

CITY OF ONTARIO, OREGON

FINANCIAL STATEMENT AUDIT

FOR THE YEAR ENDED JUNE 30, 2014

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**CITY OF ONTARIO, OREGON  
JUNE 30, 2014**

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## **INTRODUCTORY SECTION**

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**CITY OF ONTARIO, OREGON**  
**CITY COUNCIL AND OFFICIALS**  
**JUNE 30, 2014**

<u>NAME</u>	<u>ADDRESS</u>	<u>POSITION</u>
<b>CITY COUNCIL</b>		
Leroy Cammack	Ontario	Mayor
Dan Jones	Ontario	Council President
Larry Tuttle	Ontario	Councilor
Charlotte Fugate	Ontario	Councilor
Ronald Verini	Ontario	Councilor
Jackson Fox	Ontario	Councilor
Norm Crume	Ontario	Councilor
<b>OFFICIALS</b>		
Tori Barnett	Ontario	City Recorder/Interim City Manager
Mark Alexander	Ontario	Chief of Police
Al Higinbotham	Ontario	Fire Chief
Alan Daniels	Ontario	Interim Public Works Director

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## **FINANCIAL SECTION**

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LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1121 ADAMS AVENUE • P.O. BOX 1024

LA GRANDE, OREGON 97850-1024

**Independent Auditor’s Report**

To the City Council  
City of Ontario, Oregon

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ontario, Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

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

**Auditor’s Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business-Type Activities	Unmodified
General Fund	Unmodified
Street Fund	Unmodified
Capital Projects Fund	Unmodified
Grants Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Strom Sewer Fund	Unmodified
Golf Course Fund	Unmodified
Public Works Internal Service Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

### ***Basis for Qualified Opinion on Governmental Activities***

As discussed in Note 1 to the financial statements, management has not recorded certain general infrastructure assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities has not been determined.

### ***Qualified Opinion***

In our opinion, except for the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Ontario, Oregon, as of June 30, 2014, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Oregon, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management discussion and analysis 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 management discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ontario, Oregon’s basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other financial schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, other financial schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor fund financial statements, other financial schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory 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 it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, 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* in considering City of Ontario's internal control over financial reporting and compliance.

**Report on Other Legal and Regulatory Requirements**

In accordance with Minimum Standards for Audits of Oregon Municipal Corporations, we have issued our report dated January 29, 2015, on our consideration of the City of Ontario, Oregon's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By Michael R. Poe  
Michael R. Poe, CPA  
Owner/Member

La Grande, Oregon  
January 29, 2015



**CITY OF ONTARIO, OREGON**  
**Management's Discussion & Analysis**  
**June 30, 2014**

[www.ontariooregon.org](http://www.ontariooregon.org)

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, 2014. 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 basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- ❖ The assets of the city exceeded its liabilities at June 30, 2014 by \$58,946,774 (net position). Of this amount, \$9,508,024 was unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ At June 30, 2014, the General Fund total fund balance was \$957,480.

### **USING THE ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Position 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 basic 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 Position 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 Position 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.



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**Management's Discussion & Analysis**  
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These two statements report the city's *net position* and changes in them. You can think of the city's net position—the differences between assets, deferred outflows, deferred inflows and liabilities—as one way to measure the city's financial health, or *financial position*. Over time, *increases or decreases* in the city's net position 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 Position 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 Position 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 Position and the Statement of Activities.

**THE CITY AS A WHOLE**

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

Table 1. Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Current and other assets	\$ 11,686,616	\$ 11,462,259	\$ 2,729,098	\$ 3,252,639	\$ 14,415,714	\$ 14,714,898
Capital assets	20,958,546	17,376,047	34,983,864	35,412,166	55,942,410	52,788,213
Total assets	32,645,162	28,838,306	37,712,962	38,664,805	70,358,124	67,503,111
Current liabilities	1,766,587	1,323,907	511,451	628,217	2,278,038	1,952,124
Noncurrent liabilities						
Due within one year	55,377	83,261	664,181	1,013,320	719,558	1,096,581
Due in more than one year	249,195	304,572	8,164,559	8,828,740	8,413,754	9,133,312
Total liabilities	2,071,159	1,711,740	9,340,191	10,470,277	11,411,350	12,182,017
Net investment in capital assets	20,653,974	16,988,214	26,155,124	25,570,106	46,809,098	42,558,320
Restricted net position	2,044,686	1,369,446	584,966	848,463	2,629,652	2,217,909
Unrestricted net position	7,875,343	8,768,906	1,632,681	1,775,959	9,508,024	10,544,865
Total net position	\$ 30,574,003	\$ 27,126,566	\$ 28,372,771	\$ 28,194,528	\$ 58,946,774	\$ 55,321,094

**Governmental Activities**

The city's net position from governmental activities increased by 12.7% from \$27,126,566 to \$30,574,003. This increase of \$3,447,437 comes from a \$22,380 restatement of net position and a current year increase of \$3,425,057 as recorded in the Statement of Activities and flows through the Statement of Net Position. The following is an explanation of the changes between fiscal years as shown in Table 1:

- ❖ Current and other assets increased by \$224,357 which is mostly made up of a large increase in prepaid expenses.
- ❖ Capital assets had a net increase of \$3,609,499, which is due to capital asset additions that exceeded depreciation for the year.





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**Management's Discussion & Analysis**  
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- ❖ Current liabilities increased by \$442,680, made up mostly of a large increase in accounts payable; there were some large invoices due for a project at June 30, 2014.
- ❖ Long term debt decreased by \$83,261 due to principal payments on the existing debt, and no new debt in the current year.
- ❖ Unrestricted net position decreased by \$893,563 mostly due to an increase in restricted net position.

#### Business-Type Activities

The city's net position from business-type activities increased by .6% from \$28,194,528 to \$28,372,771. This increase of \$178,243 comes from the current year change in net position as recorded in the Statement of Activities and a restatement of beginning net position.

- ❖ Current and other assets decreased by \$523,541 largely due to an increase in the amount owed to the governmental activities.
- ❖ Capital assets decreased by \$428,302 due to depreciation exceeding capital asset additions in the current year.
- ❖ Long term debt decreased by \$1,013,320 due to principal payments on the existing debt with no new debt in the current year.
- ❖ Unrestricted net position decreased by \$143,278 mainly due to decreased revenues in 2013-2014.



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**Management's Discussion & Analysis**  
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Table 2. Condensed Statement of Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Revenues						
Program revenues						
Charges for services	\$ 2,241,615	\$ 2,567,934	\$ 5,864,900	\$ 6,009,907	\$ 8,106,515	\$ 8,577,841
Operating contributions	1,065,466	1,073,055	-	-	1,065,466	1,073,055
Capital contributions	3,395,254	575,770	-	-	3,395,254	575,770
General revenues:						
Property taxes	3,254,219	3,188,819	-	-	3,254,219	3,188,819
Local taxes and fees	2,318,562	2,081,438	-	-	2,318,562	2,081,438
Unrestricted grants	109,959	106,204	-	-	109,959	106,204
Investment income	29,275	33,757	41,626	46,793	70,901	80,550
Miscellaneous	51,289	84,433	4,243	-	55,532	84,433
<b>Total revenues</b>	<b>12,465,639</b>	<b>9,711,410</b>	<b>5,910,769</b>	<b>6,056,700</b>	<b>18,376,408</b>	<b>15,768,110</b>
Expenses						
Governmental Activities						
General government	2,654,490	2,506,399	-	-	2,654,490	2,506,399
Highways and streets	1,052,795	1,012,815	-	-	1,052,795	1,012,815
Public safety	4,095,725	4,133,329	-	-	4,095,725	4,133,329
Parks and recreation	529,908	687,365	-	-	529,908	687,365
Capital outlay	197,787	308,138	-	-	197,787	308,138
Interest on debt	23,420	43,525	-	-	23,420	43,525
Business-Type Activities						
Water	-	-	2,986,400	2,884,252	2,986,400	2,884,252
Sewer	-	-	2,826,395	2,650,979	2,826,395	2,650,979
Golf course	-	-	180,636	350,071	180,636	350,071
Storm sewer	-	-	166,560	211,911	166,560	211,911
<b>Total Expenses</b>	<b>8,554,125</b>	<b>8,691,571</b>	<b>6,159,991</b>	<b>6,097,213</b>	<b>14,714,116</b>	<b>14,788,784</b>
Transfers in (out)	63,600	(799,185)	(63,600)	799,185	-	-
Capital contributions	(550,057)	(135,715)	550,057	135,715	-	-
Gain (loss) on sale of asset	-	2,083	-	-	-	2,083
<b>Increase in net position</b>	<b>3,425,057</b>	<b>87,022</b>	<b>237,235</b>	<b>894,387</b>	<b>3,662,292</b>	<b>981,409</b>
Net position - beginning	27,126,566	27,001,430	28,194,528	27,225,630	55,321,094	54,227,060
Restatements	22,380	38,114	(58,992)	74,511	(36,612)	112,625
Net position - as restated	27,148,946	27,039,544	28,135,536	27,300,141	55,284,482	54,339,685
<b>Net position, ending</b>	<b>\$ 30,574,003</b>	<b>\$ 27,126,566</b>	<b>\$ 28,372,771</b>	<b>\$ 28,194,528</b>	<b>\$ 58,946,774</b>	<b>\$ 55,321,094</b>

**Governmental Activities**

The city's total revenues from governmental activities increased from the prior fiscal year by \$2,754,229 (28%) and the total cost of all governmental programs and services decreased by \$137,446 (1.6%). The major increases in revenues came from the large Airport Improvement Grant in the current year. The decreases in expenses were primarily from decreases in capital outlay and increases in other expenses.



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**Management's Discussion & Analysis**  
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### Business-Type Activities

The city's business-type activities revenues decreased \$145,931 (2.4%) from the prior fiscal year and the total costs of the business-type activities increased \$62,778 (1%). The total business-type revenues decreased mostly because of decreases in water revenues. The expenses increased mainly due to increases in expenses in the water and sewer funds.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

At year-end, the city's governmental funds reported combined fund balances of \$9,563,896 which is a decrease of \$96,668 (1%) from the prior fiscal year.

- ❖ The largest increase in fund balance was in the Street fund. The Street fund had a net change of \$450,316. This was mainly due to a decrease in capital outlay expenditures in the current year.
- ❖ The largest decrease was in the Capital Projects Fund. The Capital Projects Fund had a net decrease of \$970,217, before restatements. This decrease was mainly due to some large projects paid from the capital projects fund in the current year.

At year-end, the city's proprietary funds reported combined net position of \$26,012,122 for enterprise funds and \$2,360,649 in the internal service fund. This is a combined increase in net position of \$178,243.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Fiscal year 2012-2013 was the final year of using biennial budgets. Beginning in the 2013-2014 fiscal year and continuing forward, the city is operating on an annual budget.

#### Expenditures

The final appropriations of the budget for personal services for the General Fund were \$4,653,739 and the actual expenditures were \$4,486,402. This is 96.4% of the budget expended.

The final appropriations of the budget for materials and services for the General Fund were \$1,617,784 while actual expenditures were \$1,268,087. This is 78.3% of the budget expended.

Overall, appropriations were \$7,891,123 and total expenditures were \$5,821,085. This shows that 73.8% of the appropriated biennial budget was expended in the fiscal year ended June 30, 2014.

#### Revenues

103.1% of the budgeted revenues for the 2013-2014 budget was received. This is largely due to receiving more franchise fees and property taxes than budgeted.



**CITY OF ONTARIO, OREGON**  
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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2014 the city shows \$55,942,410 of capital assets, net of depreciation, this is a decrease of \$3,154,197 from the prior year. The city has \$20,958,546 of capital assets in governmental activities and \$34,983,864 in business-type activities. The city had an airport project and a large street project that helped increase the capital assets in governmental activities. The business-type activities had some equipment, septage receiving facility, infrastructure and improvement additions. Depreciation expense was higher than the value of the additions; consequently, the net capital assets decreased in the business-type activities.

