</u>	<u>\$ 36,040,701</u>

Depreciation expense for the year was charged to the following programs:

Governmental Activities	
General government	\$ 338,521
Highways and streets	102,356
Business-Type Activities	
Water	428,321
Sewer	526,873
Storm Sewer	104,111
Golf Course	52,228
Internal Service	76,079

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Note 12. Interfund Receivables and Payables

The interfund receivable and payable at June 30, 2012 consist of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Grants Fund	\$ 404,958
General Fund	Golf Course Fund	589,251
General Fund	911 Fund	1,041
Streets Fund	General Fund	1,894,474
Sewer Fund	Storm Sewer Fund	235,014
	TOTAL	\$ 3,124,738

The purpose of the interfund receivable and payable balances is to account for expenses paid by the receivable fund for the payable fund, or revenue received in the payable fund that should be accounted for in the receivable fund.

All interfund payables are expected to be paid to the receivable fund within the next fiscal year except the \$1,894,474 payable from the General Fund to the Street Fund. This interfund loan is to account for transient occupancy tax that was received into the General Fund instead of the Street Fund as required by City Ordinance.

Note 13. Accounting Changes and Restatements

Governmental Activities: In the government-wide statements, there was a prior year over statement in the Grants Fund of \$8,382 in accounts receivable. As a result, the beginning net assets of \$22,942,120 as originally reported have been decreased to \$22,933,738.

Governmental Funds: In the governmental fund statements, there were restatements that decreased General Fund beginning fund balance by \$1,894,474 and increased Street Fund beginning fund balance by \$1,894,474. This is to account for transient occupancy tax revenue in prior years being recorded in the General Fund instead of the Street Fund.

Note 14. Deficit Balances

Fund	Amount	Corrective Action in 2012-2013
Grants Fund	\$ (172,491)	There are reimbursable grants that the city will ask for grant money to be reimbursed for expenses.
911 Fund	(18,647)	The city will transfer money in from the General Fund.
Storm Sewer	(227,445)	The city expects additional revenue collections. If not, money will be transferred in from the sewer and water funds.

CITY OF ONTARIO, OREGON
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2012

Golf Course Fund (613,219) The city is still considering ways to improve the operations of the Golf Course Fund to reduce this deficit.

Note 15. Fund Balance Classifications

Below is a schedule of ending fund balances, based on GASB Statement No. 54 requirements:

Fund Balances	General Fund	Grants Fund	Street Fund	Capital Projects Fund	Nonmajor Funds	Total
<u>Nonspendable</u>						
Interfund Receivables	\$ 995,250	\$ -	\$ 1,894,474	\$ -	\$ -	\$ 2,889,724
<u>Restricted</u>						
System development charges	-	-	-	151,035	-	151,035
Street projects	-	-	631,008	-	-	631,008
Debt Service	-	-	-	-	213,167	213,167
	-	-	631,008	151,035	213,167	995,210
<u>Committed to</u>						
Capital Projects	-	-	-	3,038,309	1,537,288	4,575,597
Funds held for other departments	-	-	-	-	364,701	364,701
Revolving loan fund program	-	-	-	-	418,878	418,878
	-	-	-	3,038,309	2,320,867	5,359,176
<u>Assigned</u>						
Library	-	-	-	-	-	-
<u>Unassigned</u>						
	637,967	(172,491)	-	-	(18,647)	446,829
TOTAL FUND BALANCES	\$ 1,633,217	\$ (172,491)	\$ 2,525,482	\$ 3,189,344	\$ 2,515,387	\$ 9,690,939

GASB 54 requires city council approved action to authorize commitments of fund balances. These commitments, outlined in the table above, were approved by the city council on June 20, 2011. There were no commitments of fund balances made in the current fiscal year. Commitments of fund balances must be made prior to the end of the fiscal year.

Note 16. Post Retirement Benefits

In addition to providing pension benefits, the city provides certain benefits for retired city employees. The city allows a city service credit for retired supervisors having 15 years or more employment with the city. This credit is a maximum of \$300 per year until the retiree's death. The credit may be used only for city services to include; use of the city's aquatic center, health insurance and city utilities. No carry forward from year to year is allowed.

