

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(Audited)

*FOR THE YEAR ENDED
DECEMBER 31, 2007*

NANCY MOREHEAD, CITY AUDITOR



Mary Taylor, CPA
Auditor of State

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

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, 2007 through December 31, 2007. 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

October 13, 2009

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CITY OF ONTARIO, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the City of Ontario's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ontario's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 the City of Ontario, Richland County, Ohio, as of December 31, 2007 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 June 8, 2009 on our consideration of the City of Ontario's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 on pages 3 through 16 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.
June 8, 2009

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007. 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 2007 are as follows:

- The total net assets of the City decreased \$541,579. Net assets of governmental activities decreased \$666,362 or 2.42% over 2006 and net assets of business-type activities increased \$124,783 or 0.87% over 2006.
- General revenues accounted for \$5,209,582 or 79.16% of total governmental activities revenue. Program specific revenues accounted for \$1,371,574 or 20.84% of total governmental activities revenue.
- The City had \$7,152,056 in expenses related to governmental activities; \$1,371,574 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$5,812,880 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$5,209,582.
- The general fund had revenues of \$3,771,927 in 2007. This represents a decrease of \$77,911 from 2006 revenues. The expenditures and other financing uses of the general fund, which totaled \$4,020,487 in 2007, increased \$390,500 from 2006. The net decrease in fund balance for the general fund was \$248,560 or 1.21%.
- The 25% street construction fund had revenues of \$1,388,450 in 2007. This represents a decrease of \$87,325 from 2006 revenues. The expenditures of the 25% street construction fund, which totaled \$1,888,887 in 2007, increased \$984,864 from 2006. The net decrease in fund balance for the 25% street construction fund was \$500,437 or 22.38%.
- The capital improvement fund had revenues of \$573,955 in 2007. This represents a decrease of \$427,823 from 2006 revenues. The expenditures and other financing uses of the capital improvement fund, which totaled \$624,714 in 2007, increased \$109,389 from 2006. The net decrease in fund balance for the capital improvement fund was \$50,759 or 1.47%.
- Net assets for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2007 by \$124,783. This increase in net assets was due primarily to charges for services revenue remaining higher than operating expenses 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.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

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.

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 2007?" 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, 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 focus on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

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.

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. Both 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 - 58 of this report.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Government-Wide Financial Analysis

The table below provides a summary of the City's assets, liabilities and net assets for 2007 and 2006:

	<u>Governmental Activities</u>		<u>Business - Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Assets</u>						
Current and other assets	\$ 10,452,882	\$ 10,882,307	\$ 2,851,178	\$ 2,578,858	\$ 13,304,060	\$ 13,461,165
Capital assets, net	<u>17,848,535</u>	<u>17,986,727</u>	<u>12,662,493</u>	<u>12,953,979</u>	<u>30,511,028</u>	<u>30,940,706</u>
Total assets	<u>28,301,417</u>	<u>28,869,034</u>	<u>15,513,671</u>	<u>15,532,837</u>	<u>43,815,088</u>	<u>44,401,871</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	315,542	388,239	135,790	203,699	451,332	591,938
Other liabilities	<u>1,116,116</u>	<u>944,674</u>	<u>874,823</u>	<u>950,863</u>	<u>1,990,939</u>	<u>1,895,537</u>
Total liabilities	<u>1,431,658</u>	<u>1,332,913</u>	<u>1,010,613</u>	<u>1,154,562</u>	<u>2,442,271</u>	<u>2,487,475</u>
<u>Net assets</u>						
Invested in capital						
assets, net of related debt	17,762,901	17,824,310	11,880,035	12,046,858	29,642,936	29,871,168
Restricted	7,239,692	7,546,688	-	-	7,239,692	7,546,688
Unrestricted	<u>1,867,166</u>	<u>2,165,123</u>	<u>2,623,023</u>	<u>2,331,417</u>	<u>4,490,189</u>	<u>4,496,540</u>
Total net assets	<u>\$ 26,869,759</u>	<u>\$ 27,536,121</u>	<u>\$ 14,503,058</u>	<u>\$ 14,378,275</u>	<u>\$ 41,372,817</u>	<u>\$ 41,914,396</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2007, the City's assets exceeded liabilities by \$41,372,817. At year-end, net assets were \$26,869,759 and \$14,503,058 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 69.64% 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, 2007, were \$17,762,901 and \$11,880,035 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, 2007, 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, \$7,239,692, 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 \$1,867,166 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, 2007**

The table below shows the changes in net assets for fiscal year 2007 and 2006.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services and sales	\$ 629,016	\$ 571,889	\$ 1,922,972	\$ 1,780,329	\$ 2,551,988	\$ 2,352,218
Operating grants and contributions	520,751	431,470	-	277,833	520,751	709,303
Capital grants and contributions	221,807	548,959	-	-	221,807	548,959
Total program revenues	<u>1,371,574</u>	<u>1,552,318</u>	<u>1,922,972</u>	<u>2,058,162</u>	<u>3,294,546</u>	<u>3,610,480</u>
General revenues:						
Property taxes	605,349	580,331	-	-	605,349	580,331
Income taxes	3,828,481	4,270,400	-	-	3,828,481	4,270,400
Unrestricted grants	245,802	297,783	-	-	245,802	297,783
Interest	434,116	347,147	5,944	5,012	440,060	352,159
Fair market value adjustment	57,249	-	-	-	57,249	-
Miscellaneous	38,585	141,862	1,078	6,701	39,663	148,563
Total general revenues	<u>5,209,582</u>	<u>5,637,523</u>	<u>7,022</u>	<u>11,713</u>	<u>5,216,604</u>	<u>5,649,236</u>
Total revenues	<u>6,581,156</u>	<u>7,189,841</u>	<u>1,929,994</u>	<u>2,069,875</u>	<u>8,511,150</u>	<u>9,259,716</u>
Expenses:						
General government	1,970,290	1,874,034	-	-	1,970,290	1,874,034
Security of persons and property	2,136,820	1,962,203	-	-	2,136,820	1,962,203
Public health and welfare	4,246	7,098	-	-	4,246	7,098
Transportation	2,550,865	1,451,690	-	-	2,550,865	1,451,690
Community environment	33,699	30,146	-	-	33,699	30,146
Leisure time activity	454,307	241,980	-	-	454,307	241,980
Interest and fiscal charges	1,829	2,367	-	-	1,829	2,367
Water	-	-	806,454	898,861	806,454	898,861
Sewer	-	-	1,094,219	1,095,331	1,094,219	1,095,331
Total expenses	<u>7,152,056</u>	<u>5,569,518</u>	<u>1,900,673</u>	<u>1,994,192</u>	<u>9,052,729</u>	<u>7,563,710</u>
Transfers	<u>(95,462)</u>	<u>(477,443)</u>	<u>95,462</u>	<u>477,443</u>	<u>-</u>	<u>-</u>
Change in net assets	(666,362)	1,142,880	124,783	553,126	(541,579)	1,696,006
Net assets at beginning of year	<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>
Net assets at end of year	<u>\$ 26,869,759</u>	<u>\$ 27,536,121</u>	<u>\$ 14,503,058</u>	<u>\$ 14,378,275</u>	<u>\$ 41,372,817</u>	<u>\$ 41,914,396</u>

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

Governmental activities net assets decreased \$666,362 in 2007.