**Debt**

The city had a total of \$9,133,312 in long-term debt at June 30, 2014; this is a decrease of \$1,096,580. The decrease is due to payments being applied to the principal of the debt. \$8,828,740 of this debt is being paid out of the proprietary funds and the remaining \$304,572 is paid from governmental activities. There was no new debt in fiscal year ended June 30, 2014.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

Beginning with the 2013-2014 budget, the city decided to utilize an annual budget. 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.

Effective July 1, 2014 the public works operations is to be contracted with CH2M Hill and the 911 dispatching services will be consolidated with Malheur County. These changes had a significant impact on the 2014-2015 budget adopted by the City.

**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 Department at 444 SW 4<sup>th</sup> Street, Ontario, Oregon 97914.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF ONTARIO, OREGON  
STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 7,929,214	\$ 1,699,120	\$ 9,628,334
Receivables			
Property tax	243,571	-	243,571
Customer accounts receivable	-	800,556	800,556
Accounts	1,742,873	-	1,742,873
Street assessments	275,526	-	275,526
Loans	189,308	-	189,308
Due from other funds	727,492	(727,492)	-
Prepaid expenses	148,347	251,604	399,951
Restricted cash			
System development charges	134,663	-	134,663
Customer deposits	-	106,773	106,773
Held in evidence fund	19,884	-	19,884
Deposits held in trust	275,738	-	275,738
Debt service	-	584,966	584,966
Chemicals	-	13,571	13,571
Capital assets not being depreciated	8,971,259	3,039,055	12,010,314
Capital assets being depreciated (net of accumulated depreciation)	11,987,287	31,944,809	43,932,096
Total assets	<u>32,645,162</u>	<u>37,712,962</u>	<u>70,358,124</u>
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
<b>LIABILITIES</b>			
Accounts payable	865,501	186,021	1,051,522
Accrued liabilities	341,890	6,175	348,065
Accrued interest payable	5,819	211,931	217,750
Customer deposits	-	106,773	106,773
Held in evidence fund	19,884	-	19,884
Deposits held in trust	246,663	-	246,663
Compensated absences	286,830	551	287,381
Long-term liabilities			
Portion due or payable within one year			
Current portion of note payable	55,377	773,549	828,926
Portion due or payable after one year			
Note payable	249,195	8,055,191	8,304,386
Total liabilities	<u>2,071,159</u>	<u>9,340,191</u>	<u>11,411,350</u>
DEFERRED INFLOWS OF RESOURCES	-	-	-
<b>NET POSITION</b>			
Net investment in capital assets	20,653,974	26,155,124	46,809,098
Restricted for			
Grants	1,551	-	1,551
Street projects	1,606,571	-	1,606,571
Debt service	191,515	584,966	776,481
System development	134,663	-	134,663
Emergency services	110,386	-	110,386
Unrestricted	7,875,343	1,632,681	9,508,024
Total net position	<u>\$ 30,574,003</u>	<u>\$ 28,372,771</u>	<u>\$ 58,946,774</u>

*(The accompanying notes are an integral part of these financial statements)*

CITY OF ONTARIO, OREGON  
**STATEMENT OF ACTIVITIES**  
For the Year Ended  
June 30, 2014

Functions/ Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Primary Government</b>							
Governmental activities							
General government	\$ 2,654,490	\$ 1,125,999	\$ 1,733	\$ -	\$ (1,526,758)	\$ -	\$ (1,526,758)
Highways and streets	1,052,795	409,016	789,939	2,649,132	2,795,292	-	2,795,292
Public safety	4,095,725	140,823	253,699	-	(3,701,203)	-	(3,701,203)
Parks and recreation	529,908	69,326	20,095	-	(440,487)	-	(440,487)
Capital outlay	197,787	496,451	-	746,122	1,044,786	-	1,044,786
Interest on long term debt	23,420	-	-	-	(23,420)	-	(23,420)
Total governmental activities	<u>8,554,125</u>	<u>2,241,615</u>	<u>1,065,466</u>	<u>3,395,254</u>	<u>(1,851,790)</u>	<u>-</u>	<u>(1,851,790)</u>
Business-Type activities							
Water	2,986,400	2,810,343	-	-	-	(176,057)	(176,057)
Sewer	2,826,395	2,948,149	-	-	-	121,754	121,754
Golf course	180,636	-	-	-	-	(180,636)	(180,636)
Storm sewer	166,560	106,408	-	-	-	(60,152)	(60,152)
Total business type activities	<u>6,159,991</u>	<u>5,864,900</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(295,091)</u>	<u>(234,939)</u>
<b>Total primary government</b>	<u>\$ 14,714,116</u>	<u>\$ 8,106,515</u>	<u>\$ 1,065,466</u>	<u>\$ 3,395,254</u>	<u>(1,851,790)</u>	<u>(295,091)</u>	<u>(2,086,729)</u>
			General revenues				
			Property and other city tax levied for:				
			General purposes		3,254,219	-	3,254,219
			Local transit taxes and fees		2,318,562	-	2,318,562
			Grants and contributions not restricted to specific purpose		109,959	-	109,959
			Unrestricted investments earnings		29,275	41,626	70,901
			Miscellaneous		51,289	4,243	55,532
			<b>Total general revenues</b>		<u>5,763,304</u>	<u>45,869</u>	<u>5,809,173</u>
			Capital asset transfers		(550,057)	550,057	-
			Transfers		63,600	(63,600)	-
			Changes in net position		3,425,057	237,235	3,662,292
			Net position, July 1, 2013, before restatement		27,126,566	28,194,528	55,321,094
			Restatement, see note 11		22,380	(58,992)	(36,612)
			<b>Net position, July 1, 2013, after restatement</b>		<u>27,148,946</u>	<u>28,135,536</u>	<u>55,284,482</u>
			Net position, June 30, 2014		<u>\$ 30,574,003</u>	<u>\$ 28,372,771</u>	<u>\$ 58,946,774</u>

*(The accompanying notes are an integral part of these financial statements)*



## **FUND FINANCIAL STATEMENTS**

CITY OF ONTARIO, OREGON  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2014

	General Fund	Street Fund	Capital Projects Fund	Grants Fund	Nonmajor Funds	Total June 30, 2014
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>						
Assets						
Cash and investments	\$ 1,602,778	\$ 1,515,678	\$ 2,596,699	\$ -	\$ 2,214,059	\$ 7,929,214
Receivables						
Property taxes	243,571	-	-	-	-	243,571
Customer accounts	-	-	-	-	-	-
Special assessments	-	-	92,049	-	360,446	452,495
Other	459,721	26,956	78,336	1,118,176	59,685	1,742,874
Due from other funds	1,194,314	1,691,826	170,818	-	605,276	3,662,234
Prepaid expenses	22,497	125,850	-	-	-	148,347
Restricted cash						
Cash held in trust	-	-	-	-	275,738	275,738
Held in evidence fund	19,884	-	-	-	-	19,884
System development charges	-	-	134,663	-	-	134,663
Total assets	<u>3,542,765</u>	<u>3,360,310</u>	<u>3,072,565</u>	<u>1,118,176</u>	<u>3,515,204</u>	<u>14,609,020</u>
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows	<u>\$ 3,542,765</u>	<u>\$ 3,360,310</u>	<u>\$ 3,072,565</u>	<u>\$ 1,118,176</u>	<u>\$ 3,515,204</u>	<u>\$ 14,609,020</u>
<b>LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>						
Liabilities						
Current liabilities						
Accounts payable	\$ 165,121	\$ 61,660	\$ 509,821	\$ 44,527	\$ 84,372	\$ 865,501
Payroll liabilities	341,353	253	-	-	284	341,890
Due to other funds	1,862,645	-	-	1,072,098	-	2,934,743
Held in trust	19,884	-	-	-	246,663	266,547
Total current liabilities	<u>2,389,003</u>	<u>61,913</u>	<u>509,821</u>	<u>1,116,625</u>	<u>331,319</u>	<u>4,408,681</u>
Total liabilities	<u>2,389,003</u>	<u>61,913</u>	<u>509,821</u>	<u>1,116,625</u>	<u>331,319</u>	<u>4,408,681</u>
Deferred inflows of resources						
Deferred property tax revenues	196,282	-	-	-	-	196,282
Deferred special assessment revenues	-	-	92,049	-	348,112	440,161
Total deferred inflows	<u>196,282</u>	<u>-</u>	<u>92,049</u>	<u>-</u>	<u>348,112</u>	<u>636,443</u>
Fund balances						
Nonspendable	1,194,314	1,691,826	170,818	-	-	3,056,958
Spendable						
Restricted	-	1,606,571	134,663	1,551	301,901	2,044,686
Committed	-	-	2,165,214	-	2,533,872	4,699,086
Assigned	-	-	-	-	-	-
Unassigned	(236,834)	-	-	-	-	(236,834)
Total fund balances	<u>957,480</u>	<u>3,298,397</u>	<u>2,470,695</u>	<u>1,551</u>	<u>2,835,773</u>	<u>9,563,896</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 3,542,765</u>	<u>\$ 3,360,310</u>	<u>\$ 3,072,565</u>	<u>\$ 1,118,176</u>	<u>\$ 3,515,204</u>	<u>\$ 14,609,020</u>

*(The accompanying notes are an integral part of these financial statements)*

CITY OF ONTARIO, OREGON  
**RECONCILIATION OF GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT TO NET POSITION**  
June 30, 2014

TOTAL FUND BALANCES		\$ 9,563,896
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets are not financial resources and, therefore, are not reported in the governmental funds</p>		
Cost	\$29,620,951	
Accumulated depreciation	<u>(8,662,404)</u>	20,958,547
<p>Compensated absences are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements.</p>		
		(286,830)
<p>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.</p>		
		636,443
<p>Loan interest receivable is not accrued in the governmental funds, but rather is recognized as a revenue when received.</p>		
		12,338
<p>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.</p>		
Note payable	(304,572)	
Accrued interest	<u>(5,819)</u>	(310,391)
TOTAL NET POSITION		<u><u>\$30,574,003</u></u>

*(The accompanying notes are an integral part of these financial statements)*

CITY OF ONTARIO, OREGON  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended  
June 30, 2014