For the year ended June 30, 2012, there were 14 active participants. The total cost of \$4,200 in retiree benefits are current year expenditures and were charged to the fund for which the participant was employed.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Property taxes	\$ 6,368,750	\$ 6,368,750	\$ 3,070,657	\$ (3,298,093)
Other taxes	727,810	727,810	82,165	(645,645)
Franchise fees	2,704,548	2,704,548	1,421,222	(1,283,326)
Licenses and permits	143,100	143,100	192,537	49,437
Intergovernmental	1,280,779	1,280,779	635,968	(644,811)
Charges for services	503,230	503,230	294,216	(209,014)
Fines and forfeits	14,600	14,600	5,602	(8,998)
Miscellaneous	130,440	130,440	66,350	(64,090)
Donations	-	24,511	24,511	-
Interest on investments	30,000	30,000	9,407	(20,593)
Total revenues	<u>11,903,257</u>	<u>11,927,768</u>	<u>5,802,635</u>	<u>(6,125,133)</u>
Expenditures				
Personal services	9,260,587	9,260,587	4,594,231	4,666,356
Materials and services	2,155,686	2,170,136	1,262,165	907,971
Capital outlay	591,880	616,391	59,722	556,669
Debt service	138,000	138,000	-	138,000
Contingency	1,688,401	1,624,663	-	1,624,663
Total expenditures	<u>13,834,554</u>	<u>13,809,777</u>	<u>5,916,118</u>	<u>7,893,659</u>
Excess of revenues over (under) expenditures	(1,931,297)	(1,882,009)	(113,483)	1,768,526
Other financing sources (uses)				
Transfers in	1,488,510	1,488,510	744,248	(744,262)
Transfers out	(1,295,094)	(1,344,382)	(647,997)	696,385
Total other sources (uses)	<u>193,416</u>	<u>144,128</u>	<u>96,251</u>	<u>(47,877)</u>
Net change in fund balance	(1,737,881)	(1,737,881)	(17,232)	1,720,649
Fund balance, July 1, before restatement	2,587,881	2,587,881	3,544,923	957,042
Restatement, see note 13	-	-	(1,894,474)	(1,894,474)
Fund balance, July 1, after restatement	<u>2,587,881</u>	<u>2,587,881</u>	<u>1,650,449</u>	<u>(937,432)</u>
Fund balance, June 30	<u>\$ 850,000</u>	<u>\$ 850,000</u>	<u>\$ 1,633,217</u>	<u>\$ 783,217</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GRANTS FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental	\$ 7,918,765	\$ 8,271,433	\$ 3,497,164	\$ (4,774,269)
Total revenues	<u>7,918,765</u>	<u>8,271,433</u>	<u>3,497,164</u>	<u>(4,774,269)</u>
Expenditures				
Capital outlay	7,918,765	8,288,433	3,657,325	4,631,108
Total expenditures	<u>7,918,765</u>	<u>8,288,433</u>	<u>3,657,325</u>	<u>4,631,108</u>
Excess of revenues over (under) expenditures	-	(17,000)	(160,161)	(143,161)
Other financing sources (uses)				
Transfers in	-	17,000	-	(17,000)
Total other financing sources (uses)	<u>-</u>	<u>17,000</u>	<u>-</u>	<u>(17,000)</u>
Net change in fund balance	-	-	(160,161)	(160,161)
Fund balance, July 1, before restatement	-	-	(3,948)	(3,948)
Restatement, see note 13	-	-	(8,382)	(8,382)
Fund balance, July 1, after restatement	<u>-</u>	<u>-</u>	<u>(12,330)</u>	<u>(12,330)</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (172,491)</u>	<u>\$ (172,491)</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - STREET FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental	\$ 1,744,414	\$ 1,744,414	\$ 905,951	\$ (838,463)
Other taxes	-	-	345,093	345,093
Miscellaneous	-	-	12,195	12,195
Total revenues	<u>1,744,414</u>	<u>1,744,414</u>	<u>1,263,239</u>	<u>(481,175)</u>
Expenditures				
Personal services	892,976	892,976	403,828	489,148
Materials and services	881,690	881,690	404,250	477,440
Capital outlay	585,732	585,732	371,089	214,643
Contingency	298,106	298,106	-	298,106
Total expenditures	<u>2,658,504</u>	<u>2,658,504</u>	<u>1,179,167</u>	<u>1,479,337</u>
Excess of revenues over (under) expenditures	(914,090)	(914,090)	84,072	998,162
Other financing sources (uses)				
Transfers in	818,220	818,220	423,932	(394,288)
Transfers out	(174,130)	(174,130)	(87,060)	87,070
Total other sources (uses)	<u>644,090</u>	<u>644,090</u>	<u>336,872</u>	<u>(307,218)</u>
Net change in fund balance	(270,000)	(270,000)	420,944	690,944
Fund balance, July 1, before restatement	270,000	270,000	210,064	(59,936)
Restatement, see note 13	-	-	1,894,474	1,894,474
Fund balance, July 1, after restatement	<u>270,000</u>	<u>270,000</u>	<u>2,104,538</u>	<u>1,834,538</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,525,482</u>	<u>\$ 2,525,482</u>

CITY OF ONTARIO, OREGON
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2012

A biennial budget is prepared for each city fund in accordance with the modified accrual basis of accounting and legal requirements set forth in the state of Oregon's local budget law. The resolution authorizing appropriations for each fund sets the level by which expenditures cannot legally exceed appropriations. Total personal services, materials and services, capital outlay, debt service, transfers and contingencies are the levels of control for all funds. The detail budget document, however, is required to contain more specific, detailed information for the above mentioned expenditure categories.

Unexpected additional resources may be added to the budget through the use of a supplemental budget and appropriations resolution. A supplemental budget requires a hearing before the public, publications in newspapers, and approval by the city council. Original and supplemental budgets may be modified by the use of appropriations transfers between the levels of control. Such transfers require approval by the city council. Budget appropriations lapse at June 30. Encumbrance accounting is not utilized in the preparation of budgeted funds.

The budgets include capital outlay expenditures in each program for capital outlay applicable to that program.

During the year ended June 30, 2012 the city had several procedural budget violations but no disbursements that exceeded the budget.