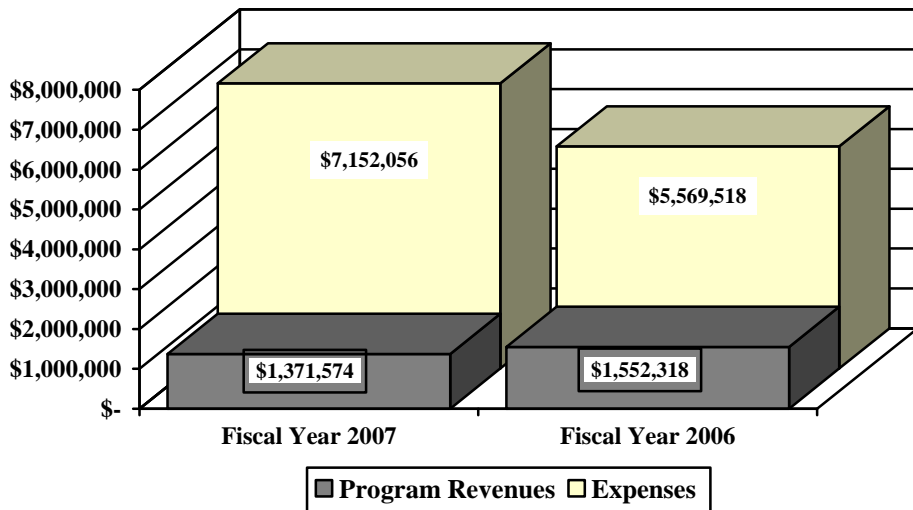
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,136,820 of the total expenses of the City. These expenses were partially funded by \$230,334 in direct charges to users of the services and \$5,182 in operating grants and contributions. Transportation expenses totaled \$2,550,865. Transportation expenses were partially funded by \$2,134 in direct charges to users of the services, \$511,174 in operating grants and contributions and \$221,807 in capital grants and contributions.

The State and federal government contributed to the City \$520,751 in operating grants and contributions. These revenues are restricted to a particular program or purpose. \$511,714 of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$5,209,582, and amounted to 79.16% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,433,830. 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 \$245,802.

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

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF ONTARIO, OHIO

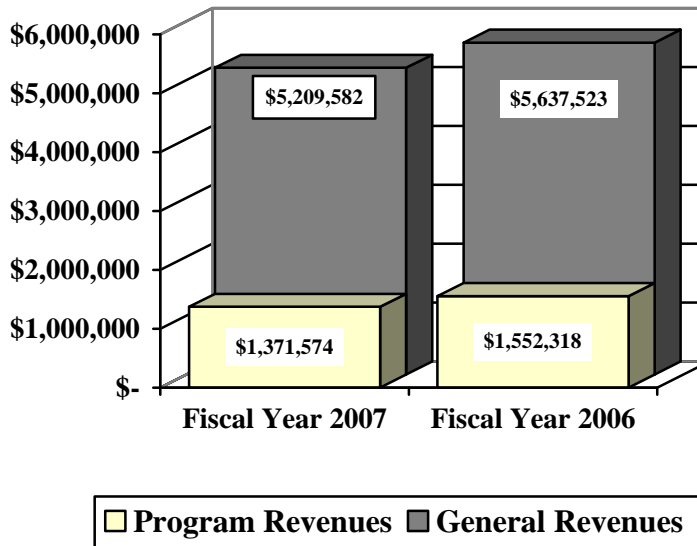
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Governmental Activities

	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program Expenses:				
General government	\$ 1,970,290	\$ 1,599,306	\$ 1,874,034	\$ 1,554,934
Security of persons and property	2,136,820	1,901,304	1,962,203	1,735,351
Public health and welfare	4,246	(4,611)	7,098	3,713
Transportation	2,550,865	1,815,210	1,451,690	460,543
Community environment	33,699	33,699	30,146	30,146
Leisure time activity	454,307	441,219	241,980	234,620
Interest and fiscal charges	1,829	(5,645)	2,367	(2,107)
Total Expenses	\$ 7,152,056	\$ 5,780,482	\$ 5,569,518	\$ 4,017,200

The dependence upon general revenues for governmental activities is apparent, with 80.82% of expenses supported through taxes and other general revenues. The chart below illustrates the City's general revenues and program revenues for 2007 and 2006.

Governmental Activities - General and Program Revenues

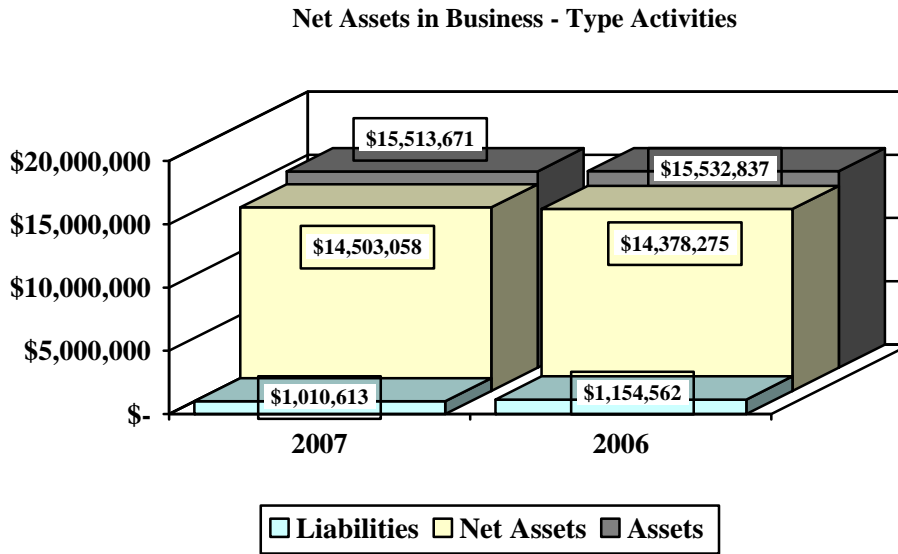


CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$1,922,972, general revenues of \$7,022, transfers in of \$95,462 and expenses of \$1,900,673 for 2007. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$8,848,183 which is \$488,452 below last year's total of \$9,336,635.

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2007 for all major and nonmajor governmental funds.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Fund Balances</u> 12/31/07	<u>Fund Balances</u> 12/31/06	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 1,802,785	\$ 2,051,345	\$ (248,560)
25% Street Construction	1,735,618	2,236,055	(500,437)
Capital Improvement	3,401,481	3,452,240	(50,759)
Other nonmajor governmental funds	<u>1,908,299</u>	<u>1,596,995</u>	<u>311,304</u>
 Total	 <u>\$ 8,848,183</u>	 <u>\$ 9,336,635</u>	 <u>\$ (488,452)</u>

General Fund

The City's general fund balance decreased \$248,560. The table that follows assists in illustrating the revenues of the general fund.

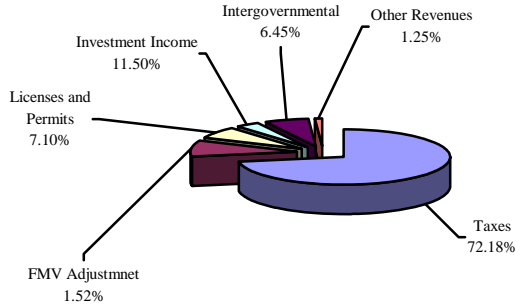
	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,722,427	\$ 2,847,052	(4.38) %
Licenses, permits and fees	267,718	215,218	24.39 %
Investment income	434,116	267,200	62.47 %
Increase in FMV of investment	57,249	-	100.00 %
Intergovernmental	243,392	258,907	(5.99) %
Other	<u>47,025</u>	<u>88,096</u>	(46.62) %
 Total	 <u>\$ 3,771,927</u>	 <u>\$ 3,676,473</u>	 2.60 %

Tax revenue represents 72.18% of all general fund revenue. Tax revenue decreased 4.38% 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 primarily due to increased interest earned on the City's investments in federal agency securities. The increase in fair market value of investments was due to the increased value of the City's investments in federal agency securities over the cost basis. The fair value of federal agency securities can fluctuate over time depending upon economic conditions. Licenses, permits and fees increase due to the proper classifications of revenues during the year. The decrease in other revenue is due to proper classifications of revenues. All other revenue remained comparable to 2006.

