

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(Audited)

*FOR THE YEAR ENDED
DECEMBER 31, 2006*

NANCY MOREHEAD, CITY AUDITOR



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Ontario, Richland County, prepared by Julian & Grube, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 12, 2008

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CITY OF ONTARIO, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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Julian & Grube, Inc.

Serving Ohio Local Governments

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

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ontario, Richland County, Ohio, as of and for the year ended December 31, 2006, which collectively comprise City of Ontario's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Ontario, Richland County, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and the special revenue fund: 25% street construction fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2008 on our consideration of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor
City of Ontario
Page Two

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

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

Julian & Grube, Inc.
April 1, 2008

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

The management's discussion and analysis of the City of Ontario's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$1,696,006. Net assets of governmental activities increased \$1,142,880 or 4.33% over 2005 and net assets of business-type activities increased \$553,126 or 4.00% over 2005.
- General revenues accounted for \$5,637,523 or 78.41% of total governmental activities revenue. Program specific revenues accounted for \$1,552,318 or 21.59% of total governmental activities revenue.
- The City had \$5,569,518 in expenses related to governmental activities; \$1,552,318 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$4,017,200 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,637,523.
- The general fund had revenues and other financing sources of \$3,694,016 in 2006. This represents a decrease of \$460,154 from 2005 revenues. The expenditures and other financing uses of the general fund, which totaled \$3,629,987 in 2006, increased \$364,653 from 2005. The net increase in fund balance for the general fund was \$64,029 or 3.22%.
- The 25% Street Construction fund had revenues of \$1,475,775 in 2006. This represents an increase of \$167,300 from 2005 revenues. The expenditures of the 25% Street Construction fund, which totaled \$904,023 in 2006, decreased \$526,247 from 2005. The net increase in fund balance for the 25% Street Construction fund was \$571,752 or 34.35%.
- The Capital Improvement fund had revenues of \$1,001,778 in 2006. This represents a decrease of \$237,894 from 2005 revenues. The expenditures and other financing uses of the Capital Improvement fund, which totaled \$1,096,563 in 2006, decreased \$1,268,775 from 2005. The net decrease in fund balance for the Capital Improvement fund was \$94,785 or 2.67%.
- Net assets for the business-type activities, which are made up of the Water and Sewer enterprise funds, increased in 2006 by \$553,126. This increase in net assets was due primarily to capital contributions from both developers as well as other funds of the City.

Using this Annual Financial Report

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

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

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The statement of net assets and the statement of activities answer this question. These statements include all *assets, liabilities, revenues and expenses* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

Governmental Funds

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

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

Proprietary Funds

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

Fiduciary Funds

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

Notes to the Basic Financial Statements

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

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Government-Wide Financial Analysis

The table below provides a summary of the City's assets, liabilities and net assets for 2006 and 2005:

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and other assets	\$ 10,882,307	\$ 10,702,104	\$ 2,578,858	\$ 2,672,651	\$ 13,461,165	\$ 13,374,755
Capital assets, net	<u>17,986,727</u>	<u>17,636,057</u>	<u>12,953,979</u>	<u>12,705,444</u>	<u>30,940,706</u>	<u>30,341,501</u>
Total assets	<u>28,869,034</u>	<u>28,338,161</u>	<u>15,532,837</u>	<u>15,378,095</u>	<u>44,401,871</u>	<u>43,716,256</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	388,239	492,482	203,699	324,142	591,938	816,624
Other liabilities	<u>944,674</u>	<u>1,452,438</u>	<u>950,863</u>	<u>1,228,804</u>	<u>1,895,537</u>	<u>2,681,242</u>
Total liabilities	<u>1,332,913</u>	<u>1,944,920</u>	<u>1,154,562</u>	<u>1,552,946</u>	<u>2,487,475</u>	<u>3,497,866</u>
<u>Net Assets</u>						
Invested in capital						
assets, net of related debt	17,824,310	17,382,104	12,046,858	11,421,801	29,871,168	28,803,905
Restricted	7,546,688	6,892,411	-	-	7,546,688	6,892,411
Unrestricted	<u>2,165,123</u>	<u>2,118,726</u>	<u>2,331,417</u>	<u>2,403,348</u>	<u>4,496,540</u>	<u>4,522,074</u>
Total net assets	<u>\$ 27,536,121</u>	<u>\$ 26,393,241</u>	<u>\$ 14,378,275</u>	<u>\$ 13,825,149</u>	<u>\$ 41,914,396</u>	<u>\$ 40,218,390</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$41,914,396. At year-end, net assets were \$27,536,121 and \$14,378,275 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 69.68% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$17,824,310 and \$12,046,858 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

As of December 31, 2006, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's net assets, \$7,546,688, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$2,165,123 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The table below shows the changes in net assets for fiscal year 2006 and 2005.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for services and sales	\$ 571,889	\$ 535,636	\$ 1,780,329	\$ 2,197,804	\$ 2,352,218	\$ 2,733,440
Operating grants and contributions	431,470	574,986	277,833	1,004,505	709,303	1,579,491
Capital grants and contributions	548,959	2,030,192	-	-	548,959	2,030,192
Total program revenues	1,552,318	3,140,814	2,058,162	3,202,309	3,610,480	6,343,123
General revenues:						
Property taxes	580,331	219,040	-	-	580,331	219,040
Income taxes	4,270,400	4,628,318	-	-	4,270,400	4,628,318
Unrestricted grants	297,783	221,214	-	-	297,783	221,214
Interest	347,147	291,607	5,012	2,652	352,159	294,259
Miscellaneous	141,862	75,045	6,701	9,504	148,563	84,549
Total general revenues	5,637,523	5,435,224	11,713	12,156	5,649,236	5,447,380
Total revenues	7,189,841	8,576,038	2,069,875	3,214,465	9,259,716	11,790,503
Expenses:						
General government	1,874,034	1,811,144	-	-	1,874,034	1,811,144
Security of persons and property	1,962,203	1,890,748	-	-	1,962,203	1,890,748
Public health and welfare	7,098	4,688	-	-	7,098	4,688
Transportation	1,451,690	2,069,900	-	-	1,451,690	2,069,900
Community environment	30,146	35,510	-	-	30,146	35,510
Leisure time activity	241,980	221,946	-	-	241,980	221,946
Interest and fiscal charges	2,367	1,810	-	-	2,367	1,810
Water	-	-	898,861	1,052,726	898,861	1,052,726
Sewer	-	-	1,095,331	1,060,813	1,095,331	1,060,813
Total expenses	5,569,518	6,035,746	1,994,192	2,113,539	7,563,710	8,149,285
Transfers	(477,443)	(557,439)	477,443	557,439	-	-
Change in net assets	1,142,880	1,982,853	553,126	1,658,365	1,696,006	3,641,218
Net assets at beginning of year	26,393,241	24,410,388	13,825,149	12,166,784	40,218,390	36,577,172
Net assets at end of year	\$ 27,536,121	\$ 26,393,241	\$ 14,378,275	\$ 13,825,149	\$ 41,914,396	\$ 40,218,390

Governmental Activities

Governmental activities net assets increased \$1,142,880 in 2006.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$1,962,203 of the total expenses of the City. These expenses were partially funded by \$222,389 in direct charges to users of the services and \$4,463 in operating grants and contributions. Transportation expenses totaled \$1,451,690. Transportation expenses were partially funded by \$15,181 in direct charges to users of the services, \$427,007 in operating grants and contributions and \$548,959 in capital grants and contributions.