	General Fund	Street Fund	Capital Projects Fund	Grants Fund	Nonmajor Funds	Total June 30, 2014
Revenues						
Property taxes	\$ 3,273,122	\$ -	\$ -	\$ -	\$ -	\$ 3,273,122
Other taxes	79,246	242,626	-	-	384,913	706,785
Special assessments collected	-	-	-	-	23,786	23,786
Franchise fees	1,637,770	-	-	-	-	1,637,770
Licenses and permits	88,665	-	-	-	-	88,665
Intergovernmental revenues	594,175	783,367	-	3,259,389	83,541	4,720,472
Charges for services	177,181	-	1,850	-	15,815	194,846
Fines and forfeits	3,495	-	-	-	-	3,495
Miscellaneous revenues	97,596	10,615	142,826	-	110	251,147
Interest on investments	10,289	-	8,328	-	23,563	42,180
Loan repayments	-	-	-	-	53,736	53,736
System development charges	-	-	33,969	-	-	33,969
Utilities capitalization charges	-	-	460,631	-	-	460,631
Administration	712,788	409,016	-	-	-	1,121,804
Total revenues	<u>6,674,327</u>	<u>1,445,624</u>	<u>647,604</u>	<u>3,259,389</u>	<u>588,758</u>	<u>12,615,702</u>
Expenditures						
Current						
General government	1,623,711	-	46,923	-	375,441	2,046,075
Highways and streets	-	903,456	-	-	-	903,456
Public safety	3,600,870	-	-	-	494,855	4,095,725
Parks and recreation	529,908	-	-	-	-	529,908
Capital outlay	58,486	25,452	1,569,191	3,259,500	201,391	5,114,020
Debt service						
Principal	-	-	-	-	83,260	83,260
Interest	8,110	-	-	-	17,796	25,906
Total expenditures	<u>5,821,085</u>	<u>928,908</u>	<u>1,616,114</u>	<u>3,259,500</u>	<u>1,172,743</u>	<u>12,798,350</u>
Excess of revenues over (under) expenditures	853,242	516,716	(968,510)	(111)	(583,985)	(182,648)
Other financing sources (uses)						
Operating transfers in	38,057	-	-	63,000	814,668	915,725
Operating transfers out	(747,668)	(66,400)	-	-	(38,057)	(852,125)
Total other sources (uses)	<u>(709,611)</u>	<u>(66,400)</u>	<u>-</u>	<u>63,000</u>	<u>776,611</u>	<u>63,600</u>
Net change in fund balances	143,631	450,316	(968,510)	62,889	192,626	(119,048)
Fund balances, July 1, before restatement	821,645	2,849,492	3,440,882	(61,338)	2,609,883	9,660,564
Restatement, see note 11	(7,796)	(1,411)	(1,677)	-	33,264	22,380
Fund balances, July 1, after restatement	<u>813,849</u>	<u>2,848,081</u>	<u>3,439,205</u>	<u>(61,338)</u>	<u>2,643,147</u>	<u>9,682,944</u>
Fund balances, June 30	<u>\$ 957,480</u>	<u>\$ 3,298,397</u>	<u>\$ 2,470,695</u>	<u>\$ 1,551</u>	<u>\$ 2,835,773</u>	<u>\$ 9,563,896</u>

*(The accompanying notes are an integral part of these financial statements)*

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, 2014

NET CHANGE IN FUND BALANCES \$ (119,048)

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	\$ 4,366,175	
Less current year depreciation	<u>(783,675)</u>	3,582,500

Long-term debt proceeds are reported as other financing sources in governmental funds. In the Statement of Net Position, however, issuing long-term debt increases liabilities. Repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position.

Debt principal repaid		83,261
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Interest on long-term debt is not accrued in the governmental funds but is expensed when paid.

Interest accrued		2,486
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Loan interest receivable is not accrued in the governmental funds, but rather is recognized as a revenue when received.		12,338
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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.

(161,777)

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		25,297
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CHANGE IN NET POSITION		<u><u>\$ 3,425,057</u></u>
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*(The accompanying notes are an integral part of these financial statements)*

CITY OF ONTARIO, OREGON  
**STATEMENT OF FUND NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2014

	Enterprise Funds				Total June 30, 2014	Internal Service Fund
	Water Fund	Sewer Fund	Storm Sewer Fund	Golf Course Fund		
<b>ASSETS</b>						
Cash and investments	\$ 777,524	\$ -	\$ 405,645	\$ -	\$ 1,183,169	\$ 515,951
Receivables						
Customer accounts receivable,						
Customer accounts receivable	354,727	422,352	8,310	12,880	798,269	2,287
Prepaid expenses	74,317	59,614	3,523	-	137,454	114,150
Restricted cash						
Customer deposits	11,103	-	-	1,000	12,103	94,670
Debt service	-	584,966	-	-	584,966	-
Inventories	13,571	-	-	-	13,571	-
Capital assets, net of accumulated depreciation	11,650,559	18,124,258	2,621,040	813,759	33,209,616	1,774,248
<b>Total assets</b>	<b>12,881,801</b>	<b>19,191,190</b>	<b>3,038,518</b>	<b>827,639</b>	<b>35,939,148</b>	<b>2,501,306</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Accounts payable	80,203	48,043	1,942	16,073	146,261	39,760
Payroll liabilities	-	499	-	-	499	5,676
Accrued compensated absences	-	-	-	-	-	551
Accrued interest	90,914	121,017	-	-	211,931	-
Deposit liability	11,103	-	-	1,000	12,103	94,670
Due to other funds	-	605,276	-	122,216	727,492	-
Current portion of non-current liabilities	138,969	525,212	-	-	664,181	-
<b>Total current liabilities</b>	<b>321,189</b>	<b>1,300,047</b>	<b>1,942</b>	<b>139,289</b>	<b>1,762,467</b>	<b>140,657</b>
<b>Non-current liabilities</b>						
Notes payable	3,519,303	4,645,256	-	-	8,164,559	-
<b>Total liabilities</b>	<b>3,840,492</b>	<b>5,945,303</b>	<b>1,942</b>	<b>139,289</b>	<b>9,927,026</b>	<b>140,657</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>						
Net investment in capital assets	7,992,287	12,953,790	2,621,040	813,759	24,380,876	1,774,248
Restricted net position						
Debt service	-	584,966	-	-	584,966	-
Unrestricted net position	1,049,022	(292,869)	415,536	(125,409)	1,046,280	586,401
<b>Total net position</b>	<b>\$ 9,041,309</b>	<b>\$ 13,245,887</b>	<b>\$ 3,036,576</b>	<b>\$ 688,350</b>	<b>\$ 26,012,122</b>	<b>\$ 2,360,649</b>

*(The accompanying notes are an integral part of these financial statements)*

CITY OF ONTARIO, OREGON  
**RECONCILIATION OF ENTERPRISE FUNDS STATEMENT OF FUND NET POSITION  
 TO THE STATEMENT OF NET POSITION**  
 June 30, 2014

TOTAL ENTERPRISE FUNDS NET POSITION \$26,012,122

Amounts reported for business-type activities in the Statement of Net Position 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 Position as follows:

Cash and cash equivalents	\$	610,621	
Accounts receivable		2,287	
Prepaid expenses		114,150	
Capital assets, net of depreciation		1,774,248	
Accounts payable		(39,760)	
Payroll liabilities		(5,676)	
Compensated absences payable		(551)	
Deposit liability		(94,670)	
			2,360,649

TOTAL NET POSITION \$28,372,771

*(The accompanying notes are an integral part of these financial statements)*

CITY OF ONTARIO, OREGON  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended  
June 30, 2014

	105	110	115	005	025	
	Enterprise Funds				Total June 30, 2014	Internal Service Fund
	Water Fund	Sewer Fund	Storm Sewer Fund	Golf Course Fund		
Operating revenues						
Consumer receipts	\$ 2,810,343	\$ 2,947,849	\$ 106,408	\$ -	\$ 5,864,600	\$ 2,339,123
Miscellaneous	1,038	945	-	-	1,983	109,959
Total operating revenues	<u>2,811,381</u>	<u>2,948,794</u>	<u>106,408</u>	<u>-</u>	<u>5,866,583</u>	<u>2,449,082</u>
Operating expenses						
Wages and salaries	224,650	159,143	3,650	5,354	392,797	882,615
Employee benefits	85,884	48,093	1,856	-	135,833	355,819
Contract labor	25,175	17,244	-	71,620	114,039	43,729
Depreciation	447,856	487,531	104,011	45,889	1,085,287	70,433
Insurance	41,845	34,944	-	8,527	85,316	13,020
Miscellaneous expense	11,727	46,672	-	8,369	66,768	652,412
Repairs and maintenance	220,419	162,076	15,083	31,731	429,309	146,742
Supplies - general	89,783	15,508	-	1	105,292	71,446
Supplies - petroleum	5,486	3,758	-	-	9,244	40,026
Telephone	4,338	4,442	-	-	8,780	6,847
Travel and school	4,110	3,357	-	-	7,467	12,427
Utilities	239,805	360,131	-	4,071	604,007	45,503
Bad debt expense	-	0	-	5,074	5,074	-
Fees	197,530	204,310	7,176	-	-	-
Administrative	1,238,071	1,062,035	35,354	-	2,335,460	-
Capital outlay	42,124	9,697	1,344	-	53,165	-
Total operating expenses	<u>2,878,803</u>	<u>2,618,941</u>	<u>168,474</u>	<u>180,636</u>	<u>5,846,854</u>	<u>2,341,019</u>
Net income from operations	(67,422)	329,853	(62,066)	(180,636)	19,729	108,063
Non operating income (expenses)						
Interest earned on investments	-	-	-	-	-	41,626
Interest expenses	(158,153)	(260,487)	-	-	(418,640)	-
Total non operating income (expenses)	<u>(158,153)</u>	<u>(260,487)</u>	<u>-</u>	<u>-</u>	<u>(418,640)</u>	<u>41,626</u>
Net income	(225,575)	69,366	(62,066)	(180,636)	(398,911)	149,689
Other items						
Capital contribution (distribution)	307,495	193,737	-	-	501,232	48,825
Transfers in	-	-	30,000	125,000	155,000	-
Transfers out	(141,450)	(77,150)	-	-	(218,600)	-
Total other items	<u>166,045</u>	<u>116,587</u>	<u>30,000</u>	<u>125,000</u>	<u>437,632</u>	<u>48,825</u>
Change in net position	(59,530)	185,953	(32,066)	(55,636)	38,721	198,514
Net position beginning of year, before restatement	9,109,470	13,072,422	3,069,160	747,906	25,998,958	2,195,570
Restatement, see note 11	(8,631)	(12,488)	(518)	(3,920)	(25,557)	(33,435)
Net position beginning of year, after restatement	<u>9,100,839</u>	<u>13,059,934</u>	<u>3,068,642</u>	<u>743,986</u>	<u>25,973,401</u>	<u>2,162,135</u>
Net position end of year	<u>\$ 9,041,309</u>	<u>\$ 13,245,887</u>	<u>\$ 3,036,576</u>	<u>\$ 688,350</u>	<u>\$ 26,012,122</u>	<u>\$ 2,360,649</u>

*(The accompanying notes are an integral part of these financial statements)*



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

For the Year Ended  
June 30, 2014

NET CHANGE IN ENTERPRISE FUNDS NET POSITION	\$ 38,721
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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.