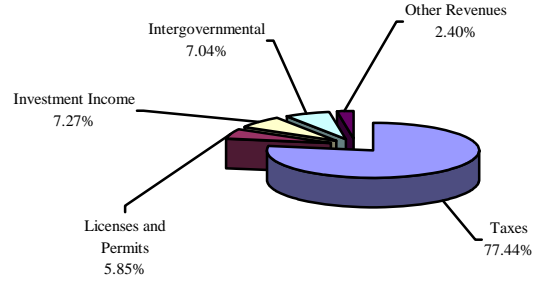
CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Revenues - Fiscal Year 2007



Revenues - Fiscal Year 2006



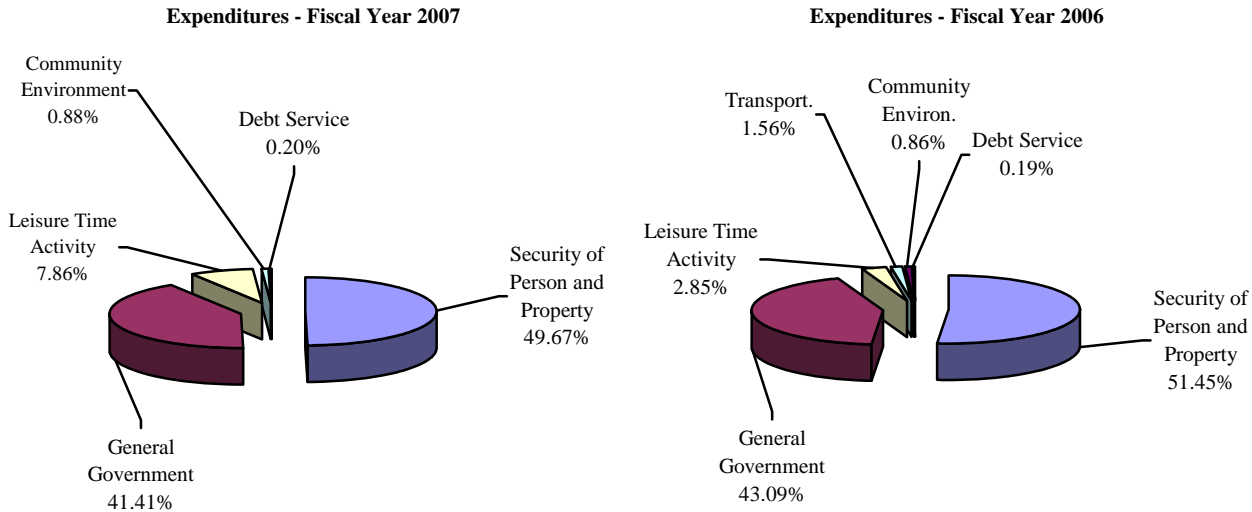
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2007</u> <u>Amount</u>	<u>2006</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,593,779	\$ 1,510,224	5.53 %
Security of persons and property	1,911,802	1,803,560	6.00 %
Transportation	5,281	54,699	(90.35) %
Community environment	33,699	30,146	11.79 %
Leisure time activity	302,361	99,837	202.85 %
Debt service	<u>7,548</u>	<u>6,521</u>	15.75 %
Total	<u><u>\$ 3,854,470</u></u>	<u><u>\$ 3,504,987</u></u>	9.97 %

The largest expenditure line items are security of persons and property and general government. These two expenditures account for 90.95% of total general fund expenditures. Increased expenditures in leisure time activity resulted from judgments payable in 2008.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007**



25% Street Construction Fund

The 25% street construction fund had revenues of \$1,388,450 and expenditures of \$1,888,887 in 2007. The 25% street construction fund's fund balance decreased \$500,437 from \$2,236,055 to \$1,735,618 primarily due to decreased income tax collections coupled with increased expenditures in the current fiscal year compared to the prior fiscal year.

Capital Improvement Fund

The capital improvement fund had revenues of \$573,955 and expenditures of \$624,714 in 2007. The capital improvement fund's fund balance decreased \$50,759 from \$3,452,240 to \$3,401,481.

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 \$3,583,429 were less than final budgeted revenues by \$661,860. Another significant change was between the final budgeted expenditures and other financing uses versus actual expenditures and other financing uses. Actual expenditures and other financing uses were \$447,131 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.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2007

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the City had \$30,511,028 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, construction in progress and infrastructure. Of this total, \$17,848,535 was reported in governmental activities and \$12,662,493 was reported in business-type activities. The following table shows fiscal 2007 balances compared to 2006:

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

	Governmental Activities		Business - Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,572,154	\$ 2,572,154	\$ 262,626	\$ 262,626	\$ 2,834,780	\$ 2,834,780
Construction in progress	-	151,011	81,175	291,840	81,175	442,851
Land improvements	1,525,772	1,658,420	21,352	24,637	1,547,124	1,683,057
Buildings and improvements	1,690,557	1,772,943	1,115,894	1,166,507	2,806,451	2,939,450
Furniture and equipment	988,939	1,078,314	1,041,988	1,182,832	2,030,927	2,261,146
Vehicles	520,393	512,907	-	-	520,393	512,907
Infrastructure	10,550,720	10,240,978	10,139,458	10,025,537	20,690,178	20,266,515
Totals	<u>\$ 17,848,535</u>	<u>\$ 17,986,727</u>	<u>\$ 12,662,493</u>	<u>\$ 12,953,979</u>	<u>\$ 30,511,028</u>	<u>\$ 30,940,706</u>

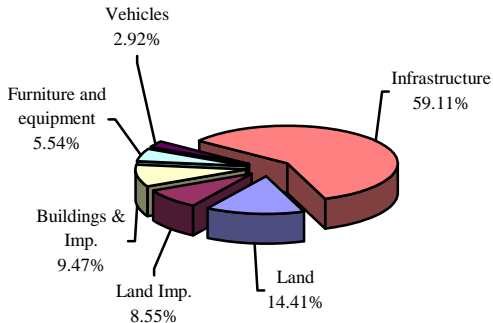
The City's largest capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 59.11% of the City's total governmental capital assets.

CITY OF ONTARIO, OHIO

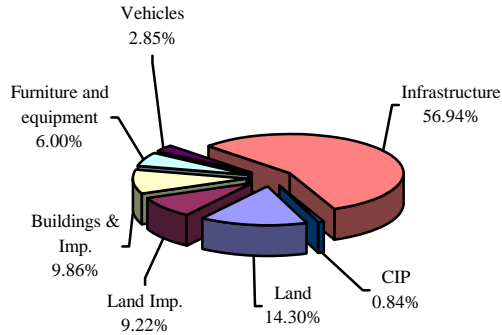
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2007

The following graphs show the breakdown of governmental capital assets by category for 2007 and 2006.

Capital Assets - Governmental Activities 2007



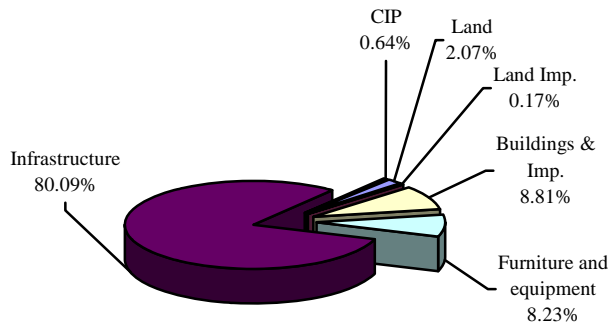
Capital Assets - Governmental Activities 2006



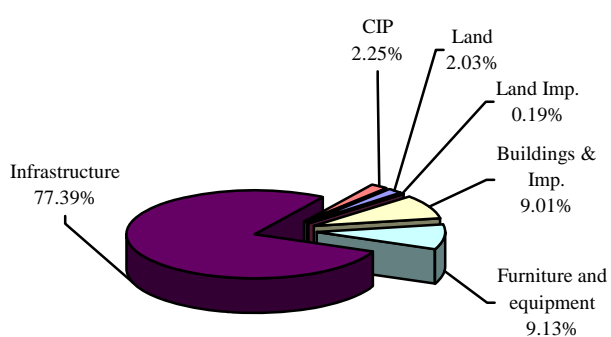
The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 80.08% of the City's total business-type capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2007 and 2006.