CITY OF ONTARIO, OHIO

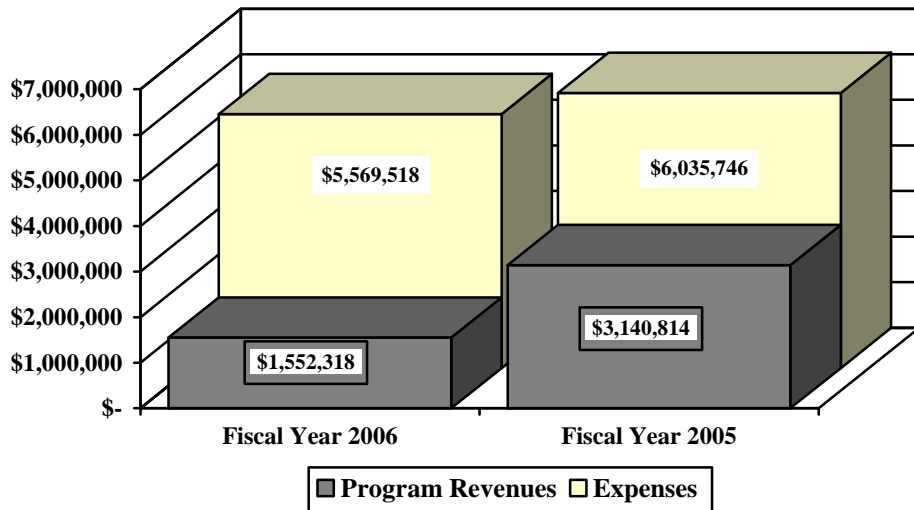
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The state and federal government contributed to the City \$431,470 in operating grants and contributions. These revenues are restricted to a particular program or purpose. \$427,007 of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$5,637,523, and amounted to 78.41% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,850,731. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$297,783.

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

Governmental Activities – Program Revenues vs. Total Expenses



Governmental Activities

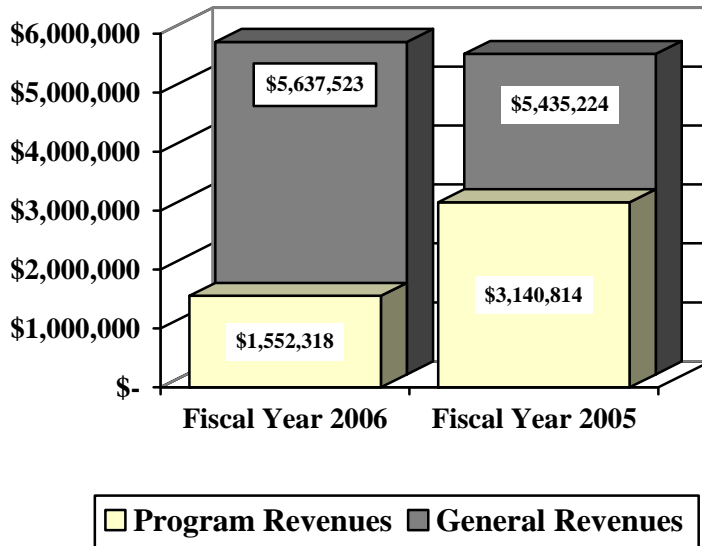
	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program Expenses:				
General government	\$ 1,874,034	\$ 1,554,934	\$ 1,811,144	\$ 1,546,895
Security of persons and property	1,962,203	1,735,351	1,890,748	1,676,408
Public health and welfare	7,098	3,713	4,688	(101,883)
Transportation	1,451,690	460,543	2,069,900	(477,339)
Community environment	30,146	30,146	35,510	35,510
Leisure time activity	241,980	234,620	221,946	214,759
Interest and fiscal charges	2,367	(2,107)	1,810	582
Total Expenses	\$ 5,569,518	\$ 4,017,200	\$ 6,035,746	\$ 2,894,932

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The dependence upon general revenues for governmental activities is apparent, with 72.13% of expenses supported through taxes and other general revenues. The chart below illustrates the City's general revenues and program revenues for 2006 and 2005.

Governmental Activities – General and Program Revenues



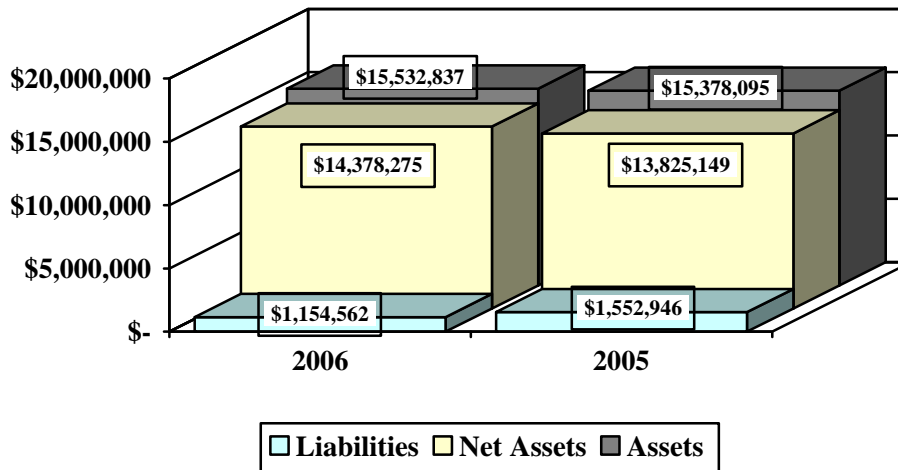
CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Business-type Activities

Business-type activities include the Water and Sewer enterprise funds. These programs had program revenues of \$2,058,162, general revenues of \$11,713, transfers in of \$477,443 and expenses of \$1,994,192 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$9,336,635 which is \$751,686 above last year's total of \$8,584,949.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	<u>Fund Balances 12/31/06</u>	<u>Fund Balances 12/31/05</u>	<u>Increase (Decrease)</u>
Major funds:			
General	\$ 2,051,345	\$ 1,987,316	\$ 64,029
25% Street Construction	2,236,055	1,664,303	571,752
Capital Improvement	3,452,240	3,547,025	(94,785)
Other nonmajor governmental funds	<u>1,596,995</u>	<u>1,386,305</u>	<u>210,690</u>
Total	<u>\$ 9,336,635</u>	<u>\$ 8,584,949</u>	<u>\$ 751,686</u>

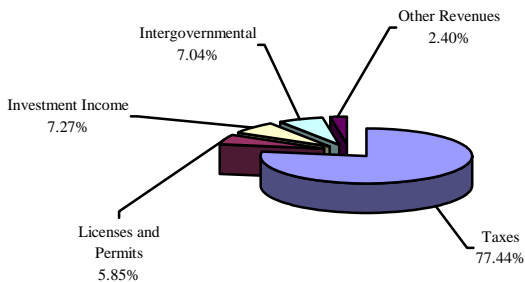
General Fund

The City's general fund balance increased \$64,029. The table that follows assists in illustrating the revenues of the general fund.

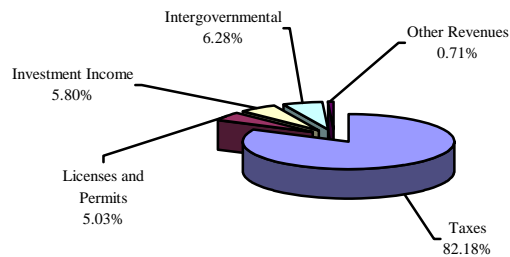
	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
Revenues			
Taxes	\$ 2,847,052	\$ 3,413,963	(16.61) %
Licenses and permits	215,218	209,160	2.90 %
Investment income	267,200	240,870	10.93 %
Intergovernmental	258,907	260,854	(0.75) %
Other	<u>88,096</u>	<u>29,323</u>	200.43 %
Total	<u>\$ 3,676,473</u>	<u>\$ 4,154,170</u>	(11.50) %

Tax revenue represents 77.44% of all general fund revenue. Tax revenue decreased 16.61% from the prior year. The decrease in taxes revenue is due to less municipal income taxes collections than in the prior year in the general fund. The increase in investment income is due to better interest earnings on the City's investments. All other revenue remained comparable to 2005.

