

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

*FOR THE YEAR ENDED
DECEMBER 31, 2008*

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, 2008 through December 31, 2008. 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, 2008

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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
Ontario, Ohio 44906

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ontario, Richland County, Ohio, as of and for the year ended December 31, 2008, 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'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, 2008 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and major special revenue fund: 35% 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 August 21, 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
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The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
August 21, 2009

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008. 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 2008 are as follows:

- The total net assets of the City increased \$744,029. Net assets of governmental activities decreased \$520,994 or 1.94% over 2007 and net assets of business-type activities increased \$1,265,023 or 8.72% over 2007.
- General revenues accounted for \$4,811,442 or 61.45% of total governmental activities revenue. Program specific revenues accounted for \$3,018,930 or 38.55% of total governmental activities revenue.
- The City had \$7,021,918 in expenses related to governmental activities; \$3,018,930 of these expenses were offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$4,002,988 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$4,811,442.
- The general fund had revenues and other financing sources of \$4,035,273 in 2008. This represents an increase of \$263,346 from 2007 revenues. The expenditures and other financing uses of the general fund, which totaled \$4,240,183 in 2008, increased \$219,696 from 2007. The net decrease in fund balance for the general fund was \$204,910 or 11.37%.
- The 35% street construction fund had revenues of \$869,551 in 2008. This represents a decrease of \$518,899 from 2007 revenues. The expenditures of the 35% street construction fund, which totaled \$1,307,845 in 2008, decreased \$581,042 from 2007. The net decrease in fund balance for the 35% street construction fund was \$438,294 or 25.25%.
- The capital improvement fund had revenues of \$457,544 in 2008. This represents a decrease of \$116,411 from 2007 revenues. The expenditures and other financing uses of the capital improvement fund, which totaled \$1,770,280 in 2008, increased \$1,145,566 from 2007. The net decrease in fund balance for the capital improvement fund was \$1,312,736 or 38.59%.
- Net assets for the business-type activities, which are made up of the water and sewer enterprise funds, increased in 2008 by \$1,265,023. This increase in net assets was due primarily to capital contributions and transfers received during 2008.

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, 2008

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 2008?" 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, 2008

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 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, 35% 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 - 57 of this report.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Government-Wide Financial Analysis

The table below provides a summary of the City's assets, liabilities and net assets for 2008 and 2007:

	Governmental Activities		Business - type Activities		Total	
	2008	2007	2008	2007	2008	2007
<u>Assets</u>						
Current and other assets	\$ 8,002,450	\$ 10,452,882	\$ 3,222,277	\$ 2,851,178	\$ 11,224,727	\$ 13,304,060
Capital assets, net	<u>19,593,772</u>	<u>17,848,535</u>	<u>13,278,999</u>	<u>12,662,493</u>	<u>32,872,771</u>	<u>30,511,028</u>
Total assets	<u>27,596,222</u>	<u>28,301,417</u>	<u>16,501,276</u>	<u>15,513,671</u>	<u>44,097,498</u>	<u>43,815,088</u>
<u>Liabilities</u>						
Long-term liabilities						
outstanding	344,899	315,542	572,810	135,791	917,709	451,333
Other liabilities	<u>902,558</u>	<u>1,116,116</u>	<u>160,385</u>	<u>874,822</u>	<u>1,062,943</u>	<u>1,990,938</u>
Total liabilities	<u>1,247,457</u>	<u>1,431,658</u>	<u>733,195</u>	<u>1,010,613</u>	<u>1,980,652</u>	<u>2,442,271</u>
<u>Net assets</u>						
Invested in capital						
assets, net of related debt	19,497,271	17,762,901	12,767,118	11,880,035	32,264,389	29,642,936
Restricted	5,182,202	7,239,692	-	-	5,182,202	7,239,692
Unrestricted	<u>1,669,292</u>	<u>1,867,166</u>	<u>3,000,963</u>	<u>2,623,023</u>	<u>4,670,255</u>	<u>4,490,189</u>
Total net assets	<u>\$ 26,348,765</u>	<u>\$ 26,869,759</u>	<u>\$ 15,768,081</u>	<u>\$ 14,503,058</u>	<u>\$ 42,116,846</u>	<u>\$ 41,372,817</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2008, the City's assets exceeded liabilities by \$42,116,846. At year-end, net assets were \$26,348,765 and \$15,768,081 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 74.55% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2008, were \$19,497,271 and \$12,767,118 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, 2008, 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, \$5,182,202, 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 \$1,669,292 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, 2008**

The table below shows the changes in net assets for 2008 and 2007.