Capital Assets - Business-Type Activities 2007



Capital Assets - Business-Type Activities 2006



See Note 10 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, 2007

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2007 and 2006:

	Governmental activities	
	<u>2007</u>	<u>2006</u>
Lewis road bonds 1997	\$ -	\$ 3,600
Beer property bond	66,333	132,666
Capital lease payable	<u>19,301</u>	<u>26,151</u>
Total long-term obligations	<u>\$ 85,634</u>	<u>\$ 162,417</u>

	Business-type activities	
	<u>2007</u>	<u>2006</u>
OPWC water treatment loan 2000	\$ 22,051	\$ 23,889
Sewer improvement note	-	14,635
Lease-purchase agreement	<u>60,407</u>	<u>118,597</u>
Total long-term obligations	<u>\$ 82,458</u>	<u>\$ 157,121</u>

In addition to the above, the City also has a water system improvement note which had a balance at December 31, 2007 and 2006 of \$700,000 and \$750,000, 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.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact 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, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and investments	\$ 8,551,231	\$ 2,196,593	\$ 10,747,824
Cash in segregated accounts	17,707	-	17,707
Receivables (net of allowances for uncollectibles):			
Income taxes	824,067	-	824,067
Real and other taxes	508,671	-	508,671
Accounts	38,703	541,184	579,887
Special assessments	16,276	-	16,276
Accrued interest	22,227	-	22,227
Intergovernmental	306,829	-	306,829
Prepayments	53,472	-	53,472
Materials and supplies inventory	113,699	113,401	227,100
Capital assets:			
Land	2,572,154	262,626	2,834,780
Construction in progress	-	81,175	81,175
Depreciable capital assets, net	15,276,381	12,318,692	27,595,073
Total capital assets, net	<u>17,848,535</u>	<u>12,662,493</u>	<u>30,511,028</u>
Total assets	<u>28,301,417</u>	<u>15,513,671</u>	<u>43,815,088</u>
Liabilities:			
Accounts payable	78,817	17,512	96,329
Contracts payable	14,265	-	14,265
Accrued wages and benefits	55,672	6,810	62,482
Intergovernmental payable	273,887	146,008	419,895
Accrued interest payable	-	4,492	4,492
Claims payable	3,037	-	3,037
Judgements payable	222,275	-	222,275
Note payable	-	700,000	700,000
Unearned revenue	468,163	-	468,163
Long-term liabilities:			
Due within one year	123,249	70,559	193,808
Due in more than one year	192,293	65,232	257,525
Total liabilities	<u>1,431,658</u>	<u>1,010,613</u>	<u>2,442,271</u>
Net assets:			
Invested in capital assets, net of related debt	17,762,901	11,880,035	29,642,936
Restricted for:			
Capital projects	3,570,447	-	3,570,447
Debt service	200,400	-	200,400
Transportation improvement projects	3,291,542	-	3,291,542
Court computerization	34,924	-	34,924
Cemetery	15,009	-	15,009
Other purposes	127,370	-	127,370
Unrestricted	1,867,166	2,623,023	4,490,189
Total net assets	<u>\$ 26,869,759</u>	<u>\$ 14,503,058</u>	<u>\$ 41,372,817</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<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	\$ 1,970,290	\$ 370,984	\$ -	\$ -
Security of persons and property	2,136,820	230,334	5,182	-
Public health and welfare	4,246	7,866	991	-
Transportation	2,550,865	2,134	511,714	221,807
Community environment	33,699	-	-	-
Leisure time activity	454,307	10,224	2,864	-
Interest and fiscal charges	1,829	7,474	-	-
Total governmental activities	<u>7,152,056</u>	<u>629,016</u>	<u>520,751</u>	<u>221,807</u>
Business-type activities:				
Water	806,454	829,550	-	-
Sewer	1,094,219	1,093,422	-	-
Total business-type activities	<u>1,900,673</u>	<u>1,922,972</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 9,052,729</u>	<u>\$ 2,551,988</u>	<u>\$ 520,751</u>	<u>\$ 221,807</u>

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

Increase in fair market value of investments.

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
\$ (1,599,306)	\$ -	\$ (1,599,306)
(1,901,304)	-	(1,901,304)
4,611	-	4,611
(1,815,210)	-	(1,815,210)
(33,699)	-	(33,699)
(441,219)	-	(441,219)
5,645	-	5,645
<u>(5,780,482)</u>	<u>-</u>	<u>(5,780,482)</u>
-	23,096	23,096
-	(797)	(797)
-	22,299	22,299
<u>(5,780,482)</u>	<u>22,299</u>	<u>(5,758,183)</u>
522,273	-	522,273
83,076	-	83,076
2,130,958	-	2,130,958
1,320,296	-	1,320,296
377,227	-	377,227
245,802	-	245,802
434,116	5,944	440,060
57,249	-	57,249
38,585	1,078	39,663
5,209,582	7,022	5,216,604
<u>(95,462)</u>	<u>95,462</u>	<u>-</u>
(666,362)	124,783	(541,579)
<u>27,536,121</u>	<u>14,378,275</u>	<u>41,914,396</u>
<u>\$ 26,869,759</u>	<u>\$ 14,503,058</u>	<u>\$ 41,372,817</u>

CITY OF ONTARIO, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	<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	\$ 1,782,701	\$ 1,519,755	\$ 3,400,994	\$ 1,847,781	\$ 8,551,231
Cash in segregated accounts	-	-	-	17,707	17,707
Receivables (net of allowance for uncollectibles):					
Income taxes	453,237	288,423	82,407	-	824,067
Real and other taxes	438,444	-	-	70,227	508,671
Accounts	37,415	-	-	1,288	38,703
Accrued interest	22,227	-	-	-	22,227
Special assessments	-	-	-	16,276	16,276
Due from other funds	109	-	-	-	109
Intergovernmental	129,766	-	6,628	170,435	306,829
Prepayments	53,472	-	-	-	53,472
Materials and supplies inventory	26,458	35,069	-	52,172	113,699
Total assets	<u>\$ 2,943,829</u>	<u>\$ 1,843,247</u>	<u>\$ 3,490,029</u>	<u>\$ 2,175,886</u>	<u>\$ 10,452,991</u>
Liabilities:					
Accounts payable	\$ 20,419	\$ 16,828	\$ -	\$ 41,570	\$ 78,817
Contracts payable	-	-	14,265	-	14,265
Accrued wages and benefits	47,562	7,855	-	255	55,672
Due to other funds	-	-	-	109	109
Intergovernmental payable	206,438	8,515	53,017	5,917	273,887
Claims payable	3,037	-	-	-	3,037
Judgements payable	222,275	-	-	-	222,275
Deferred revenue	237,784	74,431	21,266	155,102	488,583
Unearned revenue	403,529	-	-	64,634	468,163
Total liabilities	<u>1,141,044</u>	<u>107,629</u>	<u>88,548</u>	<u>267,587</u>	<u>1,604,808</u>
Fund balances:					
Reserved for encumbrances	184,657	101,189	1,299,862	75,150	1,660,858
Reserved for prepayments	53,472	-	-	-	53,472
Reserved for materials and supplies inventory	26,458	35,069	-	52,172	113,699
Reserved for debt service	-	-	-	200,400	200,400
Unreserved, undesignated, reported in:					
General fund	1,538,198	-	-	-	1,538,198
Special revenue funds	-	1,599,360	-	1,432,877	3,032,237
Capital projects funds	-	-	2,101,619	147,700	2,249,319
Total fund balances	<u>1,802,785</u>	<u>1,735,618</u>	<u>3,401,481</u>	<u>1,908,299</u>	<u>8,848,183</u>
Total liabilities and fund balances	<u>\$ 2,943,829</u>	<u>\$ 1,843,247</u>	<u>\$ 3,490,029</u>	<u>\$ 2,175,886</u>	<u>\$ 10,452,991</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, 2007**

Total governmental fund balances \$ 8,848,183

*Amounts reported for governmental activities on the
statement of net assets are different because:*

Capital assets used in governmental activities
are not financial resources and therefore are not
reported in the funds. 17,848,535

Other long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds.