198,514

CHANGE IN NET POSITION

\$ 237,235

*(The accompanying notes are an integral part of these financial statements)*

**CITY OF ONTARIO, OREGON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

For the Year Ended  
June 30, 2014

	Enterprise Funds					
	Water Fund	Sewer Fund	Storm Sewer Fund	Golf Course Fund	Total	Internal Service Fund
<b>Cash flows from operating activities</b>						
Cash received from customers	\$ 2,737,817	\$ 2,808,122	\$ 106,269	\$ (12,880)	\$ 5,639,328	\$ 2,385,410
Cash payment to employees for services	(327,064)	(214,281)	(5,506)	(76,974)	(623,825)	(1,308,618)
Cash payment to suppliers for goods and services	(2,073,176)	(1,884,403)	(53,922)	(89,528)	(4,101,029)	(1,124,881)
Other operating revenues	1,038	945	-	-	1,983	109,959
Net cash provided by operating activities	<u>338,615</u>	<u>710,383</u>	<u>46,841</u>	<u>(179,382)</u>	<u>916,457</u>	<u>61,870</u>
<b>Cash flows from noncapital financing activities</b>						
Operating transfers-out to other funds	(141,450)	(77,150)	-	-	(218,600)	-
Operating transfers-in from funds	-	-	30,000	125,000	155,000	-
Interfund loans	-	265,273	-	58,302	323,575	-
Reallocation of funds	(8,631)	(12,488)	(518)	(3,920)	(25,557)	(33,435)
Net cash provided by noncapital financing activities	<u>(150,081)</u>	<u>175,635</u>	<u>29,482</u>	<u>179,382</u>	<u>234,418</u>	<u>(33,435)</u>
<b>Cash flows from capital and related financing activities</b>						
Acquisition and construction of capital assets	(122,592)	(25,607)	(29,160)	-	(177,359)	-
Interest paid on notes payable	(161,374)	(248,635)	-	-	(410,009)	-
Payment on notes	(138,047)	(875,273)	-	-	(1,013,320)	-
Net cash used for capital and related financing activities	<u>(422,013)</u>	<u>(1,149,515)</u>	<u>(29,160)</u>	<u>-</u>	<u>(1,600,688)</u>	<u>-</u>
<b>Cash flows from investing activities</b>						
Interest and dividends on investments	-	-	-	-	-	41,626
Net cash provided (used) in investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,626</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(233,479)</u>	<u>(263,497)</u>	<u>47,163</u>	<u>-</u>	<u>(449,813)</u>	<u>70,061</u>
Cash and cash equivalents at beginning of year	1,022,106	848,463	358,482	1,000	2,230,051	540,560
Cash and cash equivalents at end of year	<u>\$ 788,627</u>	<u>\$ 584,966</u>	<u>\$ 405,645</u>	<u>\$ 1,000</u>	<u>\$ 1,780,238</u>	<u>\$ 610,621</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>						
Net Income	\$ (67,422)	\$ 329,853	\$ (62,066)	\$ (180,636)	\$ 19,729	\$ 108,063
Adjustments to reconcile net income to net cash provided ( used ) by operating activities:						
Depreciation expense	447,856	487,531	104,011	45,889	1,085,287	70,433
(Increase) decrease in accounts receivable	(72,526)	(139,727)	(139)	(7,806)	(220,198)	32,590
(Increase) decrease in prepaid expenses	(74,317)	(59,614)	(3,523)	-	(137,454)	(114,150)
(Increase) decrease in inventories	117,468	131,039	10,920	-	259,427	-
Increase (decrease) in accounts payable	4,087	(31,654)	(2,362)	(36,829)	(66,758)	21,420
Increase (decrease) in accrued compensated absences	(16,531)	(7,544)	-	-	(24,075)	(75,860)
Increase (decrease) in payroll liabilities	-	499	-	-	499	5,676
Net increase (decrease) in customer deposits	-	-	-	-	-	13,698
Total adjustments	406,037	380,530	108,907	1,254	896,728	(46,193)
Net cash provided (used) by operating activities	<u>\$ 338,615</u>	<u>\$ 710,383</u>	<u>\$ 46,841</u>	<u>\$ (179,382)</u>	<u>\$ 916,457</u>	<u>\$ 61,870</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Position</b>						
<b>Current assets</b>						
Cash and investments	\$ 777,524	\$ -	\$ 405,645	\$ -	\$ 1,183,169	\$ 515,951
<b>Restricted assets</b>						
Water and sewer deposits	11,103	-	-	1,000	12,103	94,670
Debt service	-	584,966	-	-	584,966	-
Total cash and cash equivalents at year end	<u>\$ 788,627</u>	<u>\$ 584,966</u>	<u>\$ 405,645</u>	<u>\$ 1,000</u>	<u>\$ 1,780,238</u>	<u>\$ 610,621</u>
<b>Non cash capital financing transactions</b>						
Capital contributions from (to) other funds	\$ 307,495	\$ 193,737	\$ -	\$ -	\$ 501,232	\$ 48,825

*(The accompanying notes are an integral part of these financial statements)*

## **NOTES TO BASIC FINANCIAL STATEMENTS**

CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2014

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

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.

Debt Service Funds—Debt service funds are used to account for interest and principal payments for debt.

CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2014

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 Position 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 Position presents the city's assets, deferred outflows, deferred inflows and liabilities, with the difference reported as net position. Net position is reported in three categories:

*Net investment in capital assets* 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 position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has 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.

##### 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.

CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2014

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.

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.

Grants Fund—The Grants fund is a special revenue fund used to account for financial resources expended and received from intergovernmental grants.

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 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

CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
 June 30, 2014

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.

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.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

**E. Budgets and Budgetary Accounting**

An annual 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.

The city had the following budget over expenditure violations for the fiscal year ending June 30, 2014:

Capital Projects	Materials and Services	\$46,923
Street Fund	Materials and Services	5,171
Reserve Fund	Debt service	1
Sewer Fund	Materials and Services	94,463
Golf Course	Materials and Services	9,748

CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2014

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 Position. 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. 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. The city does not include the cost of infrastructure acquired prior to 2003 as required by *Generally Accepted Accounting Principles*.

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 Position. 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 Outflows of Resources

Deferred outflows of resources in the Statement of Net Position represent consumption of net position that is applicable to a future reporting period. The city has deferred outflows \$399,951 at June 30, 2014, which consists of a prepaid contract for public works.

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 were previously paid from the General, 911, Street, Water, Sewer, Storm Sewer and Public Works Funds. However, beginning in fiscal year ended June 30, 2014 benefits will be paid from the General and Public Works Fund. The compensated absences liability was \$287,381 at June 30, 2014 and \$412,613 at June 30, 2013.



CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2014

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. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that is applicable to a future reporting period. In the Statement of Net Position, this includes resources that are received before the city has met its eligibility requirements related to time. In the governmental fund financial statements, deferred inflows or resources also include revenues that are measurable but not available.

L. Encumbrances

The city does not use encumbrance accounting.

M. 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 Position.

N. 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.

O. 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.

P. Other asset

Water and wastewater treatment thirty day chemical inventory will have to be left with the city if the public works CH2M Hill contract is terminated. An asset of \$13,571 is booked for this value as shown by the Appendix G of the contract.

CITY OF ONTARIO, OREGON  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2014

Q. 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.

R. Fund Balances

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

- *Nonspendable*—Fund balance is reported as nonspendable when the resources cannot ever be spent, whether due to legal restrictions (such as corpus) or items not spendable in form 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*—Fund balance is reported as committed when the council passes a resolution, the formal action of the city’s highest decision-making level of authority, to establish a specific spending constraint on how the resources may be used. The council can also modify or rescind the resolution through the passage of another formal resolution. Includes items committed by city council; commitments are required to be made, modified or rescinded by formal council resolution.
- *Assigned*—Fund balance is reported as assigned by city policy when the council or designee assign portions of revenue sources or ending fund balance which are not determined to be non-spendable, restricted or committed by formal written notice. Authority is granted to the individuals by the city council and such authority may only be established, modified or rescinded by the council.
- *Unassigned*—This is the residual classification used for those balances not assigned to another category.

The city council can commit fund balances anytime before the end of the fiscal year. The commitment of fund balances has to be done by formal council resolution.

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

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

CITY OF ONTARIO, OREGON  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2014

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 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, 2014 were 18.7% and 14.04% for general service employees and 16.77% 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, 2014, 2013, and 2012 were \$966,103, \$943,898, and \$976,278, respectively, which equaled the required contributions for the year. Currently, the city pays the 6% on behalf of the employee for employees covered by a union. These contributions are included in the above city contributions.

*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 Internal Revenue Code Section 457. No contributions are required from the city. As of June 30, 2014, 67 individuals were participating in the Internal Revenue Code Section 457 plans. 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.

CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2014

At June 30, 2014, the amount deferred and investments earnings thereon, adjusted to fair market value, amount to \$1,964,080. 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, 2014.

Note 3. Other Post Employment Benefits

PERS Retirement Health Insurance Account

*Plan Description*

The district contributes to the PERS Retirement Health Insurance Account (RHIA) for each of its eligible employees. RHIA is a cost-sharing multiple-employer defined benefit other postemployment benefit plan administered by PERS. RHIA pays a monthly contribution toward the cost of Medicare companion health insurance premiums of eligible retirees. ORS 238.420 established this trust fund. Authority to establish and amend the benefit provisions of RHIA reside with the Oregon Legislature. The plan is closed to new entrants after January 1, 2004, PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Oregon Public Employees Retirement System, PO Box 23700, Tigard, OR 97281-3700.

*Funding Policy*

Because RHIA was created by enabling legislation (ORS 238.420), contribution requirements of the plan members and the participating employers were established and may be amended only by the Oregon Legislature. ORS require that amount equal to \$60 or the total monthly cost of Medicare companion health insurance premiums coverage, whichever is less, shall be paid from the RHIA established by the employer, and any monthly cost in excess of \$60 shall be paid by the eligible retired member in the manner provided in ORS 238.410. To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan. A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

Participating employers are contractually required to contribute to RHIA at the rate assessed each year by PERS, currently 0.49% Tier 1 and Tier 2 payroll and 0.19% of OPSRP annual covered payroll. The Oregon PERS Board of Trustees sets the employer contribution rate. It is based on the annual required contribution of the combined participant employers. This is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a closed period not to exceed 30 years. The city's contributions to RHIA for the year ended June 30, 2014 are included in the PERS annual pension amount.

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

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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, 2014, 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.

Note 4. Accounts Receivable

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

General Fund	Property taxes	\$ 243,571
General Fund	Other	459,721
Street Fund	Other	5,906
Street Fund	Occupancy tax	21,050
Grant Fund	Grants	1,118,176
Nonmajor funds	Special assessments	360,446
Nonmajor funds	Other	59,685
Capital Projects Fund	Local Improvement District	92,049
Capital Projects Fund	Other	<u>78,336</u>
	TOTAL	<u><u>\$ 2,438,940</u></u>

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

	Accounts Receivable	Allowance for Doubtful Accounts	Net Receivable
Water Fund	\$ 362,867	\$ (8,140)	\$ 354,727
Sewer Fund	435,058	(12,706)	422,352
Storm Sewer Fund	8,851	(541)	8,310
Golf Course Fund	12,880	-	12,880
Internal Service Fund	<u>35,747</u>	<u>(33,460)</u>	<u>2,287</u>
TOTAL	<u><u>\$ 855,403</u></u>	<u><u>\$ (54,847)</u></u>	<u><u>\$ 800,556</u></u>

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Note 5. Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2014 is as follows:

Description	Balance 6/30/2013	Increases	Decreases	Balance 6/30/2014	Due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Oshkosk Capital	\$ 27,884	\$ -	\$ 27,884	\$ -	\$ -
US Bank--LID 44 and 45	359,948	-	55,376	304,572	55,377
<b>BUSINESS-TYPE ACTIVITIES</b>					
WTP Upgrade OECDD	3,796,319	-	138,047	3,658,272	138,969
OECDD-Wastewater System Improvements	3,577,376	-	108,714	3,468,662	109,368
Oregon DEQ loans	2,468,365	-	766,559	1,701,806	525,212
Total Long-term Debt	<u>\$ 10,229,892</u>	<u>\$ -</u>	<u>\$ 1,096,580</u>	<u>\$ 9,133,312</u>	<u>\$ 828,926</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
			\$ 304,572
2015	\$ 55,377	\$ 13,810	249,195
2016	55,377	11,179	193,818
2017	55,377	8,549	138,441
2018	55,377	5,918	83,064
2019	55,377	3,288	27,687
2020	27,687	658	-
	<u>\$ 304,572</u>	<u>\$ 43,402</u>	

Capital Lease – Oshkosh 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.

This lease was paid off at June 30, 2014.

Business-Type Activities

Water Treatment Plant Upgrade Oregon Economic Community Development Department

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The city converted water treatment facility improvements interim-financing from the Oregon Economic and Community Development Department (OECD) 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.

Fiscal Year Ending June 30,	Principal	Interest	Remaining Balance
			\$ 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	156,961	138,460	3,066,491
2019	163,040	132,181	2,903,451
2020-2024	933,536	553,594	1,969,915
2025-2029	1,155,717	334,245	814,198
2030-2032	814,198	72,291	-
	<u>\$ 3,658,272</u>	<u>\$ 1,681,414</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
			\$ 3,468,662	
2015	\$ 109,368	\$ 160,897	3,359,294	3.5%
2016	115,143	153,522	3,244,151	3.5%
2017	120,949	151,916	3,123,202	4.0%
2018	126,787	147,078	2,996,415	4.0%
2019	132,658	142,007	2,863,757	4.3%
2020-2024	744,235	618,016	2,119,522	4.5% to 5%
2025-2029	932,976	423,987	1,186,546	4.5% to 5.25%
2030-2034	1,186,546	174,267	-	4.75%
	<u>\$ 3,468,662</u>	<u>\$ 1,971,690</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.