Revenues - Fiscal Year 2006



Revenues - Fiscal Year 2005



CITY OF ONTARIO, OHIO

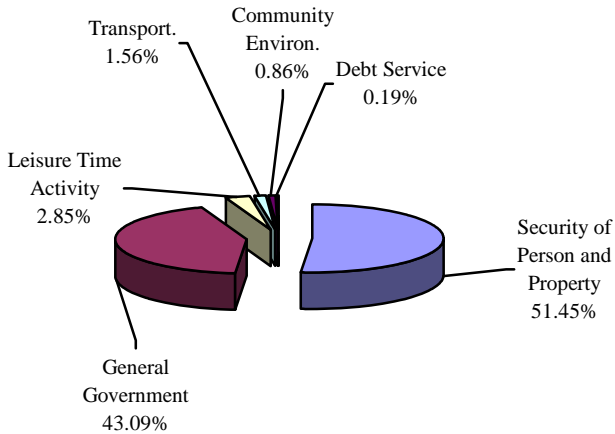
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

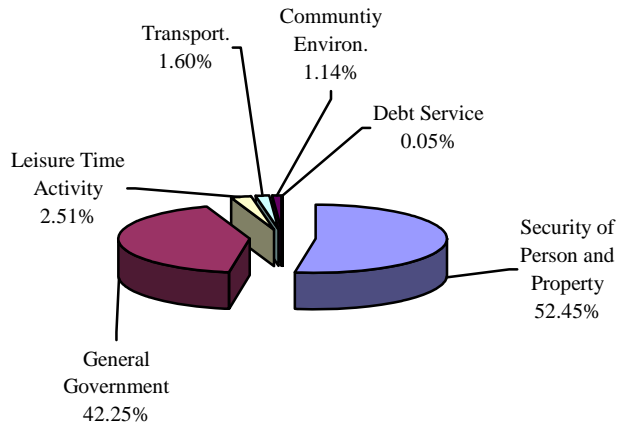
	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,510,224	\$ 1,317,636	14.62 %
Security of persons and property	1,803,560	1,635,822	10.25 %
Transportation	54,699	49,740	9.97 %
Community environment	30,146	35,510	(15.11) %
Leisure time activity	99,837	78,398	27.35 %
Debt service	<u>6,521</u>	<u>1,529</u>	326.49 %
 Total	 <u>\$ 3,504,987</u>	 <u>\$ 3,118,635</u>	 12.39 %

The largest expenditure line items are security of persons and property and general government. These two expenditures account for 94.54% of total general fund expenditures. Each of these line items experienced normal and customary increases over the prior year.

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



25% Street Construction Fund

The 25% Street Construction fund had revenues of \$1,475,775 and expenditures of \$904,023 in 2006. The 25% Street Construction fund's fund balance increased \$571,752 from \$1,664,303 to \$2,236,055 primarily due to increased income tax collections coupled with decreased expenditures in the current fiscal year compared to the prior fiscal year.

Capital Improvement Fund

The Capital Improvement fund had revenues of \$1,001,778 and expenditures and other financing uses of \$1,096,563 in 2006. The Capital Improvement fund's fund balance decreased \$94,785 from \$3,547,025 to \$3,452,240.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Budgeting Highlights - General Fund

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

In the general fund, actual revenues of \$3,683,949 were less than final budgeted revenues by \$557,963. Another significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures were \$322,984 lower than the final budgeted amounts.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$30,940,706 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. Of this total, \$17,986,727 was reported in governmental activities and \$12,953,979 was reported in business-type activities.

The following table shows fiscal 2006 balances compared to 2005:

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

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	2006	2005	2006	2005	2006	2005
Land	\$ 2,572,154	\$ 2,572,154	\$ 262,626	\$ 262,626	\$ 2,834,780	\$ 2,834,780
Construction in progress	151,011	1,816,493	291,840	21,690	442,851	1,838,183
Land improvements	1,658,420	1,139,423	24,637	27,922	1,683,057	1,167,345
Buildings and improvements	1,772,943	1,855,552	1,166,507	1,217,120	2,939,450	3,072,672
Furniture and equipment	1,078,314	1,156,292	1,182,832	1,320,059	2,261,146	2,476,351
Vehicles	512,907	432,482	-	-	512,907	432,482
Infrastructure	<u>10,240,978</u>	<u>8,663,661</u>	<u>10,025,537</u>	<u>9,856,027</u>	<u>20,266,515</u>	<u>18,519,688</u>
Totals	<u>\$ 17,986,727</u>	<u>\$ 17,636,057</u>	<u>\$ 12,953,979</u>	<u>\$ 12,705,444</u>	<u>\$ 30,940,706</u>	<u>\$ 30,341,501</u>

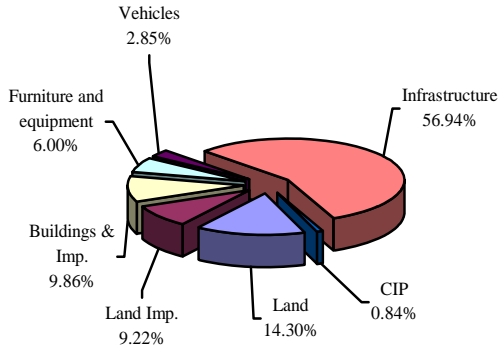
The City's largest capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 56.94% of the City's total governmental capital assets.

CITY OF ONTARIO, OHIO

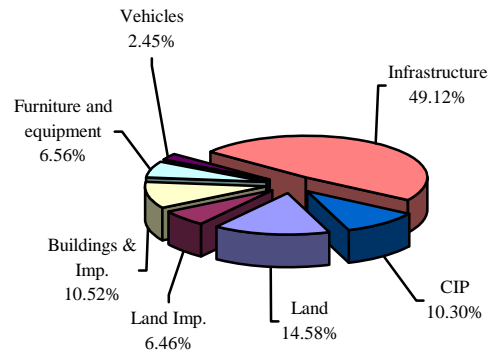
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

Capital Assets - Governmental Activities 2006



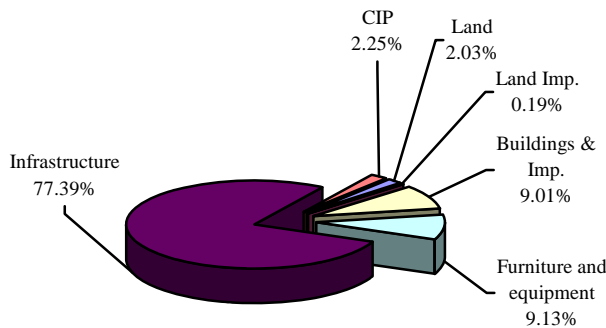
Capital Assets - Governmental Activities 2005



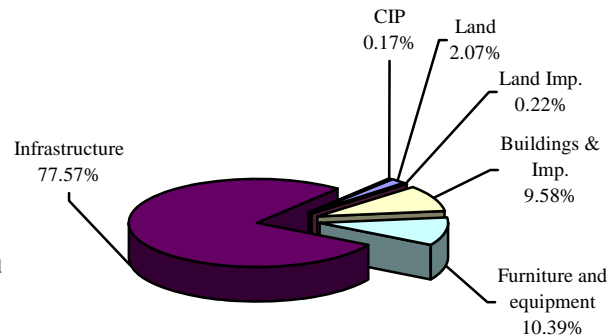
The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 77.39% of the City's total business-type capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

Capital Assets - Business-Type Activities 2006



Capital Assets - Business-Type Activities 2005



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

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Lewis Road Bonds 1997	\$ 3,600	\$ 7,200
Park Land Acquisition Bond 2000	-	33,500
Beer Property Bond	132,666	198,999
Capital Lease Payable	<u>26,151</u>	<u>14,254</u>
Total long-term obligations	<u>\$ 162,417</u>	<u>\$ 253,953</u>
	Business-type Activities	
	<u>2006</u>	<u>2005</u>
OPWC Water Treatment Loan 2000	\$ 23,889	\$ 25,726
Sewer Improvement Note	14,635	29,269
Lease - Purchase Agreement	<u>118,597</u>	<u>228,648</u>
Total long-term obligations	<u>\$ 157,121</u>	<u>\$ 283,643</u>

In addition to the above, the City also has a Water System Improvement Note which had a balance at December 31, 2006 and 2005 of \$750,000 and \$1,000,000, respectively. The Water system Improvement Note is described in Note 14 to the basic financial statements.

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

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

Economic Conditions and Outlook

In 2007, the City of Ontario will be completing the Lindaire Sanitary Sewer Project. We will also be starting the I&I Reduction at Rock Road Lift Station funded by taxpayer's money and a non-interest loan payable over 30 years. The estimated cost of this project is approximately \$800,000. We will also be repairing curbs and repaving the Willowood/ Rosewood area. These improvements will benefit the residents of the City, and insure their health and safety.