Real and other taxes receivable	\$ 26,058	
Income taxes receivable	212,661	
Special assessments receivable	16,276	
Intergovernmental receivable	<u>233,588</u>	
Total		488,583

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 payable	(229,908)	
Capital lease payable	(19,301)	
Bonds payable	<u>(66,333)</u>	
Total		<u>(315,542)</u>

Net assets of governmental activities \$ 26,869,759

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, 2007

	<u>General</u>	<u>25% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$2,196,190	\$ 1,361,808	\$ 389,088	\$ -	\$ 3,947,086
Real and other taxes	526,237	-	-	83,698	609,935
Charges for services	-	-	-	21,492	21,492
Licenses, permits and fees	267,718	-	-	316,260	583,978
Intergovernmental	243,392	-	121,462	473,841	838,695
Special assessments	-	-	-	8,598	8,598
Investment income	434,116	26,642	63,405	10,793	534,956
Rental income	8,440	-	-	-	8,440
Other	38,585	-	-	44,572	83,157
Increase in fair market value of investments.	57,249	-	-	-	57,249
Total revenues	<u>3,771,927</u>	<u>1,388,450</u>	<u>573,955</u>	<u>959,254</u>	<u>6,693,586</u>
Expenditures:					
Current:					
General government.	1,593,779	-	-	301,737	1,895,516
Security of persons and property	1,911,802	-	-	254,570	2,166,372
Public health and welfare	-	-	-	4,246	4,246
Transportation.	5,281	1,888,887	-	236,638	2,130,806
Community environment	33,699	-	-	-	33,699
Leisure time activity	302,361	-	-	10,567	312,928
Capital outlay.	-	-	462,919	1,463	464,382
Debt service:					
Principal retirement	5,882	-	66,333	4,568	76,783
Interest and fiscal charges	1,666	-	-	178	1,844
Total expenditures	<u>3,854,470</u>	<u>1,888,887</u>	<u>529,252</u>	<u>813,967</u>	<u>7,086,576</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(82,543)</u>	<u>(500,437)</u>	<u>44,703</u>	<u>145,287</u>	<u>(392,990)</u>
Other financing sources (uses):					
Transfers in	-	-	-	166,017	166,017
Transfers out	(166,017)	-	(95,462)	-	(261,479)
Total other financing sources (uses)	<u>(166,017)</u>	<u>-</u>	<u>(95,462)</u>	<u>166,017</u>	<u>(95,462)</u>
Net change in fund balances	(248,560)	(500,437)	(50,759)	311,304	(488,452)
Fund balances at beginning 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>
Fund balances at end of year.	<u>\$1,802,785</u>	<u>\$ 1,735,618</u>	<u>\$ 3,401,481</u>	<u>\$ 1,908,299</u>	<u>\$ 8,848,183</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, 2007

Net change in fund balances - total governmental funds \$ (488,452)

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 is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period.

Capital asset additions	\$ 994,257	
Current year depreciation	<u>(1,122,998)</u>	
Total		(128,741)

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. (9,451)

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

Real and other taxes	(4,586)	
Income taxes	(118,605)	
Special assessments	(1,124)	
Intergovernmental revenues	<u>11,885</u>	
Total		(112,430)

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. 76,783

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. (4,086)

Change in net assets of governmental activities \$ (666,362)

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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 2,488,451	\$ 2,488,451	\$ 2,100,490	\$ (387,961)
Real and other taxes	627,481	627,481	529,654	(97,827)
Licenses, permits and fees	298,447	298,447	251,918	(46,529)
Intergovernmental	262,512	262,512	221,585	(40,927)
Investment income	517,624	517,624	436,924	(80,700)
Rental income	9,999	9,999	8,440	(1,559)
Other	40,775	40,775	34,418	(6,357)
Total revenues	4,245,289	4,245,289	3,583,429	(661,860)
Expenditures:				
Current:				
General government	1,779,771	1,870,525	1,624,262	246,263
Security of persons and property	2,046,725	2,065,162	1,947,238	117,924
Transportation	30,000	30,000	30,000	-
Community environment	42,538	43,506	34,270	9,236
Leisure time activity	227,367	240,505	174,135	66,370
Total expenditures	4,126,401	4,249,698	3,809,905	439,793
Excess (deficiency) of revenues over (under) expenditures	118,888	(4,409)	(226,476)	(222,067)
Other financing uses:				
Transfers out	(173,355)	(173,355)	(166,017)	7,338
Total other financing uses	(173,355)	(173,355)	(166,017)	7,338
Net change in fund balance	(54,467)	(177,764)	(392,493)	(214,729)
Fund balance at beginning of year	1,829,566	1,829,566	1,829,566	-
Prior year encumbrances appropriated	95,856	95,856	95,856	-
Fund balance at end of year.	\$ 1,870,955	\$ 1,747,658	\$ 1,532,929	\$ (214,729)

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, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 1,469,897	\$ 1,469,897	\$ 1,300,908	\$ (168,989)
Investment income	30,103	30,103	26,642	(3,461)
Total revenues	<u>1,500,000</u>	<u>1,500,000</u>	<u>1,327,550</u>	<u>(172,450)</u>
Expenditures:				
Current:				
Transportation	<u>2,364,925</u>	<u>2,004,775</u>	<u>1,867,704</u>	<u>137,071</u>
Total expenditures	<u>2,364,925</u>	<u>2,004,775</u>	<u>1,867,704</u>	<u>137,071</u>
Net change in fund balance.	(864,925)	(504,775)	(540,154)	(35,379)
Fund balance at beginning of year	1,687,868	1,687,868	1,687,868	-
Prior year encumbrances appropriated	<u>258,680</u>	<u>258,680</u>	<u>258,680</u>	<u>-</u>
Fund balance at end of year.	<u>\$ 1,081,623</u>	<u>\$ 1,441,773</u>	<u>\$ 1,406,394</u>	<u>\$ (35,379)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and investments	\$ 1,307,551	\$ 889,042	\$ 2,196,593
Receivables (net of allowance for uncollectibles):			
Accounts	230,983	310,201	541,184
Materials and supplies inventory	85,839	27,562	113,401
Total current assets	<u>1,624,373</u>	<u>1,226,805</u>	<u>2,851,178</u>
Noncurrent assets:			
Capital assets:			
Land	262,626	-	262,626
Construction in progress	-	81,175	81,175
Depreciable capital assets, net	5,770,647	6,548,045	12,318,692
Total capital assets, net	<u>6,033,273</u>	<u>6,629,220</u>	<u>12,662,493</u>
Total assets	<u>7,657,646</u>	<u>7,856,025</u>	<u>15,513,671</u>
Liabilities:			
Current liabilities:			
Accounts payable	15,083	2,429	17,512
Accrued wages and benefits	3,889	2,921	6,810
Compensated absences	6,203	2,111	8,314
Intergovernmental payable	5,075	140,933	146,008
OPWC loan payable	1,838	-	1,838
Notes payable	700,000	-	700,000
Accrued interest payable	4,492	-	4,492
Lease-purchase agreement payable	30,203	30,204	60,407
Total current liabilities	<u>766,783</u>	<u>178,598</u>	<u>945,381</u>
Long-term liabilities:			
OPWC loan payable	20,214	-	20,214
Compensated absences	31,566	13,452	45,018
Total long-term liabilities	<u>51,780</u>	<u>13,452</u>	<u>65,232</u>
Total liabilities	<u>818,563</u>	<u>192,050</u>	<u>1,010,613</u>
Net assets:			
Invested in capital assets, net of related debt	5,281,019	6,599,016	11,880,035
Unrestricted	1,558,064	1,064,959	2,623,023
Total net assets	<u>\$ 6,839,083</u>	<u>\$ 7,663,975</u>	<u>\$ 14,503,058</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, 2007