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OTHER SUPPLEMENTARY INFORMATION

CITY OF ONTARIO, OREGON
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SPECIAL REVENUE FUNDS
 June 30, 2012

	Library Fund	911 Fund	Trust Fund	Reserve Fund	Debt Service Fund	Revolving Loan Fund	Total June 30, 2012
ASSETS							
Cash and investments	\$ -	\$ -	\$ 337,979	\$ 1,550,771	\$ 206,596	\$ 408,884	\$ 2,504,230
Accounts receivable							
Assessments	-	-	-	-	304,334	330,483	634,817
Other	-	879	33,218	-	-	-	34,097
Restricted cash							
Cash held in trust	-	-	274,581	-	-	-	274,581
Total assets	<u>\$ -</u>	<u>\$ 879</u>	<u>\$ 645,778</u>	<u>\$ 1,550,771</u>	<u>\$ 510,930</u>	<u>\$ 739,367</u>	<u>\$ 3,447,725</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ -	\$ 18,485	\$ 34,414	\$ 13,483	\$ -	\$ -	\$ 66,382
Interfund payable	-	1,041	-	-	-	-	1,041
Deferred revenue	-	-	-	-	297,763	320,489	618,252
Deposits held in trust	-	-	246,663	-	-	-	246,663
Total liabilities	<u>-</u>	<u>19,526</u>	<u>281,077</u>	<u>13,483</u>	<u>297,763</u>	<u>320,489</u>	<u>932,338</u>
Fund balances							
Spendable:							
Restricted	-	-	-	-	213,167	-	213,167
Committed	-	-	364,701	1,537,288	-	418,878	2,320,867
Unassigned	-	(18,647)	-	-	-	-	(18,647)
Total fund balances	<u>-</u>	<u>(18,647)</u>	<u>364,701</u>	<u>1,537,288</u>	<u>213,167</u>	<u>418,878</u>	<u>2,515,387</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 879</u>	<u>\$ 645,778</u>	<u>\$ 1,550,771</u>	<u>\$ 510,930</u>	<u>\$ 739,367</u>	<u>\$ 3,447,725</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR FUNDS
SPECIAL REVENUE FUNDS
June 30, 2012

	Library Fund	911 Fund	Trust Fund	Reserve Fund	Debt Service Fund	Revolving Loan Fund	Total June 30, 2012
Revenues							
Other taxes	\$ -	\$ -	\$ 310,769	\$ -	\$ -	\$ -	\$ 310,769
Special assessments	-	-	-	-	33,502	-	33,502
Intergovernmental revenues	-	78,265	-	6,202	-	-	84,467
Charges for services	-	3,080	800	-	-	-	3,880
Miscellaneous	-	-	1,600	-	131	-	1,731
Interest on investments	-	-	445	-	12,680	17,671	30,796
Loan repayments	-	-	-	-	-	55,037	55,037
Total revenues	-	81,345	313,614	6,202	46,313	72,708	520,182
Expenditures							
Personal services	1,162	480,145	-	-	-	-	481,307
Materials and services	-	33,315	271,374	1,285	-	-	305,974
Capital outlay	-	17,228	-	127,184	-	-	144,412
Debt service							
Principal	-	-	-	-	55,377	-	55,377
Interest	-	-	-	-	21,700	-	21,700
Total expenditures	1,162	530,688	271,374	128,469	77,077	-	1,008,770
Excess of revenues over (under) expenditures	(1,162)	(449,343)	42,240	(122,267)	(30,764)	72,708	(488,588)
Other financing sources (uses)							
Operating transfers in	-	461,125	-	46,980	-	-	508,105
Operating transfers out	-	-	(7,500)	(23,960)	-	-	(31,460)
Total other financing sources (uses)	-	461,125	(7,500)	23,020	-	-	476,645
Net change in fund balances	(1,162)	11,782	34,740	(99,247)	(30,764)	72,708	(11,943)
Fund balances, July 1	1,162	(30,429)	329,961	1,636,535	243,931	346,170	2,527,330
Fund balances, June 30	\$ -	\$ (18,647)	\$ 364,701	\$ 1,537,288	\$ 213,167	\$ 418,878	\$ 2,515,387