The City continues to improve our streets. During 2007 we began the improvement of the Walker Lake Road / Spring Village widening and new lane. This will accommodate the increase in traffic due to the new Mernards and Furniture Row complex to open in 2008. This project will be funded through a T.I.F agreement with Mernards, Furniture Row, and the City. In addition to this project, we will also be resurfacing several of our streets in 2007.

New computer software will be installed in 2007. The previous software was hard to use and had limited capabilities. Due to the savings in the yearly maintenance agreement from the old software to the new software the installation of the new software will be recouped in seven years. Also in 2007, we will upgrade our postage meters at both the Service Building and the City Building at the same cost as our present lease. We will also lease a new folding machine and printer for the Service Building which will eliminate the time consuming task of preparing the utility bills.

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

Contacting the City's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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CITY OF ONTARIO, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and investments	\$ 8,938,266	\$ 1,970,891	\$ 10,909,157
Cash in segregated accounts	20,412	-	20,412
Receivables (net of allowances for uncollectibles):			
Income taxes	768,672	-	768,672
Real and other taxes	604,208	-	604,208
Accounts	19,164	512,468	531,632
Special assessments	17,400	-	17,400
Accrued interest	10,549	-	10,549
Intergovernmental	273,622	-	273,622
Prepayments	50,131	-	50,131
Materials and supplies inventory	179,883	95,499	275,382
Capital assets:			
Land	2,572,154	262,626	2,834,780
Construction in progress	151,011	291,840	442,851
Depreciable capital assets, net	15,263,562	12,399,513	27,663,075
Total capital assets, net	<u>17,986,727</u>	<u>12,953,979</u>	<u>30,940,706</u>
Total assets.	<u>28,869,034</u>	<u>15,532,837</u>	<u>44,401,871</u>
Liabilities:			
Accounts payable.	121,848	179,374	301,222
Contracts payable.	77,358	-	77,358
Accrued wages and benefits	32,121	5,070	37,191
Intergovernmental payable	155,744	10,736	166,480
Accrued interest payable	15	5,683	5,698
Note payable	-	750,000	750,000
Claims payable	2,433	-	2,433
Unearned revenue	555,155	-	555,155
Long-term liabilities:			
Due within one year	127,963	83,656	211,619
Due in more than one year	260,276	120,043	380,319
Total liabilities	<u>1,332,913</u>	<u>1,154,562</u>	<u>2,487,475</u>
Net assets:			
Invested in capital assets, net of related debt	17,824,310	12,046,858	29,871,168
Restricted for:			
Capital projects	3,597,590	-	3,597,590
Debt service	212,787	-	212,787
Transportation improvement projects	3,595,745	-	3,595,745
Court computerization.	51,015	-	51,015
Cemetery	10,398	-	10,398
Law enforcement and education	8,796	-	8,796
Other purposes.	70,357	-	70,357
Unrestricted	2,165,123	2,331,417	4,496,540
Total net assets.	<u>\$ 27,536,121</u>	<u>\$ 14,378,275</u>	<u>\$ 41,914,396</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 1,874,034	\$ 319,100	\$ -	\$ -
Security of persons and property	1,962,203	222,389	4,463	-
Public health and welfare	7,098	3,385	-	-
Transportation	1,451,690	15,181	427,007	548,959
Community environment	30,146	-	-	-
Leisure time activity	241,980	7,360	-	-
Interest and fiscal charges	2,367	4,474	-	-
Total governmental activities	5,569,518	571,889	431,470	548,959
Business-type Activities:				
Water	898,861	752,160	98,379	-
Sewer	1,095,331	1,028,169	179,454	-
Total business-type activities	1,994,192	1,780,329	277,833	-
Total primary government.	\$ 7,563,710	\$ 2,352,218	\$ 709,303	\$ 548,959

General Revenues:

Property taxes levied for:

- General purposes.
- Police pension.

Income taxes levied for:

- General purposes.
- Special revenue
- Capital projects

Grants and entitlements not restricted to specific programs

- Investment earnings
- Miscellaneous

Total general revenues.

Transfers.

Change in net assets.

Net assets at beginning of year.

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,554,934)	\$ -	\$ (1,554,934)
(1,735,351)	-	(1,735,351)
(3,713)	-	(3,713)
(460,543)	-	(460,543)
(30,146)	-	(30,146)
(234,620)	-	(234,620)
2,107	-	2,107
<u>(4,017,200)</u>	<u>-</u>	<u>(4,017,200)</u>
-	(48,322)	(48,322)
-	112,292	112,292
-	63,970	63,970
<u>(4,017,200)</u>	<u>63,970</u>	<u>(3,953,230)</u>
500,131	-	500,131
80,200	-	80,200
2,311,096	-	2,311,096
1,435,247	-	1,435,247
524,057	-	524,057
297,783	-	297,783
347,147	5,012	352,159
141,862	6,701	148,563
5,637,523	11,713	5,649,236
<u>(477,443)</u>	<u>477,443</u>	<u>-</u>
1,142,880	553,126	1,696,006
<u>26,393,241</u>	<u>13,825,149</u>	<u>40,218,390</u>
<u>\$ 27,536,121</u>	<u>\$ 14,378,275</u>	<u>\$ 41,914,396</u>