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 829,550	\$ 1,093,422	\$ 1,922,972
Other	894	184	1,078
Total operating revenues	830,444	1,093,606	1,924,050
Operating expenses:			
Personal services	245,850	169,330	415,180
Contract services	128,063	699,381	827,444
Materials and supplies	87,185	4,658	91,843
Depreciation	310,408	216,591	526,999
Other	3,054	2,000	5,054
Total operating expenses.	774,560	1,091,960	1,866,520
Operating income	55,884	1,646	57,530
Nonoperating revenues (expenses):			
Interest revenue.	3,963	1,981	5,944
Interest expense and fiscal charges	(31,894)	(2,259)	(34,153)
Total nonoperating revenues (expenses)	(27,931)	(278)	(28,209)
Income before transfers	27,953	1,368	29,321
Transfers in.	79,832	15,630	95,462
Changes in net assets	107,785	16,998	124,783
Net assets at beginning of year	6,731,298	7,646,977	14,378,275
Net assets at end of year.	\$ 6,839,083	\$ 7,663,975	\$ 14,503,058

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 813,668	\$ 1,080,588	\$ 1,894,256
Cash received from other operations	894	184	1,078
Cash payments for personal services	(245,871)	(164,634)	(410,505)
Cash payments for contract services	(135,021)	(716,738)	(851,759)
Cash payments for materials and supplies	(107,008)	(6,729)	(113,737)
Cash payments for other expenses	(3,054)	(2,000)	(5,054)
Net cash provided by operating activities	<u>323,608</u>	<u>190,671</u>	<u>514,279</u>
Cash flows from noncapital financing activities:			
Cash received from transfers in	<u>79,832</u>	<u>15,630</u>	<u>95,462</u>
Net cash provided by noncapital financing activities	<u>79,832</u>	<u>15,630</u>	<u>95,462</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(8,467)	(221,510)	(229,977)
Principal retirement on OPWC loan	(1,837)	-	(1,837)
Principal retirement on lease-purchase agreement	(29,095)	(29,095)	(58,190)
Principal retirement on notes	(750,000)	(14,635)	(764,635)
Proceeds of notes	700,000	-	700,000
Interest and fiscal charges	(32,090)	(3,254)	(35,344)
Net cash used in capital and related financing activities	<u>(121,489)</u>	<u>(268,494)</u>	<u>(389,983)</u>
Cash flows from investing activities:			
Interest received	<u>3,963</u>	<u>1,981</u>	<u>5,944</u>
Net cash provided by investing activities	<u>3,963</u>	<u>1,981</u>	<u>5,944</u>
Net increase (decrease) in cash and cash equivalents	285,914	(60,212)	225,702
Cash and cash equivalents at beginning of year	<u>1,021,637</u>	<u>949,254</u>	<u>1,970,891</u>
Cash and cash equivalents at end of year	<u>\$ 1,307,551</u>	<u>\$ 889,042</u>	<u>\$ 2,196,593</u>

- - continued

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 55,884	\$ 1,646	\$ 57,530
Adjustments:			
Depreciation	310,408	216,591	526,999
Changes in assets and liabilities:			
(Increase) in materials and supplies inventory	(15,655)	(2,247)	(17,902)
(Increase) in accounts receivable.	(15,882)	(12,834)	(28,716)
(Decrease) in accounts payable	(11,790)	(155,608)	(167,398)
Increase in accrued wages and benefits.	737	1,003	1,740
Increase/(Decrease) in due to other governments.	(1,599)	136,871	135,272
Increase in compensated absences payable	1,505	5,249	6,754
Net cash provided by operating activities	<u>\$ 323,608</u>	<u>\$ 190,671</u>	<u>\$ 514,279</u>

Non-cash transactions:

At December 31, 2007, the water fund purchased \$4,356 in capital assets on account.

At December 31, 2007, the sewer fund purchased \$1,180 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, 2007

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	\$ <u>45,495</u>
Liabilities:	
Deposits held and due to others	\$ <u>45,495</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, 2007

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

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

B. Basis of Presentation - Fund Accounting

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

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.

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 is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. 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 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, 2007

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:

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

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

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

D. Measurement Focus and Basis of Accounting

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

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund 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, 2007

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, 2007, but which were levied to finance fiscal year 2008 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, 2007 are recorded as deferred revenue on the governmental fund financial statements.

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, 2007

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 five 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 2007, investments were limited to certificates of deposit, overnight repurchase agreement, 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 2007 amounted to \$434,116, which includes \$349,312 assigned from other funds of the City.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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, 2007, 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, 2007**

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, 2007 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, 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.

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “due to/from other funds”. Interfund transactions between governmental funds are eliminated on the statement of net assets.

N. Interfund Activity

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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

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, materials and supplies inventory and debt service 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. 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.

R. 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 primarily consist of 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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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

S. 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 2007.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Deficit Fund Balance and Deficit Cash Balance

Fund balances and cash balances at December 31, 2007, included the following individual fund deficit:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Law enforcement trust	\$ 109

The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur.

B. Change in Accounting Principles

For 2007, the City has implemented GASB Statement No. 48 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". GASB Statement No. 48 established criteria to ascertain whether certain transactions should be regarded as sales or as collateralized borrowings, as well as disclosure requirements for future revenues that are pledged and sold. The implementation of GASB Statement No. 48 did not have an effect on the financial statements of the City.

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the City Auditor 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, 2007 was \$17,707. These depository accounts are included in "deposits with financial institutions" below.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At December 31, 2007, the carrying amount of all City deposits was \$4,005,425. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2007, \$3,427,752 of the City's bank balance of \$4,071,292 was exposed to custodial risk as discussed below, while \$643,540 was covered by the FDIC.

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

C. Investments

As of December 31, 2007, 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>
FHLB	\$ 2,733,715	\$ 799,594	\$ 1,231,856	\$ -	\$ 702,265
FHLMC	1,698,526	499,423	499,241	699,862	-
FNMA	1,004,375	-	502,969	501,406	-
U.S. Government money market mutual fund	1,208,985	1,208,985	-	-	-
Repurchase agreement	160,000	160,000	-	-	-
	<u>\$ 6,805,601</u>	<u>\$ 2,668,002</u>	<u>\$ 2,234,066</u>	<u>\$ 1,201,268</u>	<u>\$ 702,265</u>

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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 \$160,000 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 City Auditor or qualified trustee.

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, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLB	\$ 2,733,715	40.17%
FHLMC	1,698,526	24.96%
FNMA	1,004,375	14.76%
U.S. Government money market mutual funds	1,208,985	17.76%
Repurchase agreement	160,000	2.35%
	<u>\$ 6,805,601</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 note above to cash and investments as reported on the statement of net assets as of December 31, 2007:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,005,425
Investments	6,805,601
Total	<u>\$ 10,811,026</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 8,568,938
Business-type activities	2,196,593
Agency funds	45,495
Total	<u>\$ 10,811,026</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 5 - INTERFUND TRANSFERS

- A.** Interfund transfers for the year ended December 31, 2007, consisted of the following, as reported on the fund financial statements:

Transfers from General Fund to:

Parks	\$ 25,000
Community Drug and Alcohol	41,017
Police Pension	<u>100,000</u>
Total	<u>\$ 166,017</u>

Transfers from Capital Improvement Fund to:

Water	\$ 79,832
Sewer	<u>15,630</u>
Total	<u>\$ 95,462</u>

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

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 were required to transfer debt service payments to the funds which report the liabilities.

Transfers between governmental activities and business-type activities are reported on the statement of activities.