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Loan 70610 - 3% interest

Fiscal Year Ending June 30,	Principal	Interest	Balance
			\$ 251,471
2015	\$ 251,471	\$ 3,772	-
	<u>\$ 251,471</u>	<u>\$ 3,772</u>	

Loan 70611 - 3.98% interest

Fiscal Year Ending June 30,	Principal	Interest	Fees	Balance
				\$ 458,136
2015	\$ 107,855	\$ 17,171	\$ 2,024	350,281
2016	112,191	12,836	1,474	238,090
2017	116,700	8,326	902	121,390
2018	121,390	3,635	306	-
	<u>\$ 458,136</u>	<u>\$ 41,968</u>	<u>\$ 4,706</u>	

Loan 70612 - 3.69% interest

Fiscal Year Ending June 30,	Principal	Interest	Fees	Balance
				\$ 992,199
2015	\$ 165,886	\$ 35,096	\$ 4,550	826,313
2016	172,064	28,918	3,705	654,249
2017	178,471	22,511	2,829	475,778
2018	185,118	15,864	1,920	290,660
2019	192,011	8,971	978	98,649
2020	98,649	1,820	-	-
	<u>\$ 992,199</u>	<u>\$ 113,180</u>	<u>\$ 13,982</u>	

Total DEQ

Fiscal Year Ending June 30,	Principal	Interest	Fees	Balance
				\$ 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	306,508	19,499	2,226	290,660
2019	192,011	8,971	978	98,649
2020	98,649	1,820	-	-
	<u>\$ 1,701,806</u>	<u>\$ 158,920</u>	<u>\$ 18,688</u>	



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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, 2014:

Deposits with banks	\$ 2,460,579
Investments	7,707,331
Cash on hand	1,155
Certificates of Deposit	581,293
	\$ 10,750,358

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

Statement of Net Position	
Cash and investments	\$ 9,628,334
Restricted cash	1,122,024
	\$ 10,750,358

As of June 30, 2014, the city held the following investments and maturities:

Investment type	Fair Value	% of investment portfolio
Local Government Investment Pool	\$ 7,707,331	100.0%

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, 2014. 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, 2014, the carrying amount of the city's deposits was \$3,041,872 and the bank balance was \$3,303,477. 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 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

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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>
<u><i>Cash and cash equivalents</i></u>			
Local Government Investment Pool (LGIP)	\$ 7,707,331	50% less than 90-days, no more than 25% over one year, and no investment over three years	Unrated
<i>Total cash and cash equivalents</i>	100.00% <u>7,707,331</u>		
	100.00% <u>\$ 7,707,331</u>		

At June 30, 2014, the city held \$8,288,624 of investments, which is all classified as cash and investments on the Statement of Net Position. The city has no formal 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 2014. 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.

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*

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*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, 2014 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, 2014, 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.

Note 9. Interfund Receivables and Payables

The interfund receivable and payable at June 30, 2014 consist of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Grants Fund	\$ 1,072,098
General Fund	Golf Course Fund	122,216
Nonmajor gov't	Sewer Fund	605,276
Streets Fund	General Fund	1,691,826
Capital Projects	General Fund	170,818
	<b>TOTAL</b>	<b>\$ 3,662,234</b>

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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 following:

The \$1,691,826 payable from the General Fund to the Street Fund is to account for transient occupancy tax that was received into the General Fund instead of the Street Fund as required by City Ordinance.

The \$170,818 payable from the General Fund to the Capital Projects Fund was an interfund loan set up to finance the Fire Substation #2.

Note 10. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<b>Governmental Funds</b>			<b>Proprietary Funds</b>		
<u>Transfers in</u>	<u>Transfer from</u>	<u>Amount</u>	<u>Transfers in</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Nonmajor funds	\$ 38,057	Golf Course Fund	General Fund	\$ 125,000
Grants Fund	General Fund	63,000			
Nonmajor funds	General Fund	559,668			
	Water Fund	141,450			
	Sewer Fund	47,150			
	Street Fund	66,400			
Total transfers in for governmental funds		<u>\$ 915,725</u>	Total transfers in for proprietary funds		<u>\$ 125,000</u>
<u>Transfers out</u>	<u>Transfer to</u>		<u>Transfers out</u>	<u>Transfer to</u>	
General Fund	Golf Fund	\$ (125,000)	Water Fund	Nonmajor funds	\$ (141,450)
	Grants Fund	(63,000)	Sewer Fund	Nonmajor funds	(47,150)
	Nonmajor funds	(559,668)			
Street	Nonmajor funds	(66,400)			
Nonmajor funds	General Fund	(38,057)			
Total transfers out for governmental funds		<u>(852,125)</u>	Total transfers out for proprietary funds		<u>(188,600)</u>
<b>Total transfers for governmental funds</b>		<b>\$ 63,600</b>	<b>Total transfers for proprietary funds</b>		<b>\$ (63,600)</b>

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.

Note 11. Accounting Changes and Restatements

**Governmental Activities:** There was a prior year over statement in cash of \$1,298 and accounts payable should have been reduced in the prior year by \$25,385, finally, an allowance for doubtful accounts of \$1,707 was booked for prior years. The beginning net position of \$27,126,566 as originally reported has been increased by \$22,380 to \$27,148,946.

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**Business-Type Activities:** In the prior year accounts payable should have been increased by \$4,147 and allowances for doubtful accounts should have been \$54,847. As a result, the beginning net position of \$28,194,528 as originally reported has been decreased by \$58,992 to \$28,135,536.

Note 12. Schedule of Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	Balance June 30, 2013	Restatements	Additions	Deletions	Balance June 30, 2014
<b>Governmental activities</b>					
Capital assets not being depreciated					
Land	\$ 4,770,446	\$ -	\$ -	\$ -	\$ 4,770,446
Construction in progress	1,276,307	-	3,708,796	784,290	4,200,813
Total capital assets not being depreciated	<u>6,046,753</u>	<u>-</u>	<u>3,708,796</u>	<u>784,290</u>	<u>8,971,259</u>
Capital assets being depreciated					
Equipment and vehicles	4,229,380	-	42,229	-	4,271,609
Buildings and improvements	8,807,927	-	17,500	-	8,825,427
Infrastructure	6,170,715	-	1,381,940	-	7,552,655
Total capital assets being depreciated	<u>19,208,022</u>	<u>-</u>	<u>1,441,669</u>	<u>-</u>	<u>20,649,691</u>
Less accumulated depreciation for					
Equipment and vehicles	3,118,192	-	235,274	-	3,353,466
Buildings and improvements	4,400,357	-	194,926	-	4,595,283
Infrastructure	360,180	-	353,475	-	713,655
Total accumulated depreciation	<u>7,878,729</u>	<u>-</u>	<u>783,675</u>	<u>-</u>	<u>8,662,404</u>
Total capital assets being depreciated, net	11,329,293	-	657,994	-	11,987,287
Governmental activities capital assets, net	<u>\$ 17,376,046</u>	<u>\$ -</u>	<u>\$ 4,366,790</u>	<u>\$ 784,290</u>	<u>\$ 20,958,546</u>
<b>Business-type activities</b>					
Capital assets not being depreciated					
Land	\$ 2,645,560	\$ -	\$ -	\$ -	\$ 2,645,560
Construction in progress	1,922,451	-	365,849	1,894,805	393,495
Total capital assets not being depreciated	<u>4,568,011</u>	<u>-</u>	<u>365,849</u>	<u>1,894,805</u>	<u>3,039,055</u>
Capital assets being depreciated					
Equipment and vehicles	35,852,825	-	159,843	-	36,012,668
Buildings and improvements	30,461,783	-	1,436,108	-	31,897,891
Infrastructure	8,384,942	-	660,421	-	9,045,363
Total capital assets being depreciated	<u>74,699,550</u>	<u>-</u>	<u>2,256,372</u>	<u>-</u>	<u>76,955,922</u>
Less accumulated depreciation for					
Equipment and vehicles	31,337,756	-	360,354	-	31,698,110
Buildings and improvements	11,603,353	-	654,486	-	12,257,839
Infrastructure	914,286	-	140,880	-	1,055,166
Total accumulated depreciation	<u>43,855,395</u>	<u>-</u>	<u>1,155,720</u>	<u>-</u>	<u>45,011,115</u>
Total capital assets being depreciated, net	30,844,155	-	1,100,652	-	31,944,807
Business-type activities capital assets, net	<u>\$ 35,412,166</u>	<u>\$ -</u>	<u>\$ 1,466,501</u>	<u>\$ 1,894,805</u>	<u>\$ 34,983,862</u>

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

Governmental Activities	
General government	\$ 634,336
Highways and streets	149,339
Business-Type Activities	
Water	447,856
Sewer	487,531

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Storm Sewer	104,011
Golf Course	45,889
Internal Service	70,433

**Note 13. 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	\$ 1,194,314	\$ -	\$ 1,691,826	\$ 170,818	\$ -	\$ 3,056,958
<u>Restricted</u>						
System development charges	-	-	-	134,663	-	134,663
Street projects	-	-	1,606,571	-	-	1,606,571
Emergency services	-	-	-	-	110,386	110,386
Debt Service	-	-	-	-	191,515	191,515
Grants	-	1,551	-	-	-	1,551
	-	1,551	1,606,571	134,663	301,901	2,044,686
<u>Committed to</u>						
Capital Projects	-	-	-	2,165,214	1,633,229	3,798,443
Funds held for other departments	-	-	-	-	384,422	384,422
Revolving loan fund program	-	-	-	-	516,221	516,221
	-	-	-	2,165,214	2,533,872	4,699,086
<u>Unassigned</u>	(236,834)	-	-	-	-	(236,834)
<b>TOTAL FUND BALANCES</b>	<b>\$ 957,480</b>	<b>\$ 1,551</b>	<b>\$ 3,298,397</b>	<b>\$ 2,470,695</b>	<b>\$ 2,835,773</b>	<b>\$ 9,563,896</b>

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 16, 2014. Commitments of fund balances must be made prior to the end of the fiscal year.

**Note 14. 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 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, 2014, there were 15 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.

CITY OF ONTARIO, OREGON  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
June 30, 2014

Note 15. New Accounting Pronouncements and Accounting Standards

***GASB Statement No. 67 – Financial Reporting for Pension Plans***

The objective of this statement is to improve the financial reporting by state and local governmental pension plans. This statement replaces the requirements of statements No. 25 and will be effective for fiscal year ending June 30, 2014.

The city along with other local governments participate in a cost-sharing multiple employer defined benefit public employees' pension plan, PERS. This statement will not directly affect the city reporting for PERS, however changes implemented by PERS under No. 67 will affect the city's reporting and disclosures for No. 68.

*The following pronouncements have been issued by the Governmental Accounting Standards Board (GASB) but not yet implemented by the city.*

***GASB Statement No. 68 – Accounting and Financial Reporting for Pensions***

This statement was issued to improve accounting and financial reporting by state and local government for pensions. This statement replaces statement No. 27 as well as requirements of statement No. 50. This statement and statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement – determining pensions, accumulating and managing assets dedicated for pension and paying benefits to plan members as they come due. This statement will be effective for fiscal year ending June 30, 2015.

The city along with other local governments participate in a cost-sharing multiple employer defined benefit public employees' pension plan, PERS. The requirements of this standard appear to have a significant impact over financial accounting and reporting for the city's participation in the PERS plan. At this point management is researching all of the requirements outlined in this standard and will be working with other local governments and PERS to ensure proper financial reporting and disclosures are met.