CITY OF ONTARIO, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 1,939,908	\$ 1,946,548	\$ 3,481,894	\$ 1,569,916	\$ 8,938,266
Cash in segregated accounts	-	-	-	20,412	20,412
Receivables (net of allowance for uncollectibles):					
Income taxes	422,769	269,035	76,868	-	768,672
Real and other taxes	520,999	-	-	83,209	604,208
Accounts	17,448	1,716	-	-	19,164
Accrued interest	10,549	-	-	-	10,549
Special assessments	-	-	-	17,400	17,400
Intergovernmental	105,549	-	3,963	164,110	273,622
Prepayments	50,131	-	-	-	50,131
Materials and supplies inventory	3,666	176,217	-	-	179,883
	<u>3,071,019</u>	<u>2,393,516</u>	<u>3,562,725</u>	<u>1,855,047</u>	<u>10,882,307</u>
Total assets	<u>\$ 3,071,019</u>	<u>\$ 2,393,516</u>	<u>\$ 3,562,725</u>	<u>\$ 1,855,047</u>	<u>\$ 10,882,307</u>
Liabilities:					
Accounts payable	\$ 63,410	\$ 24,681	\$ -	\$ 33,757	\$ 121,848
Contracts payable	-	-	77,358	-	77,358
Accrued wages and benefits	26,401	5,401	-	319	32,121
Intergovernmental payable	144,157	11,436	-	151	155,744
Claims payable	2,433	-	-	-	2,433
Deferred revenue	304,570	115,943	33,127	147,373	601,013
Unearned revenue	478,703	-	-	76,452	555,155
	<u>1,019,674</u>	<u>157,461</u>	<u>110,485</u>	<u>258,052</u>	<u>1,545,672</u>
Total liabilities	<u>1,019,674</u>	<u>157,461</u>	<u>110,485</u>	<u>258,052</u>	<u>1,545,672</u>
Fund Balances:					
Reserved for encumbrances	67,979	237,628	76,923	96,998	479,528
Reserved for prepayments	50,131	-	-	-	50,131
Reserved for materials and supplies inventory	3,666	176,217	-	-	179,883
Reserved for debt service	-	-	-	195,402	195,402
Unreserved, undesignated, reported in:					
General fund	1,929,569	-	-	-	1,929,569
Special revenue funds	-	1,822,210	-	1,192,372	3,014,582
Capital projects funds	-	-	3,375,317	112,223	3,487,540
	<u>2,051,345</u>	<u>2,236,055</u>	<u>3,452,240</u>	<u>1,596,995</u>	<u>9,336,635</u>
Total fund balances	<u>2,051,345</u>	<u>2,236,055</u>	<u>3,452,240</u>	<u>1,596,995</u>	<u>9,336,635</u>
Total liabilities and fund balances	<u>\$ 3,071,019</u>	<u>\$ 2,393,516</u>	<u>\$ 3,562,725</u>	<u>\$ 1,855,047</u>	<u>\$ 10,882,307</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balances		\$ 9,336,635
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		17,986,727
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 30,644	
Income taxes	331,266	
Special assessments	17,400	
Intergovernmental revenues	<u>221,703</u>	
Total		601,013
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	(225,822)	
Accrued interest payable	(15)	
Capital lease payable	(26,151)	
Bonds payable	<u>(136,266)</u>	
Total		<u>(388,254)</u>
Net assets of governmental activities		<u>\$ 27,536,121</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Municipal income taxes	\$ 2,338,123	\$ 1,452,446	\$ 528,971	\$ -	\$ 4,319,540
Property and other taxes	508,929	-	-	80,999	589,928
Charges for services	-	-	-	10,745	10,745
Licenses and permits	215,218	-	-	16,760	231,978
Fines and forfeitures	-	-	-	305,403	305,403
Intergovernmental	258,907	-	363,971	454,428	1,077,306
Special assessments	-	-	-	6,212	6,212
Investment income	267,200	23,329	53,460	9,146	353,135
Rental income	4,108	-	-	-	4,108
Other.	83,988	-	55,376	18,629	157,993
Total revenues	<u>3,676,473</u>	<u>1,475,775</u>	<u>1,001,778</u>	<u>902,322</u>	<u>7,056,348</u>
Expenditures:					
Current:					
General government.	1,510,224	-	-	326,014	1,836,238
Security of persons and property	1,803,560	-	-	176,071	1,979,631
Public health and welfare	-	-	-	7,098	7,098
Transportation.	54,699	904,023	-	188,838	1,147,560
Community environment	30,146	-	-	-	30,146
Leisure time activity	99,837	-	-	53,522	153,359
Capital outlay.	-	-	691,675	59,982	751,657
Debt service:					
Principal retirement	4,752	-	99,833	4,494	109,079
Interest and fiscal charges	1,769	-	-	613	2,382
Total expenditures	<u>3,504,987</u>	<u>904,023</u>	<u>791,508</u>	<u>816,632</u>	<u>6,017,150</u>
Excess of revenues over expenditures	<u>171,486</u>	<u>571,752</u>	<u>210,270</u>	<u>85,690</u>	<u>1,039,198</u>
Other financing sources (uses):					
Capital lease transaction	17,543	-	-	-	17,543
Transfers in	-	-	-	125,000	125,000
Transfers out	(125,000)	-	(305,055)	-	(430,055)
Total other financing sources (uses)	<u>(107,457)</u>	<u>-</u>	<u>(305,055)</u>	<u>125,000</u>	<u>(287,512)</u>
Net change in fund balances	64,029	571,752	(94,785)	210,690	751,686
Fund balances at beginning of year.	<u>1,987,316</u>	<u>1,664,303</u>	<u>3,547,025</u>	<u>1,386,305</u>	<u>8,584,949</u>
Fund balances at end of year.	<u>\$ 2,051,345</u>	<u>\$ 2,236,055</u>	<u>\$ 3,452,240</u>	<u>\$ 1,596,995</u>	<u>\$ 9,336,635</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - total governmental funds: \$ 751,686

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

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

Capital asset additions	\$	1,428,623	
Current year depreciation		<u>(1,065,894)</u>	
 Total			 362,729

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (12,059)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	\$	(9,597)	
Income taxes		(49,140)	
Special assessments		(1,738)	
Intergovernmental revenues		14,968	
Accrued interest		<u>(5,988)</u>	
 Total			 (51,495)

Capital lease transactions provide current financial resources in the governmental funds, but the capital lease obligation increases long-term liabilities on the statement of net assets. (17,543)

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 109,079

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

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 468

Change in net assets of governmental activities \$ 1,142,880

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 2,499,300	\$ 2,499,300	\$ 2,388,506	\$ (110,794)
Property and other taxes	520,000	520,000	501,595	(18,405)
Fines, licenses and permits	422,559	422,559	231,572	(190,987)
Intergovernmental	464,697	464,697	254,665	(210,032)
Investment income	152,264	152,264	211,219	58,955
Rental income	7,496	7,496	4,108	(3,388)
Loan payment	29,099	29,099	15,947	(13,152)
Other	146,497	146,497	76,337	(70,160)
Total revenues.	<u>4,241,912</u>	<u>4,241,912</u>	<u>3,683,949</u>	<u>(557,963)</u>
Expenditures:				
Current:				
General government	1,526,548	1,705,358	1,550,288	155,070
Security of persons and property	1,946,680	1,923,708	1,770,031	153,677
Transportation	41,861	65,838	65,837	1
Community environment	44,533	42,375	35,408	6,967
Leisure time activity	106,721	114,137	106,868	7,269
Total expenditures	<u>3,666,343</u>	<u>3,851,416</u>	<u>3,528,432</u>	<u>322,984</u>
Excess of revenues over expenditures	<u>575,569</u>	<u>390,496</u>	<u>155,517</u>	<u>(234,979)</u>
Other financing uses:				
Transfers out	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>-</u>
Total other financing uses	<u>(125,000)</u>	<u>(125,000)</u>	<u>(125,000)</u>	<u>-</u>
Net change in fund balance	450,569	265,496	30,517	(234,979)
Fund balance at beginning of year	1,700,863	1,700,863	1,700,863	-
Prior year encumbrances appropriated	<u>98,186</u>	<u>98,186</u>	<u>98,186</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 2,249,618</u>	<u>\$ 2,064,545</u>	<u>\$ 1,829,566</u>	<u>\$ (234,979)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 25% STREET CONSTRUCTION
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Municipal income taxes	\$ 1,477,000	\$ 1,477,000	\$ 1,484,508	\$ 7,508
Licenses and permits.	3,000	3,000	3,276	276
Investment income	20,000	20,000	23,329	3,329
Total revenues	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,511,113</u>	<u>11,113</u>
Expenditures:				
Current:				
Transportation	<u>1,885,428</u>	<u>1,888,361</u>	<u>1,404,483</u>	<u>483,878</u>
Total expenditures	<u>1,885,428</u>	<u>1,888,361</u>	<u>1,404,483</u>	<u>483,878</u>
Net change in fund balance	(385,428)	(388,361)	106,630	494,991
Fund balance at beginning of year	1,253,947	1,253,947	1,253,947	-
Prior year encumbrances appropriated	<u>327,291</u>	<u>327,291</u>	<u>327,291</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 1,195,810</u>	<u>\$ 1,192,877</u>	<u>\$ 1,687,868</u>	<u>\$ 494,991</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and investments	\$ 1,021,637	\$ 949,254	\$ 1,970,891
Receivables (net of allowance for uncollectibles):			
Accounts	215,101	297,367	512,468
Materials and supplies inventory	70,184	25,315	95,499
Total current assets	<u>1,306,922</u>	<u>1,271,936</u>	<u>2,578,858</u>
Noncurrent assets:			
Capital assets:			
Land	262,626	-	262,626
Construction in progress.	-	291,840	291,840
Depreciable capital assets, net	6,068,232	6,331,281	12,399,513
Total capital assets, net	<u>6,330,858</u>	<u>6,623,121</u>	<u>12,953,979</u>
Total assets	<u>7,637,780</u>	<u>7,895,057</u>	<u>15,532,837</u>
Liabilities:			
Current liabilities:			
Accounts payable.	22,517	156,857	179,374
Accrued wages and benefits	3,152	1,918	5,070
Compensated absences	6,901	2,093	8,994
Intergovernmental payable	6,674	4,062	10,736
OPWC loan payable	1,837	-	1,837
Notes payable.	750,000	14,635	764,635
Accrued interest payable	4,688	995	5,683
Lease-purchase agreement payable.	29,095	29,095	58,190
Total current liabilities	<u>824,864</u>	<u>209,655</u>	<u>1,034,519</u>
Long-term liabilities:			
OPWC loan payable	22,052	-	22,052
Compensated absences.	29,363	8,221	37,584
Lease-purchase agreement payable	30,203	30,204	60,407
Total long-term liabilities.	<u>81,618</u>	<u>38,425</u>	<u>120,043</u>
Total liabilities	<u>906,482</u>	<u>248,080</u>	<u>1,154,562</u>
Net assets:			
Invested in capital assets, net of related debt.	5,497,671	6,549,187	12,046,858
Unrestricted	1,233,627	1,097,790	2,331,417
Total net assets	<u>\$ 6,731,298</u>	<u>\$ 7,646,977</u>	<u>\$ 14,378,275</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 752,160	\$ 1,028,169	\$ 1,780,329
Other	3,451	3,250	6,701
Total operating revenues	<u>755,611</u>	<u>1,031,419</u>	<u>1,787,030</u>
Operating expenses:			
Personal services	271,813	165,369	437,182
Contract services	216,261	705,838	922,099
Materials and supplies	60,939	21,709	82,648
Depreciation	305,644	200,974	506,618
Other	4,804	113	4,917
Total operating expenses.	<u>859,461</u>	<u>1,094,003</u>	<u>1,953,464</u>
Operating loss	<u>(103,850)</u>	<u>(62,584)</u>	<u>(166,434)</u>
Nonoperating revenues (expenses):			
Interest revenue.	3,341	1,671	5,012
Interest expense and fiscal charges	(39,401)	(1,327)	(40,728)
Total nonoperating revenues (expenses)	<u>(36,060)</u>	<u>344</u>	<u>(35,716)</u>
Loss before contributions and transfers	(139,910)	(62,240)	(202,150)
Capital contributions	183,303	266,918	450,221
Transfers in.	289,923	15,132	305,055
Changes in net assets	333,316	219,810	553,126
Net assets at beginning of year	<u>6,397,982</u>	<u>7,427,167</u>	<u>13,825,149</u>
Net assets at end of year.	<u>\$ 6,731,298</u>	<u>\$ 7,646,977</u>	<u>\$ 14,378,275</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 769,549	\$ 1,044,435	\$ 1,813,984
Cash received from other operations	3,451	3,250	6,701
Cash payments for personal services	(266,212)	(163,241)	(429,453)
Cash payments for contract services	(218,054)	(708,875)	(926,929)
Cash payments for materials and supplies	(89,694)	(22,452)	(112,146)
Cash payments for other expenses	(4,804)	(113)	(4,917)
Net cash provided by operating activities	<u>194,236</u>	<u>153,004</u>	<u>347,240</u>
Cash flows from noncapital financing activities:			
Cash received from transfers in	<u>289,923</u>	<u>15,132</u>	<u>305,055</u>
Net cash provided by noncapital financing activities	<u>289,923</u>	<u>15,132</u>	<u>305,055</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(9,147)	(298,195)	(307,342)
Principal retirement on OPWC loan	(1,837)	-	(1,837)
Principal retirement on lease-purchase agreement	(55,026)	(55,025)	(110,051)
Principal retirement on notes	(1,000,000)	(14,634)	(1,014,634)
Proceeds of notes	750,000	-	750,000
Interest and fiscal charges	(39,923)	(498)	(40,421)
Net cash used in capital and related financing activities	<u>(355,933)</u>	<u>(368,352)</u>	<u>(724,285)</u>
Cash flows from investing activities:			
Interest received	<u>3,341</u>	<u>1,671</u>	<u>5,012</u>
Net cash provided by investing activities	<u>3,341</u>	<u>1,671</u>	<u>5,012</u>
Net increase (decrease) in cash and cash equivalents	131,567	(198,545)	(66,978)
Cash and cash equivalents at beginning of year	<u>890,070</u>	<u>1,147,799</u>	<u>2,037,869</u>
Cash and cash equivalents at end of year	<u>\$ 1,021,637</u>	<u>\$ 949,254</u>	<u>\$ 1,970,891</u>