- B.** Due to/from other funds consisted of the following at December 31, 2007, as reported on the fund financial statements:

Receivable Fund

General	\$ <u>109</u>
Total	<u>\$ 109</u>

Payable Fund

Law Enforcement Trust	\$ <u>109</u>
Total	<u>\$ 109</u>

The purpose of the due to/from other funds is to cover negative cash balances at December 31, 2007. Due to/from other funds between governmental funds are eliminated on the statement of net assets.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2002. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2007 public utility property taxes became a lien December 31, 2006, are levied after October 1, 2007, and are collected in 2008 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2007 (other than public utility property) represent the collection of 2007 taxes. Tangible personal property taxes received in 2007 were levied after October 1, 2006, on the true value as of December 31, 2006. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 12.5% for 2007. This percentage will be reduced to 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 2007-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The County Treasurer collects property taxes on behalf of all taxing districts in the City. The County Auditor periodically remits to the City its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively. The full tax rate for all City operations for the year ended December 31, 2007 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2007 property tax receipts were based are as follows:

Real property tax	\$ 203,184,160
Public utility property	3,672,520
Tangible personal property	<u>29,373,620</u>
Total assessed valuation	<u>\$ 236,230,300</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 6 - PROPERTY TAXES - (Continued)

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2007. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2007 operations. Accordingly, the receivable is offset by a credit to "Unearned Revenue."

NOTE 7 - LOCAL INCOME TAX

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

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvement fund, and the 25% street construction fund. On the modified accrual basis of accounting, total income tax revenue was \$3,947,086 in 2007.

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 may 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 a self-insured plan.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 9 - RECEIVABLES

Receivables at December 31, 2007, consisted of taxes, accrued interest, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements and shared revenue. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Income taxes	\$ 824,067
Real and other taxes	508,671
Accounts	38,703
Special assessments	16,276
Intergovernmental	306,829
Accrued interest	22,227

Business-type activities:

Accounts	541,184
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Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

<u>Governmental activities:</u>	Balance 12/31/2006	Additions	Disposals	Balance 12/31/2007
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,572,154	\$ -	\$ -	\$ 2,572,154
Construction in progress	<u>151,011</u>	<u>-</u>	<u>(151,011)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,723,165</u>	<u>-</u>	<u>(151,011)</u>	<u>2,572,154</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	2,593,766	-	-	2,593,766
Buildings and improvements	3,108,232	-	-	3,108,232
Furniture and equipment	2,524,044	115,143	(15,291)	2,623,896
Vehicles	1,274,394	114,114	(104,044)	1,284,464
Infrastructure	<u>14,523,384</u>	<u>916,011</u>	<u>-</u>	<u>15,439,395</u>
Total capital assets, being depreciated	<u>24,023,820</u>	<u>1,145,268</u>	<u>(119,335)</u>	<u>25,049,753</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(935,346)	(132,648)	-	(1,067,994)
Buildings and improvements	(1,335,289)	(82,386)	-	(1,417,675)
Furniture and equipment	(1,445,730)	(204,170)	14,943	(1,634,957)
Vehicles	(761,487)	(97,525)	94,941	(764,071)
Infrastructure	<u>(4,282,406)</u>	<u>(606,269)</u>	<u>-</u>	<u>(4,888,675)</u>
Total accumulated depreciation	<u>(8,760,258)</u>	<u>(1,122,998)</u>	<u>109,884</u>	<u>(9,773,372)</u>
Total capital assets, being depreciated, net	<u>15,263,562</u>	<u>22,270</u>	<u>(9,451)</u>	<u>15,276,381</u>
Governmental activities capital assets, net	<u>\$ 17,986,727</u>	<u>\$ 22,270</u>	<u>\$ (160,462)</u>	<u>\$ 17,848,535</u>

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

<u>Governmental activities:</u>	
General government	\$ 71,056
Security of persons and property	106,424
Transportation	805,701
Leisure time activity	<u>139,817</u>
Total depreciation expense - governmental activities	<u>\$ 1,122,998</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	Balance 12/31/2006	Additions	Disposals	Balance 12/31/2007
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Construction in progress	<u>291,840</u>	<u>201,407</u>	<u>(412,072)</u>	<u>81,175</u>
Total capital assets, not being depreciated	<u>554,466</u>	<u>201,407</u>	<u>(412,072)</u>	<u>343,801</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	2,562,013	34,106	-	2,596,119
Infrastructure:				
Sewer lines	7,634,031	412,072	-	8,046,103
Water lines	<u>5,603,343</u>	<u>-</u>	<u>-</u>	<u>5,603,343</u>
Total capital assets, being depreciated	<u>17,794,419</u>	<u>446,178</u>	<u>-</u>	<u>18,240,597</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(29,985)	(3,285)	-	(33,270)
Buildings and improvements	(773,903)	(50,613)	-	(824,516)
Furniture and equipment	(1,379,181)	(174,950)	-	(1,554,131)
Infrastructure:				
Sewer lines	(1,755,772)	(165,605)	-	(1,921,377)
Water lines	<u>(1,456,065)</u>	<u>(132,546)</u>	<u>-</u>	<u>(1,588,611)</u>
Total accumulated depreciation	<u>(5,394,906)</u>	<u>(526,999)</u>	<u>-</u>	<u>(5,921,905)</u>
Total capital assets, being depreciated, net	<u>12,399,513</u>	<u>(80,821)</u>	<u>-</u>	<u>12,318,692</u>
Business-type activities capital assets, net	<u>\$ 12,953,979</u>	<u>\$ 120,586</u>	<u>\$ (412,072)</u>	<u>\$ 12,662,493</u>

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

Business-type activities:

Water	\$ 310,408
Sewer	<u>216,591</u>
Total depreciation expense - business-type activities	<u>\$ 526,999</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE 11 - 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 principal payments on the lease-purchase agreement during 2007 of \$29,095 from both the water and sewer funds. The lease payments 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, 2007.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2008	\$ <u>62,708</u>
Total future minimum lease payments	62,708
Less: amount representing interest	<u>(2,301)</u>
Present value of future minimum lease payments	<u>\$ 60,407</u>

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

In 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 have 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, 2007 was \$18,151, leaving a current book value of \$18,250. A corresponding liability was recorded in the government-wide financial statements. Principal payments on the leases, totaling \$5,882 and \$968, were paid out of the general fund and the Mayor's Court Computer fund, respectively.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

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, 2007.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2008	\$ 8,695
2009	6,783
2010	4,106
2011	<u>2,053</u>
Total future minimum lease payments	21,637
Less: amount representing interest	<u>(2,336)</u>
Present value of future minimum lease payments	<u>\$ 19,301</u>

NOTE 13 - LONG-TERM OBLIGATIONS

A. The City's long term obligations at December 31, 2007 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:			
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
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, 2007

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

During 2007, the following activity occurred in governmental activities long-term obligations:

	Balance			Balance		Due within
<u>Governmental Activities:</u>	12/31/2006	Additions	Retirements	12/31/2007	One Year	
Lewis road bonds - 1997	\$ 3,600	\$ -	\$ (3,600)	\$ -	\$ -	
Beer property bonds - 2004	132,666	-	(66,333)	66,333	66,333	
Capital lease payable	26,151	-	(6,850)	19,301	7,418	
Compensated absences	<u>225,822</u>	<u>73,630</u>	<u>(69,544)</u>	<u>229,908</u>	<u>49,498</u>	
Total governmental activities	<u>\$ 388,239</u>	<u>\$ 73,630</u>	<u>\$ (146,327)</u>	<u>\$ 315,542</u>	<u>\$ 123,249</u>	
<u>Business-Type Activities:</u>						
OPWC water treatment loan - 2000	\$ 23,889	\$ -	\$ (1,837)	\$ 22,052	\$ 1,838	
Sewer improvement note	14,635	-	(14,635)	-	-	
Lease-purchase agreement	118,597	-	(58,190)	60,407	60,407	
Compensated absences	<u>46,578</u>	<u>15,748</u>	<u>(8,994)</u>	<u>53,332</u>	<u>8,314</u>	
Total business-type activities	<u>\$ 203,699</u>	<u>\$ 15,748</u>	<u>\$ (83,656)</u>	<u>\$ 135,791</u>	<u>\$ 70,559</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).