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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, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
<b>Revenues</b>				
Property taxes	\$ 3,206,766	\$ 3,206,766	\$ 3,273,122	\$ 66,356
Other taxes	75,047	75,047	79,246	4,199
Franchise fees	1,502,981	1,502,981	1,637,770	134,789
Licenses and permits	71,650	71,650	88,665	17,015
Intergovernmental	629,196	629,196	594,175	(35,021)
Charges for services	198,979	198,979	177,181	(21,798)
Fines and forfeits	3,600	3,600	3,495	(105)
Miscellaneous	62,591	65,296	97,596	32,300
Interest on investments	5,643	5,643	10,289	4,646
Administrative		712,788	712,788	-
Total revenues	<u>5,756,453</u>	<u>6,471,946</u>	<u>6,674,327</u>	<u>202,381</u>
<b>Expenditures</b>				
Personal services	4,653,739	4,653,739	4,486,402	167,337
Materials and services	1,526,530	1,617,784	1,268,087	349,697
Capital outlay	45,600	58,681	58,486	195
Debt service	69,000	69,000	8,110	60,890
Contingency	1,614,749	1,491,919	-	1,491,919
Total expenditures	<u>7,909,618</u>	<u>7,891,123</u>	<u>5,821,085</u>	<u>2,070,038</u>
Excess of revenues over (under) expenditures	(2,153,165)	(1,419,177)	853,242	2,272,419
<b>Other financing sources (uses)</b>				
Transfers in	750,845	38,057	38,057	-
Transfers out	(726,468)	(747,668)	(747,668)	-
Total other sources (uses)	<u>24,377</u>	<u>(709,611)</u>	<u>(709,611)</u>	<u>-</u>
Net change in fund balance	(2,128,788)	(2,128,788)	143,631	2,272,419
Fund balance, July 1, before restatement	2,978,788	2,978,788	821,645	(2,157,143)
Restatement, see note 11	-	-	(7,796)	(7,796)
Fund balance, July 1, after restatement	<u>2,978,788</u>	<u>2,978,788</u>	<u>813,849</u>	<u>(2,164,939)</u>
Fund balance, June 30	<u>\$ 850,000</u>	<u>\$ 850,000</u>	<u>\$ 957,480</u>	<u>\$ 107,480</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, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental	\$ 753,868	\$ 753,868	\$ 783,367	\$ 29,499
Other taxes	315,200	315,200	242,626	(72,574)
Administrative	-	409,016	409,016	-
Miscellaneous	-	-	10,615	10,615
Total revenues	<u>1,069,068</u>	<u>1,478,084</u>	<u>1,445,624</u>	<u>(32,460)</u>
Expenditures				
Personal services	454,614	454,614	403,188	51,426
Materials and services	495,097	495,097	500,268	(5,171)
Capital outlay	562,815	562,815	25,452	537,363
Contingency	320,000	320,000	-	320,000
Total expenditures	<u>1,832,526</u>	<u>1,832,526</u>	<u>928,908</u>	<u>903,618</u>
Excess of revenues over (under) expenditures	(763,458)	(354,442)	516,716	871,158
Other financing sources (uses)				
Transfers in	646,173	237,157	-	(237,157)
Transfers out	(66,400)	(66,400)	(66,400)	-
Total other sources (uses)	<u>579,773</u>	<u>170,757</u>	<u>(66,400)</u>	<u>(237,157)</u>
Net change in fund balance	(183,685)	(183,685)	450,316	634,001
Fund balance, July 1, before restatement	183,685	183,685	2,849,492	2,665,807
Restatement, see note 11	-	-	(1,411)	(1,411)
Fund balance, July 1, after restatement	<u>183,685</u>	<u>183,685</u>	<u>2,848,081</u>	<u>2,664,396</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,298,397</u>	<u>\$ 3,298,397</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, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Intergovernmental	\$ 3,266,000	\$ 3,317,620	\$ 3,259,389	\$ (58,231)
Total revenues	<u>3,266,000</u>	<u>3,317,620</u>	<u>3,259,389</u>	<u>(58,231)</u>
Expenditures				
Capital outlay	3,329,000	3,380,620	3,259,500	121,120
Total expenditures	<u>3,329,000</u>	<u>3,380,620</u>	<u>3,259,500</u>	<u>121,120</u>
Excess of revenues over (under) expenditures	(63,000)	(63,000)	(111)	62,889
Other financing sources (uses)				
Transfers in	63,000	63,000	63,000	-
Total other financing sources (uses)	<u>63,000</u>	<u>63,000</u>	<u>63,000</u>	<u>-</u>
Net change in fund balance	-	-	62,889	62,889
Fund balance, July 1	-	-	(61,338)	(61,338)
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,551</u>	<u>\$ 1,551</u>

CITY OF ONTARIO, OREGON  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY REPORTING**  
For the Year Ended  
June 30, 2014

An annual 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, 2014 the General Fund and major special revenue funds of the city had the following over expenditure of appropriations:

Street Fund	
Materials and services	\$5,171

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**SUPPLEMENTARY INFORMATION**

CITY OF ONTARIO, OREGON  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
June 30, 2014

	Special Revenue Funds	
	911 Fund	Trust Fund
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Assets		
Cash and investments	\$ 111,648	\$ 350,243
Accounts receivable		
Assessments	-	-
Other	967	35,885
Due from other funds		
Restricted cash		
Cash held in trust	-	275,738
Total assets	112,615	661,866
Deferred outflows of resources	-	-
Total assets and deferred outflows	\$ 112,615	\$ 661,866
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>		
Liabilities		
Accounts payable	\$ 1,945	\$ 30,781
Payroll liabilities	284	-
Deposits held in trust	-	246,663
Total liabilities	2,229	277,444
Deferred inflows of resources		
Deferred special assessment revenues	-	-
Total deferred inflows	-	-
Fund balances		
Spendable		
Restricted	110,386	-
Committed	-	384,422
Total fund balances	110,386	384,422
Total liabilities, deferred inflows and fund balances	\$ 112,615	\$ 661,866



<u>Special Revenue Funds</u>			
<u>Reserve Fund</u>	<u>Revolving Loan Fund</u>	<u>Debt Service Fund</u>	<u>Total June 30, 2014</u>
\$ 1,061,198	\$ 502,395	\$ 188,575	\$ 2,214,059
-	189,308	171,138	360,446
18,401	1,492	2,940	59,685
605,276			605,276
-	-	-	275,738
<u>1,684,875</u>	<u>693,195</u>	<u>362,653</u>	<u>3,515,204</u>
-	-	-	-
<u>\$ 1,684,875</u>	<u>\$ 693,195</u>	<u>\$ 362,653</u>	<u>\$ 3,515,204</u>
\$ 51,646	\$ -	\$ -	\$ 84,372
-	-	-	284
-	-	-	246,663
<u>51,646</u>	<u>-</u>	<u>-</u>	<u>331,319</u>
-	176,974	171,138	348,112
-	176,974	171,138	348,112
-	-	191,515	301,901
<u>1,633,229</u>	<u>516,221</u>	<u>-</u>	<u>2,533,872</u>
<u>1,633,229</u>	<u>516,221</u>	<u>191,515</u>	<u>2,835,773</u>
<u>\$ 1,684,875</u>	<u>\$ 693,195</u>	<u>\$ 362,653</u>	<u>\$ 3,515,204</u>

CITY OF ONTARIO, OREGON  
**SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES**  
**NONMAJOR FUNDS**  
 June 30, 2014

	Special Revenue Funds	
	911 Fund	Trust Fund
Revenues		
Other taxes	\$ -	\$ 297,707
Special assessments	-	-
Intergovernmental revenues	76,969	-
Charges for services	3,365	12,450
Miscellaneous	110	-
Interest on investments	-	1,733
Loan repayments	-	-
Donations	-	-
Total revenues	<u>80,444</u>	<u>311,890</u>
Expenditures		
Personal services	458,852	-
Materials and services	36,003	333,416
Capital outlay	12,685	-
Debt service		
Principal	-	-
Interest	-	-
Total expenditures	<u>507,540</u>	<u>333,416</u>
Excess of revenues over (under) expenditures	<u>(427,096)</u>	<u>(21,526)</u>
Other financing sources (uses)		
Operating transfers in	502,888	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>502,888</u>	<u>-</u>
Net change in fund balances	75,792	(21,526)
Fund balances, July 1, before restatement	34,594	372,684
	-	33,264
Fund balances, July 1, after restatement	<u>34,594</u>	<u>405,948</u>
Fund balances, June 30	<u>\$ 110,386</u>	<u>\$ 384,422</u>

Special Revenue Fund			
Reserve Fund	Revolving Loan Fund	Debt Service Fund	Total June 30, 2014
\$ 87,206	\$ -	\$ -	\$ 384,913
-	-	23,786	23,786
6,572	-	-	83,541
-	-	-	15,815
-	-	-	110
-	11,501	10,329	23,563
-	53,736	-	53,736
3,294	-	-	3,294
<u>97,072</u>	<u>65,237</u>	<u>34,115</u>	<u>588,758</u>
-	-	-	458,852
27,025	15,000	-	411,444
188,706	-	-	201,391
27,884	-	55,376	83,260
1,392	-	16,404	17,796
<u>245,007</u>	<u>15,000</u>	<u>71,780</u>	<u>1,172,743</u>
<u>(147,935)</u>	<u>50,237</u>	<u>(37,665)</u>	<u>(583,985)</u>
311,780	-	-	814,668
<u>(38,057)</u>	<u>-</u>	<u>-</u>	<u>(38,057)</u>
<u>273,723</u>	<u>-</u>	<u>-</u>	<u>776,611</u>
125,788	50,237	(37,665)	192,626
1,507,441	465,984	229,180	2,609,883
-	-	-	33,264
<u>1,507,441</u>	<u>465,984</u>	<u>229,180</u>	<u>2,643,147</u>
<u>\$ 1,633,229</u>	<u>\$ 516,221</u>	<u>\$ 191,515</u>	<u>\$ 2,835,773</u>