- - continued

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (103,850)	\$ (62,584)	\$ (166,434)
Adjustments:			
Depreciation	305,644	200,974	506,618
Changes in assets and liabilities:			
(Increase) in materials and supplies inventory	(6,024)	(816)	(6,840)
Decrease in accounts receivable	17,389	16,266	33,655
(Decrease) in accounts payable	(3,311)	(2,604)	(5,915)
Increase (decrease) in accrued wages and benefits. . .	(23)	354	331
(Decrease) in retainage payable	(21,143)	-	(21,143)
Increase in due to other governments	78	811	889
Increase in compensated absences payable	5,476	603	6,079
Net cash provided by operating activities	<u>\$ 194,236</u>	<u>\$ 153,004</u>	<u>\$ 347,240</u>

Non-Cash Transactions:

The Sewer and Water funds received \$179,454 and \$98,379, respectively, in capital contributions from developers.
 The Sewer and Water funds received \$87,464 and \$84,924, respectively, in capital contributions from other funds.
 At December 31, 2006 and 2005, the Sewer fund purchased \$0 and \$2,410, respectively, in capital assets on account.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	<u>\$ 61,957</u>
Liabilities:	
Deposits held and due to others	<u>\$ 61,957</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE CITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Presentation - Fund Accounting

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

C. Fund Accounting

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

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

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

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

E. Basis of Accounting

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance fiscal year 2007 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at December 31, 2006 are recorded as deferred revenue.

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

F. Budgetary Process

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

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

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

G. Cash and Investments

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

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

During 2006, investments were limited to certificates of deposit, overnight repurchase agreements, federal agency securities and U.S. government money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be distributed to specific funds. Interest revenue earned and credited to the general fund during 2006 amounted to \$267,200, which includes \$212,464 assigned from other funds of the City.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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

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

H. Inventory

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

I. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

J. Capital Assets

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

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

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

K. Compensated Absences

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

The total liability for vacation and severance payments has been calculated using pay rates in effect at December 31, 2006 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. The City did not have any interfund receivables or payables at December 31, 2006.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

N. Interfund Activity

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

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

O. Fund Balance Reserves

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

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

P. Estimates

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

Q. Contributions of Capital

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

R. Net Assets

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

S. Operating Revenues and Expenses

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither of these transactions occurred in 2006.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Deficit Fund Balances

The following fund had a deficit fund balance as of December 31, 2006:

	Deficit <u>Fund Balance</u>
<u>Nonmajor Governmental Fund</u>	
Recreation	\$ 16,702

This fund complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balance resulted from adjustments for accrued liabilities.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

A. Cash in Segregated Accounts

The City has depository accounts outside of the City treasury to account for Mayor's Court operations. The carrying amount of these depository accounts at December 31, 2006 was \$20,412. These depository accounts are included in "Deposits with Financial Institutions" below.

B. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$4,235,610. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$3,601,446 of the City's bank balance of \$4,260,223 was exposed to custodial risk as discussed below, while \$658,777 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Investments

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 or more months</u>
FHLMC	\$ 1,723,040	\$ 496,715	\$ -	\$ 493,925	\$ 732,400
FFCB	499,530	499,530	-	-	-
FNMA Discount Note	965,550	489,600	475,950	-	-
FHLB	2,265,190	-	746,562	794,155	724,473
FNMA	1,028,062	249,140	295,407	483,515	-
U.S. Government money market mutual fund	129,544	129,544	-	-	-
Repurchase Agreement	145,000	145,000	-	-	-
	<u>\$ 6,755,916</u>	<u>\$ 2,009,529</u>	<u>\$ 1,517,919</u>	<u>\$ 1,771,595</u>	<u>\$ 1,456,873</u>

The weighted average maturity of investments is .81 years.

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

Credit Risk: The City's investments in federal agency securities and U.S. Government money market mutual funds, and the federal agency securities that underlie the City's repurchase agreement, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's \$145,000 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State Statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the age of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 1,723,040	25.50%
FFCB	499,530	7.39%
FNMA Discount Note	965,550	14.29%
FHLB	2,265,190	33.53%
FNMA	1,028,062	15.22%
U.S. Government money market mutual funds	129,544	1.92%
Repurchase Agreement	<u>145,000</u>	<u>2.15%</u>
	<u>\$ 6,755,916</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investment to Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 4,235,610
Investments	<u>6,755,916</u>
Total	<u>\$ 10,991,526</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 8,958,678
Business-type activities	1,970,891
Agency funds	<u>61,957</u>
Total	<u>\$ 10,991,526</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported in the fund financial statements:

<u>Transfers from General Fund to:</u>	
Nonmajor governmental funds	\$ 125,000
 <u>Transfers from Capital Improvement fund to:</u>	
Water	289,923
Sewer	<u>15,132</u>
Total	<u>\$ 430,055</u>

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - INTERFUND TRANSFERS - (Continued)

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

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

Interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Net transfers between governmental activities and business-type activities are reported on the statement of activities. Net transfers reported on the statement of activities of \$477,443 includes \$84,924 and \$87,464 in capital assets purchased by the governmental activities for the water and sewer business-type activities, respectively, along with the transfer of debt payments discussed above.