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, primarily the General fund, 25% Street Construction fund and other governmental funds.

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 11.

During 2007, the City entered into a \$500,000 loan agreement with OPWC at zero percent interest for the Rock Road Lift Station I/I Program. Loan proceeds were not received until 2008; payments on the loan will begin in 2009.

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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2007 are as follows:

Year Ending <u>December 31</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
	Beer	OPWC Water
	Property Bonds	Treatment Loan
	<u>Principal</u>	<u>Principal</u>
2008	\$ 66,333	\$ 1,838
2009	-	1,837
2010	-	1,837
2011	-	1,837
2012	-	1,837
2013 - 2017	-	9,185
2018 - 2019	-	3,681
Total	<u>\$ 66,333</u>	<u>\$ 22,052</u>

B. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2007, the City's overall legal debt margin was \$21,889,109 and the unvoted debt margin was \$11,396,057.

NOTE 14 - NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2007, follows:

Business-type activities		<u>Outstanding</u> <u>12/31/06</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>12/31/07</u>
2006 water system improvement note	3.75%	\$ 750,000	\$ -	\$ (750,000)	\$ -
2007 water system improvement note	3.85%	-	700,000	-	700,000
Total		<u>\$ 750,000</u>	<u>\$ 700,000</u>	<u>\$ (750,000)</u>	<u>\$ 700,000</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 14 - NOTES PAYABLE - (Continued)

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 2007, 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	16,910,286
Special Property Coverage	1,000	1,252,409
Electronic Equipment/Media Coverage	1,000	219,638
Public Employee Dishonesty	0	25,000
Boiler and Machinery	1,000	16,910,286

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

B. Workers' Compensation

The City participates in the Ohio 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. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost controls, and actuarial services to the GRP.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 15 - RISK MANAGEMENT - (Continued)

C. Dental and Vision Self-Insurance

The City operates a self-insurance plan for dental and vision benefits. The activity of the plan is recorded in the City's general fund. Monies are transferred on a monthly basis to the general fund from the other participating funds. The claims liability of \$3,037 reported on the financial statements at December 31, 2007 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>
2007	\$ 2,433	\$ 35,149	\$ (34,545)	\$ 3,037
2006	3,673	34,193	(35,433)	2,433

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 Pension 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 16 - PENSION PLANS - (Continued)

For the year ended December 31, 2007, the members of all three plans, except those in law enforcement under the Traditional Pension Plan, were required to contribute 9.5% of their annual covered salaries. Members participating in the Traditional Pension Plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2007 was 8.85% for the period January 1, 2007 through June 30, 2007 and 7.85% for the period July 1, 2007 through December 31, 2007, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.17% of covered payroll for the period January 1, 2007 through June 30, 2007 and 11.17% of covered payroll for the period July 1, 2007 through December 31, 2007. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions to the Traditional Pension and Combined Plans for the years ended December 31, 2007, 2006, and 2005 were \$221,871, \$213,098, and \$213,786, respectively; 85.37% has been contributed for 2007 and 100% has been contributed for 2006 and 2005. The unpaid contribution for 2007 in the amount of \$32,460 is recorded as a liability.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 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 19.5% for police officers. The portion of the City's contributions to fund pension obligations was 12.75% for police officers. The City's required contributions to OP&F for police officers for the years ended December 31, 2007, 2006, and 2005 were \$196,361, \$176,023, and \$170,684, respectively; 49.67% has been contributed for 2007 and 100% has been contributed for 2006 and 2005. The unpaid contribution for 2007 in the amount of \$98,828 is recorded as a liability.

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-employment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the Traditional Pension 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 post-employment health care coverage. The health care coverage provided by OPERS is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the Traditional Pension or Combined Plans is set aside for the funding of post-employment health care based on authority granted by State statute. The 2007 local government employer contribution rate was 13.85% of covered payroll (17.17% for public safety and law enforcement); 5.00% of covered payroll was the portion that was used to fund health care for the period January 1, 2007 through June 30, 2007 and 6.00% of covered payroll was the portion that was used to fund health care for the period July 1, 2007 through December 31, 2007.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007

NOTE 17 - POST-EMPLOYMENT 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, 2006, 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 5.00% for the next eight years. In subsequent years, (nine 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 Pension and Combined Plans was 364,076 as of December 31, 2007. The City's actual employer contributions for 2007 which were used to fund post-employment benefits were \$88,108. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2007 were \$12.8 billion. At December 31, 2007, the actuarially accrued liability and the unfunded actuarial accrued liability were \$29.8 billion and \$17.0 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds 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 post-employment health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. 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 OP&F is considered an Other Post-employment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Post-employment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the OP&F'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 6.75% of covered payroll was applied to the post-employment health care program during 2007. 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, 2007**

NOTE 17 - POST-EMPLOYMENT BENEFIT PLANS - (Continued)

The City's actual contributions for 2007 that were used to fund post-employment benefits were \$67,971 for police officers. The OP&F's total health care expense for the year ended December 31, 2006 (the latest information available) 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 (the latest information available), was 14,120 for police officers 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 at 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.

Net Change in Fund Balance

	<u>General</u>	<u>25% Street Construction</u>
Budget basis	\$ (392,493)	\$ (540,154)
Net adjustment for revenue accruals	188,498	60,900
Net adjustment for expenditure accruals	(237,197)	(134,544)
Adjustment for encumbrances	<u>192,632</u>	<u>113,361</u>
GAAP basis	<u>\$ (248,560)</u>	<u>\$ (500,437)</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007**

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, 2007.

B. Litigation

At December 31, 2007, the City was party to legal proceedings seeking damages or injunctive relief from the City. A liability of \$222,275 in judgments payable has been reported on the basic financial statements.



Julian & Grube, Inc.

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

Members of Council and Mayor
City of Ontario
555 Stumbo Road
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, 2007 and have issued our report thereon dated June 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 the deficiencies described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as 2007-COO-001.

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.

Members of Council and Mayor
City of Ontario

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, and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above, 2007-COO-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ontario's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-COO-002.

We noted certain matters that we reported to the management of the City of Ontario in a separate letter dated June 8, 2009.

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 the 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 of 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.
June 8, 2009

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2007**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-COO-001

Significant Deficiency/Material Weakness

The City's bank accounts were not accurately reconciled at December 31, 2007 for the preceding year. Reconciliations were provided by early 2009 with all amounts identifiable.

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

All bank accounts should 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 reconcile its monthly bank statements in a timely manner. We recommend that the bank reconciliations be presented to the Council and approved on a monthly basis.

Client Response: The City has contracted with an outside firm to aid in reconciling their accounts.

Finding Number	2007-COO-002
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Ohio Administrative Code Section 117-2-03(B) requires GAAP basis filing entities to file their report within 150 days of year end.

The City did not file an accurate report until 2009.

Lack of timely filing of an accurate report inhibits the bi-annual audit process and limits the citizen's access to annual reports.

We recommend the City review the Ohio Administrative Code and implement policies and procedures to help ensure timely and accurate financial reporting.

Client Response: The City Auditor is aware of the requirements and is making an effort to be timely in the future.

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-COO-001	<u>Significant Deficiency/Material Weakness</u> - The City did not have accurately reconciled bank statements to the books in a timely manner.	No	Finding is repeated as 2007-COO-001
2006-COO-002	<u>Significant Deficiency/Material Weakness</u> - The City's audit report completion was delayed due to lack of an accurate monthly reconciliation and supporting documentation, unorganized records and change in fiscal department staff.	Yes	N/A
2006-COO-003	<u>Significant Deficiency/Material Weakness</u> - 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. The City presented financial statements that required additional testing and audit adjustments. Amounts were reported initially without substantial records of supporting documentation.	Yes	N/A



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
NOVEMBER 5, 2009