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - LIBRARY FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest on investments	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures				
Materials and services	-	-	1,162	(1,162)
Total expenditures	-	-	1,162	(1,162)
Net change in fund balance	-	-	(1,162)	(1,162)
Fund balance, July 1	-	-	1,162	1,162
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - 911 FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental	\$ 157,094	\$ 157,094	\$ 78,265	\$ (78,829)
Charges for services	6,000	6,000	3,080	(2,920)
Total revenues	<u>163,094</u>	<u>163,094</u>	<u>81,345</u>	<u>(81,749)</u>
Expenditures				
Personal services	1,021,942	1,021,942	480,145	541,797
Materials and services	63,401	63,401	33,315	30,086
Capital outlay	-	17,288	17,228	60
Total expenditures	<u>1,085,343</u>	<u>1,102,631</u>	<u>530,688</u>	<u>571,943</u>
Excess of revenues over (under) expenditures	(922,249)	(939,537)	(449,343)	490,194
Other financing sources (uses)				
Transfers in	922,249	939,537	461,125	(478,412)
Total other sources (uses)	<u>922,249</u>	<u>939,537</u>	<u>461,125</u>	<u>(478,412)</u>
Net change in fund balance	-	-	11,782	11,782
Fund balance, July 1	-	-	(30,429)	(30,429)
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (18,647)</u>	<u>\$ (18,647)</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - TRUST FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Other taxes	\$ 529,996	\$ 529,996	\$ 310,769	\$ (219,227)
Charges for services	10,000	10,000	800	(9,200)
Miscellaneous	-	-	1,600	1,600
Interest on investments	5,000	5,000	445	(4,555)
Total revenues	<u>544,996</u>	<u>544,996</u>	<u>313,614</u>	<u>(231,382)</u>
Expenditures				
Materials and services	804,140	804,140	271,374	532,766
Total expenditures	<u>804,140</u>	<u>804,140</u>	<u>271,374</u>	<u>532,766</u>
Excess of revenues over (under) expenditures	(259,144)	(259,144)	42,240	301,384
Other financing sources (uses)				
Transfers out	(15,000)	(15,000)	(7,500)	7,500
Total other sources (uses)	<u>(15,000)</u>	<u>(15,000)</u>	<u>(7,500)</u>	<u>7,500</u>
Net change in fund balance	(274,144)	(274,144)	34,740	308,884
Fund balance, July 1	578,241	578,241	329,961	(248,280)
Fund balance, June 30	<u>\$ 304,097</u>	<u>\$ 304,097</u>	<u>\$ 364,701</u>	<u>\$ 60,604</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - RESERVE FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental	\$ 13,114	\$ 13,114	\$ 6,202	\$ (6,912)
Donations	5,000	5,000	-	(5,000)
Interest on investments	200	200	-	(200)
Total revenues	<u>18,314</u>	<u>18,314</u>	<u>6,202</u>	<u>(12,112)</u>
Expenditures				
Materials and services	47,228	47,228	1,285	45,943
Capital outlay	310,595	310,595	127,184	183,411
Contingency	165,453	165,453	-	165,453
Total expenditures	<u>523,276</u>	<u>523,276</u>	<u>128,469</u>	<u>394,807</u>
Excess of revenues over (under) expenditures	(504,962)	(504,962)	(122,267)	382,695
Other financing sources (uses)				
Transfers in	93,560	93,560	46,980	(46,580)
Transfers out	(47,919)	(47,919)	(23,960)	23,959
Total other sources (uses)	<u>45,641</u>	<u>45,641</u>	<u>23,020</u>	<u>(22,621)</u>
Net change in fund balance	(459,321)	(459,321)	(99,247)	360,074
Fund balance, July 1	<u>1,526,085</u>	<u>1,526,085</u>	<u>1,636,535</u>	<u>110,450</u>
Fund balance, June 30	<u>\$ 1,066,764</u>	<u>\$ 1,066,764</u>	<u>\$ 1,537,288</u>	<u>\$ 470,524</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Special assessments	\$ 68,205	\$ 68,205	\$ 33,502	\$ (34,703)
Interest on investments	36,000	36,000	12,680	(23,320)
Miscellaneous revenues	-	-	131	131
Total revenues	<u>104,205</u>	<u>104,205</u>	<u>46,313</u>	<u>(57,892)</u>
Expenditures				
Debt service	151,525	151,525	77,077	74,448
Contingency	144,866	144,866	-	144,866
Total expenditures	<u>296,391</u>	<u>296,391</u>	<u>77,077</u>	<u>219,314</u>
Net change in fund balance	(192,186)	(192,186)	(30,764)	161,422
Fund balance, July 1	<u>192,186</u>	<u>192,186</u>	<u>243,931</u>	<u>51,745</u>
Fund balance, June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 213,167</u></u>	<u><u>\$ 213,167</u></u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - REVOLVING LOAN FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Interest on investments	\$ 48,397	\$ 48,397	\$ 17,671	\$ (30,726)
Loan repayments	119,848	119,848	55,037	(64,811)
Total revenues	<u>168,245</u>	<u>168,245</u>	<u>72,708</u>	<u>(95,537)</u>
Expenditures				
Materials and services	513,711	513,711	-	513,711
Total expenditures	<u>513,711</u>	<u>513,711</u>	<u>-</u>	<u>513,711</u>
Net change in fund balance	(345,466)	(345,466)	72,708	418,174
Fund balance, July 1	<u>345,466</u>	<u>345,466</u>	<u>346,170</u>	<u>704</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 418,878</u>	<u>\$ 418,878</u>

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MAJOR CAPITAL PROJECTS FUND

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental	\$ -	\$ -	\$ 13,068	\$ 13,068
Charges for services	2,500	2,500	4,297	1,797
Miscellaneous	-	250,000	258,471	8,471
Interest on investments	-	-	2,161	2,161
System development charges	11,000	11,000	84,436	73,436
Utilities capitalization charges	1,918,858	1,918,858	452,644	(1,466,214)
Total revenues	<u>1,932,358</u>	<u>2,182,358</u>	<u>815,077</u>	<u>(1,367,281)</u>
Expenditures				
Capital outlay	2,567,900	2,824,144	832,110	1,992,034
Contingency	2,929,458	2,929,458	-	2,929,458
Total expenditures	<u>5,497,358</u>	<u>5,753,602</u>	<u>832,110</u>	<u>4,921,492</u>
Net change in fund balance	(3,565,000)	(3,571,244)	(17,033)	3,554,211
Fund balance, July 1	<u>3,565,000</u>	<u>3,571,244</u>	<u>3,206,377</u>	<u>(364,867)</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,189,344</u>	<u>\$ 3,189,344</u>