NOTE 6 - PROPERTY TAXES

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

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

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of January 1, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, was 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

The County Treasurer collects property taxes on behalf of all taxing districts in the County. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2006 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 200,587,710
Public utility property	5,147,800
Tangible personal property	<u>55,732,785</u>
Total assessed valuation	<u>\$ 261,468,295</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. Although total property tax collections for the next year are measurable, they are generally not collected during the available period and therefore, recorded as unearned revenue. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

NOTE 7 - LOCAL INCOME TAX

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvement fund, and the 25% street construction fund. On the modified accrual basis of accounting, total income tax revenue was \$4,319,540 in 2006.

NOTE 8 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Insurance

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 9 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accrued interest, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, shared revenue. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

Income taxes	\$ 768,672
Real and other taxes	604,208
Accounts	19,164
Special assessments	17,400
Intergovernmental	273,622
Accrued interest	10,549

Business-type Activities:

Accounts	512,468
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Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

NOTE 10 - LEASE-PURCHASE AGREEMENT

In 2004, the City entered into a lease-purchase agreement with Huntington National Bank for the purchase of a datamatic fire-fly system. The source of revenue to fund the principal and interest payments is derived from the water and sewer fund. The City made \$55,026 and \$55,025 in principal payments on the lease-purchase agreement during 2006 from the Water and Sewer funds, respectively. The lease payments are reduced the liability for the lease-purchase agreement payable in the Water and Sewer funds.

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

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of December 31, 2006.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2007	\$ 62,709
2008	<u>62,708</u>
Total future minimum lease payments	125,417
Less: amount representing interest	<u>(6,820)</u>
Present value of future minimum lease payments	<u>\$ 118,597</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was as follows:

<u>Governmental Activities:</u>	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,572,154	\$ -	\$ -	\$ 2,572,154
Construction in progress	<u>1,816,493</u>	<u>525,041</u>	<u>(2,190,523)</u>	<u>151,011</u>
Total capital assets, not being depreciated	<u>4,388,647</u>	<u>525,041</u>	<u>(2,190,523)</u>	<u>2,723,165</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,955,285	638,481	-	2,593,766
Buildings and improvements	3,108,232	-	-	3,108,232
Furniture and equipment	2,445,785	134,549	(56,290)	2,524,044
Vehicles	1,144,628	176,409	(46,643)	1,274,394
Infrastructure	<u>12,378,718</u>	<u>2,144,666</u>	<u>-</u>	<u>14,523,384</u>
Total capital assets, being depreciated	<u>21,032,648</u>	<u>3,094,105</u>	<u>(102,933)</u>	<u>24,023,820</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(815,862)	(119,484)	-	(935,346)
Buildings and improvements	(1,252,680)	(82,609)	-	(1,335,289)
Furniture and equipment	(1,289,493)	(201,423)	45,186	(1,445,730)
Vehicles	(712,146)	(95,029)	45,688	(761,487)
Infrastructure	<u>(3,715,057)</u>	<u>(567,349)</u>	<u>-</u>	<u>(4,282,406)</u>
Total accumulated depreciation	<u>(7,785,238)</u>	<u>(1,065,894)</u>	<u>90,874</u>	<u>(8,760,258)</u>
Total capital assets, being depreciated, net	<u>13,247,410</u>	<u>2,028,211</u>	<u>(12,059)</u>	<u>15,263,562</u>
Governmental activities capital assets, net	<u>\$ 17,636,057</u>	<u>\$ 2,553,252</u>	<u>\$ (2,202,582)</u>	<u>\$ 17,986,727</u>

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

Governmental activities:

General government	\$ 63,803
Security of persons and property	108,794
Transportation	768,746
Leisure time activity	<u>124,551</u>
Total depreciation expense - governmental activities	<u>\$ 1,065,894</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - CAPITAL ASSETS - (Continued)

<u>Business-type Activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u>
	<u>12/31/05</u>			<u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Construction in progress	<u>21,690</u>	<u>270,150</u>	<u>-</u>	<u>291,840</u>
Total capital assets, not being depreciated	<u>284,316</u>	<u>270,150</u>	<u>-</u>	<u>554,466</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	54,622	-	-	54,622
Buildings and improvements	1,940,410	-	-	1,940,410
Furniture and equipment	2,527,231	34,782	-	2,562,013
Infrastructure:				
Sewer lines	7,367,113	266,918	-	7,634,031
Water lines	<u>5,420,040</u>	<u>183,303</u>	<u>-</u>	<u>5,603,343</u>
Total capital assets, being depreciated	<u>17,309,416</u>	<u>485,003</u>	<u>-</u>	<u>17,794,419</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(26,700)	(3,285)	-	(29,985)
Buildings and improvements	(723,290)	(50,613)	-	(773,903)
Furniture and equipment	(1,207,172)	(172,009)	-	(1,379,181)
Infrastructure:				
Sewer lines	(1,605,639)	(150,133)	-	(1,755,772)
Water lines	<u>(1,325,487)</u>	<u>(130,578)</u>	<u>-</u>	<u>(1,456,065)</u>
Total accumulated depreciation	<u>(4,888,288)</u>	<u>(506,618)</u>	<u>-</u>	<u>(5,394,906)</u>
Total capital assets, being depreciated, net	<u>12,421,128</u>	<u>(21,615)</u>	<u>-</u>	<u>12,399,513</u>
Business-type activities capital assets, net	<u>\$ 12,705,444</u>	<u>\$ 248,535</u>	<u>\$ -</u>	<u>\$ 12,953,979</u>

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

Business-type activities:

Water	\$ 305,644
Sewer	<u>200,974</u>
Total depreciation expense - business-type activities	<u>\$ 506,618</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

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

General capital assets consisting of equipment has been capitalized in the amount of \$36,401. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$10,870, leaving a current book value of \$25,531. A corresponding liability was recorded in the government-wide financial statements. Principal payments on the leases, totaling \$4,752 and \$894, were paid out of the general fund and the Mayor’s Court Computer fund, respectively.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the future minimum lease payments as of December 31, 2006.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2007	\$ 8,694
2008	8,695
2009	6,783
2010	4,106
2011	<u>2,053</u>
Total future minimum lease payments	30,331
Less: amount representing interest	<u>(4,180)</u>
Present value of future minimum lease payments	<u>\$ 26,151</u>

NOTE 13 - LONG-TERM OBLIGATIONS

A. The City’s long term obligations at December 31, 2006 were as follows:

<u>Debt Issue</u>	<u>Interest</u> <u>Rate</u>	<u>Original</u> <u>Issue Amount</u>	<u>Date of Maturity</u>
Governmental Activities			
Lewis Road Bonds - 1997	2.500%	\$ 36,000	12/01/07
Beer Property Bonds - 2004	0.000%	331,665	12/01/08
Business-Type Activities			
OPWC Water Treatment Loan - 2000	0.000%	36,749	01/01/19
Sewer Improvement Notes - 1988	6.810%	556,080	12/01/07
Lease-Purchase Agreement	3.800%	291,356	12/01/08

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

During 2006, the following changes occurred in governmental activities long-term obligations:

	Balance			Balance	Due in
	<u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2006</u>	<u>One Year</u>
<u>Governmental activities:</u>					
Lewis Road Bonds - 1997	\$ 7,200	\$ -	\$ (3,600)	\$ 3,600	\$ 3,600
Park Land Acquisition Bonds - 2000	33,500	-	(33,500)	-	-
Beer Property Bonds - 2004	198,999	-	(66,333)	132,666	66,333
Capital Lease Payable	14,254	17,543	(5,646)	26,151	6,850
Compensated Absences	<u>238,529</u>	<u>44,589</u>	<u>(57,296)</u>	<u>225,822</u>	<u>51,180</u>
Total governmental activities	<u>\$ 492,482</u>	<u>\$ 62,132</u>	<u>\$ (166,375)</u>	<u>\$ 388,239</u>	<u>\$ 127,963</u>
<u>Business-Type Activities:</u>					
OPWC Water Treatment Loan - 2000	\$ 25,726	\$ -	\$ (1,837)	\$ 23,889	\$ 1,837
Sewer Improvement Note	29,269	-	(14,634)	14,635	14,635
Lease-Purchase Agreement	228,648	-	(110,051)	118,597	58,190
Compensated absences	<u>40,499</u>	<u>11,172</u>	<u>(5,093)</u>	<u>46,578</u>	<u>8,994</u>
Total business-type activities	<u>\$ 324,142</u>	<u>\$ 11,172</u>	<u>\$ (131,615)</u>	<u>\$ 203,699</u>	<u>\$ 83,656</u>

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

The Park Land Acquisition bonds were issued in May 2000 by the City to four individuals for the purpose of acquiring real property adjacent to Marshall Park for recreational use. These are non-interest bearing bonds. The last bond was redeemed in 2006 and was paid from the Capital Improvement fund.