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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Current Year Actual</u>	<u>Favorable (Unfavorable) Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 77,028	\$ 77,028	\$ 76,969	\$ (59)
Miscellaneous	360	360	110	(250)
Charges for services	<u>3,000</u>	<u>3,000</u>	<u>3,365</u>	<u>365</u>
Total revenues	<u>80,388</u>	<u>80,388</u>	<u>80,444</u>	<u>56</u>
Expenditures				
Personal services	528,371	513,371	458,852	54,519
Materials and services	33,705	48,705	36,003	12,702
Capital outlay	<u>-</u>	<u>21,200</u>	<u>12,685</u>	<u>8,515</u>
Total expenditures	<u>562,076</u>	<u>583,276</u>	<u>507,540</u>	<u>75,736</u>
Excess of revenues over (under) expenditures	(481,688)	(502,888)	(427,096)	75,792
Other financing sources (uses)				
Transfers in	<u>481,688</u>	<u>502,888</u>	<u>502,888</u>	<u>-</u>
Total other sources (uses)	<u>481,688</u>	<u>502,888</u>	<u>502,888</u>	<u>-</u>
Net change in fund balance	-	-	75,792	75,792
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>34,594</u>	<u>34,594</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,386</u>	<u>\$ 110,386</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, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Other taxes	\$ 285,179	\$ 285,179	\$ 297,707	\$ 12,528
Charges for services	-	-	12,450	12,450
Interest on investments	-	-	1,733	1,733
Total revenues	<u>285,179</u>	<u>285,179</u>	<u>311,890</u>	<u>26,711</u>
Expenditures				
Materials and services	<u>438,286</u>	<u>438,286</u>	<u>333,416</u>	<u>104,870</u>
Total expenditures	<u>438,286</u>	<u>438,286</u>	<u>333,416</u>	<u>104,870</u>
Net change in fund balance	(153,107)	(153,107)	(21,526)	131,581
Fund balance, July 1, before restatement	320,192	320,192	372,684	52,492
Restatement, see note 11	-	-	33,264	33,264
Fund balance, July 1, after restatement	<u>320,192</u>	<u>320,192</u>	<u>405,948</u>	<u>85,756</u>
Fund balance, June 30	<u>\$ 167,085</u>	<u>\$ 167,085</u>	<u>\$ 384,422</u>	<u>\$ 217,337</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, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
<b>Revenues</b>				
Intergovernmental	\$ 6,274	\$ 6,274	\$ 6,572	\$ 298
Donations	-	-	3,294	3,294
Other taxes	-	30,000	87,206	57,206
Total revenues	<u>6,274</u>	<u>36,274</u>	<u>97,072</u>	<u>60,798</u>
<b>Expenditures</b>				
Personal services	-	-	-	-
Materials and services	37,500	37,500	27,025	10,475
Capital outlay	793,132	794,532	188,706	605,826
Debt service	29,275	29,275	29,276	(1)
Contingency	156,443	185,043	-	185,043
Total expenditures	<u>1,016,350</u>	<u>1,046,350</u>	<u>245,007</u>	<u>801,343</u>
Excess of revenues over (under) expenditures	(1,010,076)	(1,010,076)	(147,935)	862,141
<b>Other financing sources (uses)</b>				
Transfers in	311,780	311,780	311,780	-
Transfers out	(38,057)	(38,057)	(38,057)	-
Total other sources (uses)	<u>273,723</u>	<u>273,723</u>	<u>273,723</u>	<u>-</u>
Net change in fund balance	(736,353)	(736,353)	125,788	862,141
Fund balance, July 1	<u>1,435,396</u>	<u>1,435,396</u>	<u>1,507,441</u>	<u>72,045</u>
Fund balance, June 30	<u>\$ 699,043</u>	<u>\$ 699,043</u>	<u>\$ 1,633,229</u>	<u>\$ 934,186</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Current Year Actual</u>	Favorable (Unfavorable) Variance with Final Budget
<b>Revenues</b>				
Interest on investments	\$ 15,934	\$ 15,934	\$ 11,501	\$ (4,433)
Loan repayments	<u>64,358</u>	<u>64,358</u>	<u>53,736</u>	<u>(10,622)</u>
Total revenues	<u>80,292</u>	<u>80,292</u>	<u>65,237</u>	<u>(15,055)</u>
<b>Expenditures</b>				
Materials and services	<u>554,476</u>	<u>554,476</u>	<u>15,000</u>	<u>539,476</u>
Total expenditures	<u>554,476</u>	<u>554,476</u>	<u>15,000</u>	<u>539,476</u>
Net change in fund balance	(474,184)	(474,184)	50,237	524,421
Fund balance, July 1	<u>474,184</u>	<u>474,184</u>	<u>465,984</u>	<u>(8,200)</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 516,221</u>	<u>\$ 516,221</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Current Year Actual</u>	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Special assessments	\$ 35,422	\$ 35,422	\$ 23,786	\$ (11,636)
Interest on investments	13,766	13,766	10,329	(3,437)
Total revenues	<u>49,188</u>	<u>49,188</u>	<u>34,115</u>	<u>(15,073)</u>
Expenditures				
Debt service	71,817	71,817	71,780	37
Contingency	163,339	163,339	-	163,339
Total expenditures	<u>235,156</u>	<u>235,156</u>	<u>71,780</u>	<u>163,376</u>
Net change in fund balance	(185,968)	(185,968)	(37,665)	148,303
Fund balance, July 1	<u>185,968</u>	<u>185,968</u>	<u>229,180</u>	<u>43,212</u>
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 191,515</u>	<u>\$ 191,515</u>



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, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
<b>Revenues</b>				
Charges for services	\$ 6,518	\$ 6,518	\$ 1,850	\$ (4,668)
Miscellaneous	-	-	142,826	142,826
Interest on investments	-	-	8,328	8,328
System development charges	33,040	33,040	33,969	929
Utilities capitalization charges	493,030	493,030	460,631	(32,399)
Total revenues	<u>532,588</u>	<u>532,588</u>	<u>647,604</u>	<u>115,016</u>
<b>Expenditures</b>				
Materials and services	-	-	46,923	(46,923)
Capital outlay	2,781,247	2,781,247	1,569,191	1,212,056
Contingency	339,310	339,310	-	339,310
Total expenditures	<u>3,120,557</u>	<u>3,120,557</u>	<u>1,616,114</u>	<u>1,504,443</u>
Excess of revenues over (under) expenditure	(2,587,969)	(2,587,969)	(968,510)	1,619,459
<b>Other financing sources (uses)</b>				
Transfers in	69,000	69,000	-	69,000
Total other sources (uses)	<u>69,000</u>	<u>69,000</u>	<u>-</u>	<u>69,000</u>
Net change in fund balance	(2,518,969)	(2,518,969)	(968,510)	1,550,459
Fund balance, July 1, before restatement	2,518,969	2,518,969	3,440,882	921,913
Restatement, see note 11	-	-	(1,677)	(1,677)
Fund balance, July 1, after restatement	2,518,969	2,518,969	3,439,205	920,236
Fund balance, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,470,695</u>	<u>\$ 2,470,695</u>

CITY OF ONTARIO, OREGON  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**BUDGET AND ACTUAL - WATER FUND**  
**(BUDGET BASIS)**  
For the Year Ended  
June 30, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 2,843,430	\$ 2,843,430	\$ 2,789,916	\$ (53,514)
Miscellaneous	-	-	21,465	21,465
Total revenues	<u>2,843,430</u>	<u>2,843,430</u>	<u>2,811,381</u>	<u>(32,049)</u>
Expenses				
Personal services	396,298	396,298	327,065	69,233
Materials and services	1,963,157	1,963,157	1,763,290	199,867
Capital outlay	370,861	370,861	164,717	206,144
Debt service	299,421	299,421	299,421	-
Contingency	950,937	950,937	-	950,937
Total expenses	<u>3,980,674</u>	<u>3,980,674</u>	<u>2,554,493</u>	<u>1,426,181</u>
Excess of revenues over (under) expenses	(1,137,244)	(1,137,244)	256,888	1,394,132
Other financing sources (uses)				
Transfers out	(338,980)	(338,980)	(338,980)	-
Total other financing sources (uses)	<u>(338,980)</u>	<u>(338,980)</u>	<u>(338,980)</u>	<u>-</u>
Net change in fund net position	(1,476,224)	(1,476,224)	(82,092)	1,394,132
Net position, July 1, before restatement	1,476,224	1,476,224	1,217,088	(259,136)
Restatement, see note			(8,631)	(8,631)
Net position, July 1, after restatement	<u>1,476,224</u>	<u>1,476,224</u>	<u>1,208,457</u>	<u>(267,767)</u>
Net position, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,126,365</u>	<u>\$ 1,126,365</u>

**Reconciliation to Generally Accepted  
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 11,650,559
Inventory	13,571
Accrued interest	(90,914)
Long-term obligations	<u>(3,658,272)</u>
Net Position, Ending	<u>\$ 9,041,309</u>

CITY OF ONTARIO, OREGON  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**BUDGET AND ACTUAL - SEWER FUND**  
**(BUDGET BASIS)**  
For the Year Ended  
June 30, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 2,969,816	\$ 2,969,816	\$ 2,947,849	\$ (21,967)
Miscellaneous	-	-	945	945
Total revenues	<u>2,969,816</u>	<u>2,969,816</u>	<u>2,948,794</u>	<u>(21,022)</u>
Expenses				
Personal services	334,675	334,675	214,780	119,895
Materials and services	1,484,664	1,484,664	1,579,127	(94,463)
Capital outlay	291,828	291,828	35,305	256,523
Debt service	1,176,293	1,176,293	1,171,058	5,235
Contingency	654,400	624,400	-	624,400
Total expenses	<u>3,941,860</u>	<u>3,911,860</u>	<u>3,000,270</u>	<u>911,590</u>
Excess of revenues over (under) expenses	(972,044)	(942,044)	(51,476)	890,568
Other financing sources (uses)				
Transfers out	(204,310)	(234,310)	(234,310)	-
Total other financing sources (uses)	<u>(204,310)</u>	<u>(234,310)</u>	<u>(234,310)</u>	<u>-</u>
Net change in fund net position	(1,176,354)	(1,176,354)	(285,786)	890,568
Net position, July 1, before restatement	1,176,354	1,176,354	711,388	(464,966)
Restatement, see note 11	-	-	(12,488)	(12,488)
Net position, July 1, after restatement	<u>1,176,354</u>	<u>1,176,354</u>	<u>698,900</u>	<u>(477,454)</u>
Net position, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 413,114</u>	<u>\$ 413,114</u>

**Reconciliation to Generally Accepted  
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 18,124,258
Accrued interest	(121,017)
Long-term obligations	<u>(5,170,468)</u>
Net Position, Ending	<u>\$ 13,245,887</u>

CITY OF ONTARIO, OREGON  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**BUDGET AND ACTUAL - STORM SEWER FUND**  
**(BUDGET BASIS)**  
For the Year Ended  
June 30, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 105,682	\$ 105,682	\$ 106,408	\$ 726
Total revenues	<u>105,682</u>	<u>105,682</u>	<u>106,408</u>	<u>726</u>
Expenses				
Personal services	23,368	23,368	5,507	17,861
Materials and services	45,138	45,138	39,517	5,621
Capital outlay	30,000	60,000	30,504	29,496
Total expenses	<u>98,506</u>	<u>128,506</u>	<u>75,528</u>	<u>52,978</u>
Excess of revenues over (under) expenses	<u>7,176</u>	<u>(22,824)</u>	<u>30,880</u>	<u>53,704</u>
Other financing sources (uses)				
Transfers in	-	30,000	30,000	-
Transfers out	<u>(7,176)</u>	<u>(7,176)</u>	<u>(7,176)</u>	<u>-</u>
Total other financing sources (uses)	<u>(7,176)</u>	<u>22,824</u>	<u>22,824</u>	<u>-</u>
Change in fund net position	-	-	53,704	53,704
Net position, July 1, before restatement	-	-	362,350	362,350
Restatement, see note 11	-	-	(518)	(518)
Net position, July 1, after restatement	-	-	361,832	361,832
Net position, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 415,536</u>	<u>\$ 415,536</u>

**Reconciliation to Generally Accepted  
Accounting Principles**

Capital assets, net of accumulated depreciation	<u>\$ 2,621,040</u>
Net Position, Ending	<u><u>\$ 3,036,576</u></u>

CITY OF ONTARIO, OREGON  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**BUDGET AND ACTUAL - GOLF COURSE FUND**  
**(BUDGET BASIS)**  
For the Year Ended  
June 30, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenses				
Materials and services	125,000	125,000	134,748	(9,748)
Total expenses	125,000	125,000	134,748	(9,748)
Excess of revenues over (under) expenses	(125,000)	(125,000)	(134,748)	(9,748)
Other financing sources (uses)				
Transfers in	125,000	125,000	125,000	-
Total other financing sources (uses)	125,000	125,000	125,000	-
Net change in fund net position	-	-	(9,748)	(9,748)
Net position, July 1, before restatement	-	-	(111,741)	(111,741)
Restatement, see note 11	-	-	(3,920)	(3,920)
Net position, July 1, after restatement	-	-	(115,661)	(115,661)
Net position, June 30	\$ -	\$ -	\$ (125,409)	\$ (125,409)

**Reconciliation to Generally Accepted  
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 813,759
Net Position, Ending	\$ 688,350

CITY OF ONTARIO, OREGON  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**BUDGET AND ACTUAL -PUBLIC WORKS INTERNAL SERVICE FUND**  
**(BUDGET BASIS)**  
For the Year Ended  
June 30, 2014