MAJOR PROPRIETARY FUNDS

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - WATER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 5,673,701	\$ 5,673,701	\$ 2,764,097	\$ (2,909,604)
Miscellaneous	12,000	12,000	14,360	2,360
Total revenues	<u>5,685,701</u>	<u>5,685,701</u>	<u>2,778,457</u>	<u>(2,907,244)</u>
Expenses				
Personal services	693,832	693,832	305,793	388,039
Materials and services	3,477,798	3,477,798	1,754,630	1,723,168
Capital outlay	318,754	333,824	55,311	278,513
Debt service	779,403	779,403	390,550	388,853
Contingency	1,032,204	1,032,204	-	1,032,204
Total expenses	<u>6,301,991</u>	<u>6,317,061</u>	<u>2,506,284</u>	<u>3,810,777</u>
Excess of revenues over (under) expenses	(616,290)	(631,360)	272,173	903,533
Other financing sources (uses)				
Transfers out	(395,060)	(395,060)	(199,848)	195,212
Total other financing sources (uses)	<u>(395,060)</u>	<u>(395,060)</u>	<u>(199,848)</u>	<u>195,212</u>
Net change in fund net assets	(1,011,350)	(1,026,420)	72,325	1,098,745
Net assets, July 1	1,011,350	1,026,420	1,067,159	40,739
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,139,484</u>	<u>\$ 1,139,484</u>

**Reconciliation to Generally Accepted
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 11,901,397
Inventory	121,198
Accrued interest	(97,219)
Compensated absences	(13,530)
Long-term obligations	<u>(4,015,186)</u>
Net Assets, Ending	<u>\$ 9,036,144</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - SEWER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 5,701,078	\$ 5,701,078	\$ 2,942,391	\$ (2,758,687)
Miscellaneous	1,600	1,600	13,086	11,486
Total revenues	<u>5,702,678</u>	<u>5,702,678</u>	<u>2,955,477</u>	<u>(2,747,201)</u>
Expenses				
Personal services	532,627	532,627	282,364	250,263
Materials and services	2,869,272	2,990,472	1,520,948	1,469,524
Capital outlay	1,105,452	1,105,452	496,058	609,394
Debt service	2,305,359	2,305,359	1,262,875	1,042,484
Contingency	855,635	734,435	-	734,435
Total expenses	<u>7,668,345</u>	<u>7,668,345</u>	<u>3,562,245</u>	<u>4,106,100</u>
Excess of revenues over (under) expenses	(1,965,667)	(1,965,667)	(606,768)	1,358,899
Other financing sources (uses)				
Transfers out	(393,308)	(393,308)	(201,240)	192,068
Total other financing sources (uses)	<u>(393,308)</u>	<u>(393,308)</u>	<u>(201,240)</u>	<u>192,068</u>
Net change in fund net assets	(2,358,975)	(2,358,975)	(808,008)	1,550,967
Net assets, July 1	2,358,975	2,358,975	2,467,688	108,713
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,659,680</u>	<u>\$ 1,659,680</u>

**Reconciliation to Generally Accepted
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 18,623,955
Inventory	121,198
Accrued interest	(115,437)
Compensated absences	(20,887)
Debt premium	(74,511)
Long-term obligations	<u>(6,829,243)</u>
Net Assets, Ending	<u>\$ 13,364,755</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL - STORM SEWER FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 246,987	\$ 246,987	\$ 105,681	\$ (141,306)
Total revenues	<u>246,987</u>	<u>246,987</u>	<u>105,681</u>	<u>(141,306)</u>
Expenses				
Personal services	46,198	46,198	19,145	27,053
Materials and services	186,437	186,437	81,272	105,165
Total expenses	<u>232,635</u>	<u>232,635</u>	<u>100,417</u>	<u>132,218</u>
Excess of revenues over (under) expenses	<u>14,352</u>	<u>14,352</u>	<u>5,264</u>	<u>(9,088)</u>
Other financing sources (uses)				
Transfers out	(14,352)	(14,352)	(7,344)	7,008
Total other financing sources (uses)	<u>(14,352)</u>	<u>(14,352)</u>	<u>(7,344)</u>	<u>7,008</u>
Net change in fund net assets	-	-	(2,080)	(2,080)
Net assets, July 1	-	-	(225,365)	(225,365)
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (227,445)</u>	<u>\$ (227,445)</u>