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

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

Compensated absences for governmental activities will be paid from the fund from which the employee is paid which, for the City, is the general fund and the Street Construction and Maintenance fund (a nonmajor governmental fund).

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The OPWC Water Treatment Loan was entered into during July 2000 to finance improvements to the water treatment plant. The OPWC water treatment loan will all be paid from the Water fund.

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

The City's lease-purchase agreement obligation is described in Note 10.

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

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2006 are as follows:

Year Ending <u>December 31</u>	<u>Lewis Road Bonds</u>			<u>Beer Property Bonds</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>
2007	\$ 3,600	\$ 90	\$ 3,690	\$ 66,333
2008	-	-	-	66,333
Total	<u>\$ 3,600</u>	<u>\$ 90</u>	<u>\$ 3,690</u>	<u>\$ 132,666</u>

Year Ending <u>December 31</u>	<u>OPWC Water Treatment Loan</u>	<u>Sewer Improvement Note</u>		
	<u>Principal</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,837	\$ 14,635	\$ 995	\$ 15,630
2008	1,837	-	-	-
2009	1,837	-	-	-
2010	1,837	-	-	-
2011	1,837	-	-	-
2012 - 2016	9,185	-	-	-
2017 - 2019	<u>5,519</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 23,889</u>	<u>\$ 14,635</u>	<u>\$ 995</u>	<u>\$ 15,630</u>

- B.** As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$27,649,573 and the unvoted legal debt margin was \$14,576,158.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2006, follows:

Business-Type Activities		<u>Outstanding</u> <u>12/31/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/06</u>
2005 Water System Improvement Note	2.07%	\$ 1,000,000	\$ -	\$ (1,000,000)	\$ -
Total		<u>\$ 1,000,000</u>	<u>\$ -</u>	<u>\$ (1,000,000)</u>	<u>\$ -</u>
2006 Water System Improvement Note	3.75%	\$ -	\$ 750,000	\$ -	\$ 750,000
Total		<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ -</u>	<u>\$ 750,000</u>

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

NOTE 15 - RISK MANAGEMENT

A. Comprehensive

The City is exposed to various risks of loss related to torts, thefts of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2006, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - RISK MANAGEMENT - (Continued)

B. Workers' Compensation

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

C. Dental and Vision Self-Insurance

The City operates a self-insurance plan for dental and vision benefits. The activity of the plan is recorded in the City's general fund. Monies are transferred on a monthly basis to the general fund from the other participating funds. The claims liability of \$2,433 reported on the financial statements at December 31, 2006 is based on the requirements of GASB Statement No. 10, "Account and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by FASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims cost, including estimates of costs relating to incurred but not reported claims, be reported.

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

<u>Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2006	\$ 3,673	\$ 34,193	\$ (35,433)	\$ 2,433
2005	-	29,685	(26,012)	3,673

NOTE 16 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - PENSION PLANS - (Continued)

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

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's contributions to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$213,098, \$213,786, and \$176,974, respectively; 100% has been contributed for 2006, 2005 and 2004.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to OP&F for the years ended December 31, 2006, 2005, and 2004 were \$176,023, \$170,684, and \$184,874, respectively; 50.54% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$87,065, is recorded as a liability.

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

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

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$62,218. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2006 were \$12.0 billion. At December 31, 2006, the actuarially accrued liability and the unfunded actuarial accrued liability were \$30.7 billion and \$18.7 billion, respectively.

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

B. Ohio Police and Fire Pension Fund

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$69,881 for police. The OP&F's total health care expense for the year ended December 31, 2006 was \$120.374 million, which was net of member contributions of \$58.533 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2006, was 14,120 for police and 10,563 for firefighters.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

	<u>General</u>	<u>25% Street Construction</u>
Budget basis	\$ 30,517	\$ 106,630
Net adjustment for revenue accruals	(7,476)	(35,338)
Net adjustment for expenditure accruals	(72,411)	241,780
Net adjustment for other sources/(uses)	17,543	-
Adjustment for encumbrances	<u>95,856</u>	<u>258,680</u>
GAAP basis	<u>\$ 64,029</u>	<u>\$ 571,752</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 19 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2006.

B. Litigation

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



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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Ontario's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City of Ontario's financial statements that is more than inconsequential will not be prevented or detected by the City of Ontario's internal control. We consider 2006-COO-001, 2006-COO-002 and 2006-COO-003 as deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

Members of Council and Mayor
City of Ontario

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Ontario's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above we consider items 2006-COO-001, 2006-COO-002 and 2006-COO-003 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of City of Ontario in a separate letter dated April 1, 2008.

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

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



Julian & Grube, Inc.
April 1, 2008

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2006-COO-001

Significant Deficiency/Material Weakness

The City did not have accurately reconciled bank statements at December 31, 2006 to the books until March, 2008. The City completed and provided reconciled bank statements from January, 2006 through January, 2007, with all amounts identifiable.

Unreconciled bank accounts are a serious control failure in the City's internal control system.

All bank accounts need to be reconciled to the books each month on a timely basis in order to identify any discrepancies in City postings and/or bank postings.

We recommend the City continue reconciling from January, 2007 through current, its monthly bank statements. We recommend these bank reconciliations and identified reconciled differences be presented to the Council and corrected in the City's system.

Client response: The City has contracted with an outside firm to aid in reconciling February, 2007 through current.

Finding Number	2006-COO-002
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Significant Deficiency/Material Weakness

The City's 2006 audit report completion was delayed due to numerous factors. Such factors include, but are not limited to, the following:

- (1) Lack of an accurate monthly reconciliation and supporting documentation.
- (2) Unorganized records, lack of easily obtainable supporting documentation.
- (3) Change in fiscal department staff.

Lack of important fiscal financial reporting controls inhibits the timeliness of financial audit reports, which inhibit public information availability.

We recommend the City develop policies and procedures to help ensure proper record retention and timeliness of audit completion and financial reporting.

Client response: The current City Treasurer and City Auditor are working with a consulting firm to address these internal control deficiencies. They also have begun to implement additional controls in regards to these deficiencies.

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2006-COO-003

Significant Deficiency/Material Weakness

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control. One of those deficiencies, which is applicable to the City is included in the SAS related to audit adjustments.

The City presented financial statements that required additional testing and audit adjustments. Amounts reported at December 31, 2006 were reported initially without substantial records of supporting documentation.

These discrepancies resulted in a net adjustment to decrease the City's overall cash in the amount of \$16,104.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. This responsibility remains intact even if management decides to outsource this function for efficiency purposes or any other reason.

In either case, it is important that control procedures are developed related to financial reporting to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes. In addition, management should not rely on its auditor to perform this control procedure as auditors must remain independent.

We recommend the City implement control procedures related to financial reporting that enables management to identify, prevent, detect and correct potential misstatements in the financial statements and footnotes, specifically, its presentation of its cash.

Client Response: The City will implement controls to review in detail its financial statements, related footnotes and monthly bank to book cash reconciliations.



Mary Taylor, CPA
Auditor of State

CITY OF ONTARIO

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 22, 2008