	Original Budget	Final Budget	Current Year Actual	Favorable (Unfavorable) Variance with Final Budget
Revenues				
Charges for services	\$ 73,800	\$ 2,407,294	\$ 2,446,522	\$ 39,228
Miscellaneous	-	-	2,560	2,560
Interest on investments	35,000	35,000	41,626	6,626
Total revenues	<u>108,800</u>	<u>2,442,294</u>	<u>2,490,708</u>	<u>48,414</u>
Expenses				
Personal services	1,297,415	1,342,740	1,314,294	28,446
Materials and services	1,220,859	1,175,534	1,032,151	143,383
Total expenses	<u>2,518,274</u>	<u>2,518,274</u>	<u>2,346,445</u>	<u>171,829</u>
Net change in fund net position	(75,980)	(75,980)	144,263	220,243
Net position, July 1, before restatement	75,980	75,980	476,125	400,145
Restatement, see note 11		-	(33,435)	
Net position, July 1, after restatement	<u>75,980</u>	<u>75,980</u>	<u>442,690</u>	<u>366,710</u>
Net position, June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 586,953</u>	<u>\$ 586,953</u>

**Reconciliation to Generally Accepted  
Accounting Principles**

Capital assets, net of accumulated depreciation	\$ 1,774,248
Compensated absences	<u>(551)</u>
Net Position, Ending	<u>\$ 2,360,650</u>

## **OTHER FINANCIAL SCHEDULES**

CITY OF ONTARIO, OREGON  
**SUMMARY SCHEDULE OF CASH, CASH ITEMS AND INVESTMENTS**  
 June 30, 2014

Wells Fargo Bank	
Demand accounts	\$ 1,419,418
Intermountain Community Bank	
Demand accounts	1,021,277
Certificates of Deposit	581,293
U.S. Bank	
Demand accounts	19,884
Oregon State Treasury Local Government Investment Pool **	7,707,331
Cash on hand	1,155
Total cash and investments on books	\$ 10,750,358

**SCHEDULE OF COLLATERAL SECURITY**

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

\*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, 2014

Tax Year	Uncollected Taxes	2013-14 Assessment	(Abatement) and Adjustments	Rebates Allowed	Interest Collected	Taxes Collected	Total Amount Collected	Uncollected Taxes
Special Levy	June 30, 2013							June 30, 2014
2013-14		\$ 3,312,045	\$ -	\$ (83,550)	\$ 1,404	\$ 3,110,670	\$ 3,112,074	\$ 117,825
2012-13	\$ 114,543	-	(607)	-	2,893	50,764	53,657	63,172
2011-12	71,795	-	(330)	-	3,928	29,897	33,825	41,568
2010-11	45,669	-	(314)	-	5,521	26,995	32,516	18,360
2009-10	17,789	-	(295)	-	4,011	16,438	20,449	1,056
2008-09	2,128	-	(273)	-	321	998	1,319	857
2007-08	877	-	(254)	-	180	449	629	174
Prior years	800	-	-	-	121	241	362	559
<b>Total</b>	<b>\$ 253,601</b>	<b>\$ 3,312,045</b>	<b>\$ (2,073)</b>	<b>\$ (83,550)</b>	<b>\$ 18,379</b>	<b>\$ 3,236,452</b>	<b>\$ 3,254,831</b>	<b>\$ 243,571</b>

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**INDEPENDENT AUDITORS' REPORT REQUIRED  
BY OREGON STATE REGULATIONS**

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1121 ADAMS AVENUE • P.O. BOX 1024

LA GRANDE, OREGON 97850-1024

**Independent Auditor's Report  
Required by Oregon State Regulations**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of City of Ontario, Oregon, as of and for the year ended June 30, 2014, and have issued our report dated January 29, 2015.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Ontario, Oregon'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 (ORS) 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 limitation, 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).**

The independent elected officials of City of Ontario, Oregon, do not collect or receive money and are, therefore, not subject to the requirements of OAR 162-10-140.

In connection with our testing nothing came to our attention that caused us to believe City of Ontario, Oregon, was not in substantial 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 except as follows:

1. The City did not comply with ORS 294.456(6). Expenditures exceeded budgeted appropriations for the year ended June 30, 2014, as follows:

<b><u>Fund</u></b>	<b><u>Over Expenditure</u></b>
Street Fund – Materials and services	\$ 5,171
Capital Projects Fund – Materials and services	46,923
Reserve Fund – Debt service	1
Sewer Fund – Materials and services	94,463
Golf Course Fund – Materials and services	9,748

**OAR 162-10-0230 Internal Control**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitation, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements in accordance with Governmental Auditing Standards dated January 29, 2015, presented in this reporting package.

**Purpose of this Report**

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

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By Michael R. Poe  
Michael R. Poe, CPA  
Owner/Member

La Grande, Oregon  
January 29, 2015

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**REPORTS REQUIRED BY GOVERNMENTAL  
AUDITING STANDARDS**

CITY OF ONTARIO, OREGON  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**(Budget Basis)**  
For the Year Ended  
June 30, 2014

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Receipts	Expenditures
<u>Federal Aviation Administration</u>			
Direct Program			
Airport Improvement Program	* 20.106	\$ 607,676	\$ 589,788
<u>National Highway Traffic Safety Administration</u>			
Passed through Oregon Department of Transportation			
State and Community Highway Safety	20.600	2,581	2,581
Child Safety and Child Booster Seats Incentive Grant	20.600	1,430	1,430
Highway Planning and Construction	20.205	2,108	2,108
<u>U. S. Department of Justice</u>			
Passed through Oregon Office of Homeland Security			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	1,881	1,881
Total federal assistance		<u>\$ 615,676</u>	<u>\$ 597,788</u>

\* Denotes program tested as major program

See accompanying notes to the schedule of expenditures of federal awards.



CITY OF ONTARIO, OREGON  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended  
June 30, 2014

Note A – Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is a supplementary schedule to the City of Ontario’s financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a selected portion of the activities of the County, it is not intended to and does not present either the financial position, results of operations, or changes in fund balances/equity of the City of Ontario.

Note B – Significant Accounting Policies

*Reporting Entity*

The reporting entity is fully described in Note 1 to the city’s basic financial statements. The Schedule includes all federal programs administered by the city for the year ended June 30, 2014.

*Basis of Presentation*

The information in the schedule is presented in accordance with OMB Circular A-133.

*Federal Financial Assistance*

Pursuant to the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the city and the federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

*Major Programs*

The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major programs. Major programs for the City of Ontario are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in OMB Circular A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

*Basis of Accounting*

The receipt and expenditure of federal awards are accounted for under the same basis of accounting as the budget basis in fund in which they are recorded. Federal awards are reported using the modified basis of accounting. Revenues are recognized when measurable and available. Expenditures are recorded when the related liability is incurred.

*Insurance Coverage*

For fiscal year ended June 30, 2014, the city had insurance coverage in effect comparable to other entities of similar size and circumstance.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC

CERTIFIED PUBLIC ACCOUNTANTS

1121 ADAMS AVENUE • P.O. BOX 1024

LA GRANDE, OREGON 97850-1024

**Independent Auditor's Report On Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

To the City Council  
City of Ontario, Oregon

We have audited, 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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ontario, Oregon (the "City") as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 29, 2015. Our report was qualified because the City does not include the cost of infrastructure as required by GAAP.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

### **City of Ontario, Oregon's Response to Finding**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By Michael R. Poe  
Michael R. Poe, CPA  
Owner/Member

La Grande, Oregon  
January 29, 2015

**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

To the City Council  
City of Ontario, Oregon

**Report on Compliance for Each Major Federal Program**

We have audited City of Ontario, Oregon's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

**Opinion on Each Major Federal Program**

In our opinion, City of Ontario, Oregon complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of

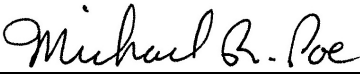
expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

LEWIS, POE, MOELLER, GUNDERSON & ROBERTS, LLC  
Certified Public Accountants

By  \_\_\_\_\_  
Michael R. Poe, CPA  
Owner/Member

La Grande, Oregon  
January 29, 2015

**CITY OF ONTARIO, OREGON**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

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**A. Summary of Audit Results**

	<b>Results</b>
<b>Financial Statements Audit</b>	
1. Type of auditor's report issued	Qualified
2. Internal control over financial reporting:	
Were significant deficiencies disclosed?	Yes
Of the significant deficiencies disclosed were any material weaknesses?	No
3. Did the audit disclose any noncompliance material to the financial statements?	No
<b>Federal Awards</b>	
1. Type of auditor's report issued:	
<u>Major programs:</u>	
U.S. Department of Transportation - Airport Improvement Program CFDA Number 20.106	Unqualified
2. Internal control over major programs:	
Were significant deficiencies disclosed?	No
Of the significant deficiencies disclosed were any material weaknesses?	N/A
3. Were any of the following disclosed in accordance with section 510(a) of OMB Circular A-133?	
Significant deficiencies in internal control over major programs?	No
Material Noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to major programs?	No
Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program?	No
Known questioned costs which are greater than \$10,000 for a federal program which is not audited as a major program?	No
4. The threshold for distinguishing Types A and B programs:	\$ 300,000
5. Auditee qualified as a low-risk auditee	No

**B. Findings - Financial Statement Audit**

**2014-001**

**Significant Deficiency:** The City does not have a written policy in place to write-off uncollectible utility billing accounts. During the fiscal year under audit ending June 30, 2014, there were no write-offs of bad debts related to utility billing accounts. Subsequent to year end, the finance department attempted to clean up their utility billing accounts that were past due by over 120 days. The billing clerk produced a report of proposed write-offs that was approved and posted by another member of the finance department. Despite the segregating controls the department followed during this process, we feel council should be aware of, and approving the write-offs rather than management performing the write-offs.

**Criteria:** During the fiscal year, the City did not have a policy in place to write-off uncollectible accounts.

**Effect:** Uncollectible accounts are included in the City's accounts receivable amounts.

**Cause:** The lack of proper recording of uncollectible accounts increases the risk of a misstatement in the financial statements.

**CITY OF ONTARIO, OREGON**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

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**Recommendation:** We recommend that the City instates a written policy to expense uncollectible accounts, and the accounts to be written-off are approved by council.

**Views of responsible officials and planned corrective action:** The City has acknowledged the need for a policy to write-off uncollectible accounts, and subsequent to the fiscal year end has attempted to clean up their utility billing accounts.

**2014-002**

**Significant Deficiency:** The City has little segregation of duties and lacks adequate preventative controls in relation to disbursements.

Although check run reports presented to the City Council are approved by motion, there is no indication (council signatures or initials on reports) showing that the reports filed as reviewed were actually reviewed.

The on-line bank statement is reviewed on-line by management prior to a third party reconciling the bank statement. There is no audit trail indicating this review is being done.

The checks have dual signatures; however, the signatures automatically print on the checks during the check run.

**Criteria:** During the fiscal year, the City did not have adequate preventative controls in place in relation to disbursements.

**Effect:** The City is exposed to an increased risk of misappropriation of assets.

**Cause:** The lack of adequate prevention controls expose the City to the risk of misappropriation of assets. There were, however, mitigating controls that should detect an occurrence after the fact.

**Recommendation:** We recommend that the City increase preventative controls in the area of disbursements and improve the audit trail for preventative controls already in place.

Financial reports presented to the City Council should be signed by the approving Council members and filed to show a clear audit trail.

On-line bank statements should be printed, reviewed, signed, and dated by management prior to forwarding statements to the reconciler. The reconciler should pay special attention to and investigate any checks with old dates, checks clearing out of sequence, checks without signatures and anything else that may appear unusual.

The printed signatures should be removed from the checks. Checks should be signed with a signature stamp that is locked up. The only persons having access to the stamp should be the individuals with check signing responsibilities.

**CITY OF ONTARIO, OREGON**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2014**

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**Views of responsible officials and planned corrective action:** The City has acknowledged the need for adequate preventative controls, and subsequent to the fiscal year end has attempted to implement new controls and improve the audit trail for preventative controls already in place.

**C. Federal Awards Findings and Questioned Costs**

None noted as a result of our audit procedures.



**CITY OF ONTARIO, OREGON**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2014**

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None noted as a result of our audit procedures.