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services and sales	\$ 631,993	\$ 629,016	\$ 1,808,600	\$ 1,922,972	\$ 2,440,593	\$ 2,551,988
Operating grants and contributions	632,178	520,751	-	-	632,178	520,751
Capital grants and contributions	<u>1,754,759</u>	<u>221,807</u>	<u>-</u>	<u>-</u>	<u>1,754,759</u>	<u>221,807</u>
Total program revenues	<u>3,018,930</u>	<u>1,371,574</u>	<u>1,808,600</u>	<u>1,922,972</u>	<u>4,827,530</u>	<u>3,294,546</u>
General revenues:						
Property taxes	512,154	605,349	-	-	512,154	605,349
Income taxes	3,599,417	3,828,481	-	-	3,599,417	3,828,481
Unrestricted grants	270,030	245,802	-	-	270,030	245,802
Interest	359,727	434,116	7,401	5,944	367,128	440,060
Increase (decrease) in fair market value of investments	(15,109)	57,249	-	-	(15,109)	57,249
Miscellaneous	<u>85,223</u>	<u>38,585</u>	<u>2,006</u>	<u>1,078</u>	<u>87,229</u>	<u>39,663</u>
Total general revenues	<u>4,811,442</u>	<u>5,209,582</u>	<u>9,407</u>	<u>7,022</u>	<u>4,820,849</u>	<u>5,216,604</u>
Total revenues	<u>7,830,372</u>	<u>6,581,156</u>	<u>1,818,007</u>	<u>1,929,994</u>	<u>9,648,379</u>	<u>8,511,150</u>
Expenses:						
General government	2,203,909	1,970,290	-	-	2,203,909	1,970,290
Security of persons and property	2,277,307	2,136,820	-	-	2,277,307	2,136,820
Public health and welfare	3,113	4,246	-	-	3,113	4,246
Transportation	2,075,079	2,550,865	-	-	2,075,079	2,550,865
Community environment	83,254	33,699	-	-	83,254	33,699
Leisure time activity	377,979	454,307	-	-	377,979	454,307
Interest and fiscal charges	1,277	1,829	-	-	1,277	1,829
Water	-	-	859,930	806,454	859,930	806,454
Sewer	-	-	<u>1,022,502</u>	<u>1,094,219</u>	<u>1,022,502</u>	<u>1,094,219</u>
Total expenses	<u>7,021,918</u>	<u>7,152,056</u>	<u>1,882,432</u>	<u>1,900,673</u>	<u>8,904,350</u>	<u>9,052,729</u>
Transfers	<u>(1,329,448)</u>	<u>(95,462)</u>	<u>1,329,448</u>	<u>95,462</u>	<u>-</u>	<u>-</u>
Change in net assets	(520,994)	(666,362)	1,265,023	124,783	744,029	(541,579)
Net assets at beginning 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>
Net assets at end of year	<u>\$ 26,348,765</u>	<u>\$ 26,869,759</u>	<u>\$ 15,768,081</u>	<u>\$ 14,503,058</u>	<u>\$ 42,116,846</u>	<u>\$ 41,372,817</u>

Governmental Activities

Governmental activities net assets decreased \$520,994 in 2008.