**Reconciliation to Generally Accepted
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 2,800,001
Inventory	<u>10,100</u>
Net Assets, Ending	<u>\$ 2,582,656</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
BUDGET AND ACTUAL - GOLF COURSE FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 341,750	\$ 341,750	\$ 191,675	\$ (150,075)
Total revenues	<u>341,750</u>	<u>341,750</u>	<u>191,675</u>	<u>(150,075)</u>
Expenses				
Personal services	150,839	150,839	86,379	64,460
Materials and services	419,696	434,696	292,128	142,568
Capital outlay	35,000	35,000	13,200	21,800
Total expenses	<u>605,535</u>	<u>620,535</u>	<u>391,707</u>	<u>228,828</u>
Excess of revenues over (under) expenses	(263,785)	(278,785)	(200,032)	78,753
Other financing sources (uses)				
Transfers in	263,785	278,785	124,393	(154,392)
Total other financing sources (uses)	<u>263,785</u>	<u>278,785</u>	<u>124,393</u>	<u>(154,392)</u>
Net change in fund net assets	-	-	(75,639)	(75,639)
Net assets, July 1	-	-	(537,580)	(537,580)
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (613,219)</u>	<u>\$ (613,219)</u>

**Reconciliation to Generally Accepted
Accounting Principles**

Capital assets, net of accumulated depreciation	<u>\$ 883,383</u>
Net Assets, Ending	<u>\$ 270,164</u>

CITY OF ONTARIO, OREGON
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
BUDGET AND ACTUAL -PUBLIC WORKS INTERNAL SERVICE FUND
(BUDGET BASIS)
For the Year Ended
June 30, 2012

	Original Budget	Final Budget	1st Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 4,417,282	\$ 4,417,282	\$ 2,362,304	\$ (2,054,978)
Interest on investments	150,000	150,000	34,585	(115,415)
Total revenues	<u>4,567,282</u>	<u>4,567,282</u>	<u>2,396,889</u>	<u>(2,170,393)</u>
Expenses				
Personal services	2,490,804	2,490,804	1,195,331	1,295,473
Materials and services	825,017	825,017	436,389	388,628
Total expenses	<u>3,315,821</u>	<u>3,315,821</u>	<u>1,631,720</u>	<u>1,684,101</u>
Excess of revenues over (under) expenses	1,251,461	1,251,461	765,169	(486,292)
Other financing sources (uses)				
Transfers out	<u>(1,251,461)</u>	<u>(1,251,461)</u>	<u>(625,728)</u>	<u>625,733</u>
Total other financing sources (uses)	<u>(1,251,461)</u>	<u>(1,251,461)</u>	<u>(625,728)</u>	<u>625,733</u>
Net change in fund net assets	-	-	139,441	139,441
Net assets, July 1	-	-	87,902	87,902
Net assets, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,343</u>	<u>\$ 227,343</u>

**Reconciliation to Generally Accepted
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 1,831,965
Compensated absences	<u>(87,397)</u>
Net Assets, Ending	<u>\$ 1,971,911</u>

OTHER FINANCIAL SCHEDULES

CITY OF ONTARIO, OREGON
SUMMARY SCHEDULE OF CASH, CASH ITEMS AND INVESTMENTS
 June 30, 2012

Wells Fargo Bank	
Demand accounts	\$ 1,697,223
Intermountain Community Bank	
Demand accounts	11,027
Certificates of Deposit	577,111
Oregon State Treasury Local Government Investment Pool **	8,915,140
Cash on hand	1,350
Total cash and investments on books	<u><u>\$ 11,201,851</u></u>

SCHEDULE OF COLLATERAL SECURITY

Wells Fargo Bank *	
Federal Deposit Insurance Corporation	<u>\$ 250,000</u>
Total Wells Fargo Bank	<u><u>\$ 250,000</u></u>
Intermountain Community Bank *	
Federal Deposit Insurance Corporation	<u>\$ 250,000</u>
Total Intermountain Community Bank	<u><u>\$ 250,000</u></u>

*Qualified depository for public funds per ORS 295.

**Oregon LGIP is fully collateralized by the state of Oregon.

CITY OF ONTARIO, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS
 For the Year Ended
 June 30, 2012

Tax Year Special Levy	Uncollected Taxes June 30, 2011	2011-12 Assessment	(Abatement) and Adjustments	Rebates Allowed	Interest Collected	Taxes Collected	Total Amount Collected	Uncollected Taxes June 30, 2012
2011-12		\$ 3,166,393	\$ -	\$ (77,777)	\$ 1,331	\$ 2,915,882	\$ 2,917,213	\$ 172,734
2010-11	\$ 176,341	-	(8,509)	-	4,147	84,629	88,776	83,203
2009-10	78,077	-	(3,155)	88	4,340	28,915	33,255	46,095
2008-09	42,513	-	(256)	-	5,113	24,482	29,595	17,775
2007-08	19,464	-	(158)	-	4,489	18,191	22,680	1,115
2006-07	966	-	(209)	-	63	198	261	559
2005-06	534	-	(112)	-	87	214	301	208
2004-05	134	-	-	-	-	-	-	134
2003-04	80	-	-	-	-	-	-	80
2002-03	124	-	-	-	20	45	65	79
2001-02	51	-	(15)	-	20	36	56	-
Total	<u>\$ 318,284</u>	<u>\$ 3,166,393</u>	<u>\$ (12,414)</u>	<u>\$ (77,689)</u>	<u>\$ 19,610</u>	<u>\$ 3,072,592</u>	<u>\$ 3,092,202</u>	<u>\$ 321,982</u>

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REPORTS REQUIRED BY OREGON STATE REGULATIONS

INDEPENDENT AUDITOR'S REPORT REQUIRED BY OREGON STATE REGULATIONS

City Council
City of Ontario
Ontario, Malheur County, Oregon

We have audited the basic financial statements of the City of Ontario as of and for the year ended June 30, 2012, and have issued our report thereon dated March 6, 2013. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Ontario's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, 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.

We performed procedures to the extent we considered necessary to address the required comments and disclosures which included, but were not limited to the following:

- Deposit of public funds with financial institutions (ORS Chapter 295)
- Indebtedness limitations, restrictions, and repayment
- Budgets legally required (ORS Chapter 294)
- Insurance and fidelity bonds in force or required by law
- Programs funded from outside sources
- Highway revenues used for public highways, roads and streets
- Authorized investment of surplus funds (ORS Chapter 294)
- Public contracts and purchasing (ORS Chapters 279A, 279B, 279C)
- Accountability for Independently Elected Officials

In connection with our testing nothing came to our attention that caused us to believe the City of Ontario was not in substantial compliance with certain provisions of law, regulations, contracts, and grants, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules 162-10-000 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations.

OAR 162-10-230 Internal Control

In planning and performing our audit, we considered the City of Ontario's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ontario's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ontario's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the city's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

We noted certain matters that we reported to the management of the City of Ontario in a separate letter dated March 6, 2013.

This report is intended solely for the information and use of the city council, management, others within the city, the Oregon Secretary of State, federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

Oster Professional Group, CPA's, PC

By  _____

Burns, Oregon
March 6, 2013

CITY OF ONTARIO, OREGON
COMMENTS AND DISCLOSURES REQUIRED BY THE STATE OF OREGON
June 30, 2012

Oregon Administration Rules 162-10-200 through 162-10-320 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the secretary of state in cooperation with the Oregon State Board of Accountancy, require certain comments and disclosures relating to the review of fiscal affairs and compliance with legal requirements. Comments relating to significant accounting policies, organization and fund structure, cash, and investments are included in the notes to basic financial statements. Other required comments and disclosures relating to this audit are set forth below.

Accounting Systems and Control Structure

The organizational structure of the city provides adequate accounting policies for maintaining an effective system of accountability and responsibility of funds. The accounting records are being maintained in a satisfactory manner and an adequate system of reporting revenues and expenditures to interested parties is in effect.

Where possible, the city has maintained a plan of organization encompassing methods and measures on internal control to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and carry out council policies.

As we have stated in the following report on compliance and on internal control over financial reporting in accordance with *Government Auditing Standards*, we do not express an opinion on the city's effectiveness in those areas. However, there were deficiencies reported in accordance with *Government Auditing Standards*.

Indebtedness

It is noted that no new bonded indebtedness was incurred during the year and that amounts outstanding appear to be within the legal debt limitations as set forth in the statutes.

Budgets

Our review of the 2011-2013 biennial budget indicates the city has in most respects complied with the local budget law in the preparation, adoption, and execution of the 2011-2013 biennial budget. However, we noted several procedural violations.

Insurance and Fidelity Bond Coverage

We examined policies relating to insurance and fidelity bond coverage and ascertained that such policies appeared to be in force and that they appeared to satisfy bond ordinances and other provisions. The City of Ontario has complied with the provisions of the statutes with respect to bonding of council members and employees. We are not competent by training to state whether the insurance policies in force at June 30, 2012, provide adequate coverage. We understand coverage is reviewed periodically with the city's agent of record and such reviews have been made recently.

CITY OF ONTARIO, OREGON
COMMENTS AND DISCLOSURES REQUIRED BY THE STATE OF OREGON
June 30, 2012

Programs Funded From Outside Sources

We have audited the records and grant financial reports and made such tests, to the extent deemed appropriate for the programs in which the City of Ontario participates. Based on our audit, we found that for the items tested, the City of Ontario was in compliance with the material terms and conditions of the federal and state grant contracts and agreements. Further, based on our audit, nothing came to our attention to indicate that the City of Ontario had not complied with the material terms and conditions of federal and state grant contracts and agreements, which were not specifically tested. Each grant is subject to audit by the grantor agency and any adjustments may become a liability of the appropriate fund.

Public Contracts and Purchasing

Our review of city operations indicates the city is in compliance with the statutes relating to public contracting.

Investments

Our review of the city's investments indicates the city is in compliance with the statutes regarding the investments of surplus public funds.

Collateral

The city's bank balances of deposit at June 30, 2012, were either entirely insured or collateralized with the Federal Deposit Insurance Corporation, or the city deposit accounts were only maintained at financial institutions on the list of qualified depositories compiled by the Oregon State Treasurer.

Highway Funds

We have reviewed the city's compliance with Article IX, section 3a of the Oregon Constitution, and compliance with the statutes regarding the use of revenue from taxes on motor vehicle use fuel and road funds. Our review disclosed no conditions that we considered to be matters of noncompliance.

Accountability for Independently Elected Officials

The City of Ontario, Oregon does not have elected officials collecting or receiving money.

**OREGON AUDITS DIVISION
SUMMARY OF REVENUES AND EXPENDITURES**

Name of Municipal Corporation City of Ontario

Address Ontario, Oregon 97914

Period Covered by Audit Report: From July 1, 2011 to June 30, 2012

Total Revenues and/or Receipts - All Funds		<u>\$ 19,117,746</u>
Less:		
Revenues of Component Units included in report of primary government	\$ -	
Taxes, assessments and other collections to be distributed to other governmental units	-	-
Net Revenues and/or Receipts		<u>\$ 19,117,746</u>
Total Expenditures and/or Disbursements - All Funds		<u>\$ 15,421,758</u>
Less:		
Expenditures of Component Units included in report of primary government	\$ -	
Turnovers to other municipal corporations	-	
Taxes and Assessments	-	
Other Distributions	-	
Net Expenditures and/or Disbursements		<u>\$ 15,421,758</u>

The above information is based upon the revenues and expenditures/expenses for all funds of the municipal corporation on the basis of accounting used in the audited or reviewed financial statements.

Auditor/Firm Signature 

PLEASE ENCLOSE PAYMENT WITH SUMMARY

Over	Not Over	Fee	ORS 297.485 (1)
	\$ 50,000	\$ 20	
\$ 50,000	150,000	40	
150,000	500,000	150	
500,000	1,000,000	200	
1,000,000	5,000,000	250	
5,000,000	10,000,000	300	
10,000,000	50,000,000	350	
50,000,000		400	
			... The filing fee shall be determined by the total expenditures made by the municipal corporation for any and all purposes during the calendar or fiscal year audited, <u>except</u> that expenditures for principal of bonded debt, principal of short-term loans, principal of warrants redeemed which were issued during prior audit periods, transfers or loans between funds and turnovers of taxes or other trust moneys to other municipal corporations shall not be included in the total expenditures upon which the amount of the fee is based.
			<i>(Net Expenditures and/or Disbursements)</i>

Within 30 days after submitting the audit report to the municipal corporation, one copy of this summary must be filed with the Secretary of State, Division of Audits, Salem, Oregon 97310, and one copy must be delivered to the municipal corporation.

For Use by Division of Audits

Account Code _____ Firm Code _____ Filing Fee _____

REPORTS REQUIRED BY *GOVERNMENTAL AUDITING STANDARDS*

**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**

City Council
City of Ontario
Ontario, Malheur County, Oregon

We have audited the financial statements of the governmental activities, business-type activities, the internal service fund, each major fund, and the aggregate remaining fund information of City of Ontario as of and for the year ended June 30, 2012, which collectively comprise the City of Ontario's basic financial statements and have issued our report thereon dated March 6, 2013. 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 City of Ontario's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Ontario's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Ontario's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the city's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2012-1 and 2012-2 to be material weaknesses.

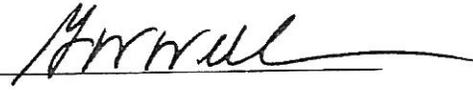
Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ontario'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.

We noted certain matters that we reported to management of City of Ontario in a separate letter dated March 6, 2013.

This report is intended solely for the information and use of the city council, management, others within the city, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Oster Professional Group, CPA's, PC

By 

Burns, Oregon
March 6, 2013

CITY OF ONTARIO, OREGON
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2012

Finding 2012-1

Material Weakness in Internal Control over Financial Reporting—Timely Reconciliations

Criteria. Internal controls should be in place that provides reasonable assurance that accounts are reconciled from the general ledger to the bank balances monthly.

Condition. Timely reconciliations were not performed on the city's cash accounts.

Cause. The bank reconciliation process in the computer software was not completely understood. The checks that were withdrawn were checked with the general ledger, but no actual reconciliation was performed.

Effect or Potential Effect. At the end of the year management had to go back through the cash accounts to determine the differences between the general ledger and the bank statement. Then an adjusting journal entry was required to be made in prior years. In the current year, the differences in the bank balance compared to the general ledger were not fully reconciled. Without sufficient reconciliations of cash, the risk significantly increases that errors or fraud, including misappropriation of assets, could occur and not be detected.

Recommendation. The city must ensure that bank accounts are reconciled to the general ledger monthly.

Management response. The city has had major turnover in the finance department management and the bank reconciliations will be completed in a timely manner.

Finding 2012-2

Material Weakness in Internal Control over Financial Reporting—Allocation of Revenues

Criteria. Internal controls should be in place that provides reasonable assurance that revenues are allocated to the correct funds.

Condition. City ordinance specifies that 52.5 percent of transient occupancy tax would be used for street maintenance.

Cause. The bank reconciliation process in the computer software was not completely understood. The checks that were withdrawn were checked with the ledger, but no actual reconciliation was done.

Effect or Potential Effect. The General Fund had previously been overstated by the 52.5% transient occupancy tax allocation and the Street Fund was understated. Without sufficient reconciliations of each fund, the risk significantly increases that errors and fraud, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation. The city needs to ensure that revenues and expenditures are allocated to the correct fund.

Management response. The transient occupancy tax is currently being allocated to the Street Fund like the ordinance requires.