The most significant increase in revenues was in the area of program revenues related to governmental activities capital grants and contributions. Capital grants and contributions increased \$1,532,952 from 2007 as a result of \$1,635,000 in contributions from private developers which included paved roads, storm sewer lines and traffic signals accepted by the City Council in 2008.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2008

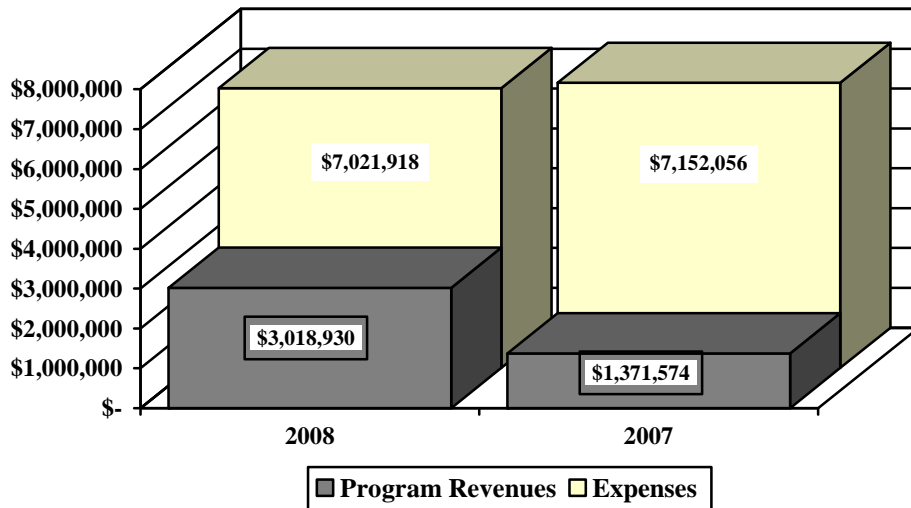
Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$2,277,307 of the total expenses of the City. These expenses were partially funded by \$192,236 in direct charges to users of the services and \$15,605 in operating grants and contributions. Transportation expenses totaled \$2,075,079. Transportation expenses were partially funded by \$87,718 in direct charges to users of the services, \$577,739 in operating grants and contributions and \$1,754,759 in capital grants and contributions.

The state and federal government contributed to the City \$632,178 in operating grants and contributions. These revenues are restricted to a particular program or purpose. \$577,739 of the operating grants and contributions subsidized transportation programs.

General revenues totaled \$4,811,442, and amounted to 61.45% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$4,111,571. 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 \$270,030.

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

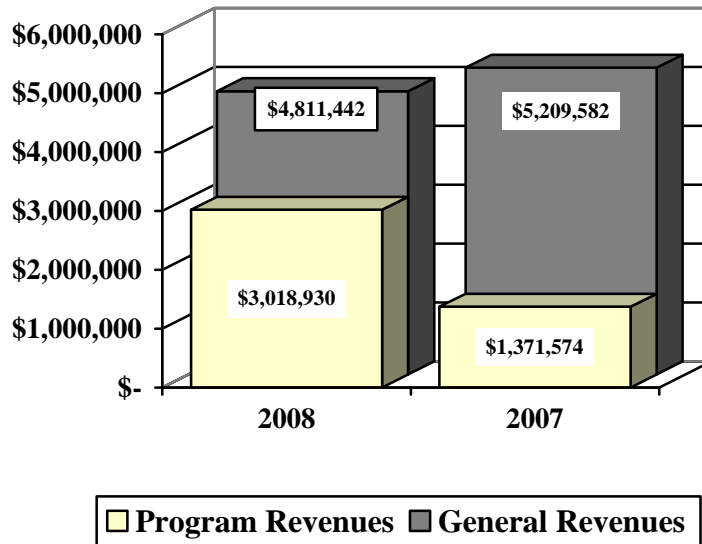
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Governmental Activities

	Total Cost of Services <u>2008</u>	Net Cost of Services <u>2008</u>	Total Cost of Services <u>2007</u>	Net Cost of Services <u>2007</u>
Program Expenses:				
General government	\$ 2,203,909	\$ 1,866,596	\$ 1,970,290	\$ 1,599,306
Security of persons and property	2,277,307	2,069,466	2,136,820	1,901,304
Public health and welfare	3,113	(1,403)	4,246	(4,611)
Transportation	2,075,079	(345,137)	2,550,865	1,815,210
Community environment	83,254	48,557	33,699	33,699
Leisure time activity	377,979	363,632	454,307	441,219
Interest and fiscal charges	<u>1,277</u>	<u>1,277</u>	<u>1,829</u>	<u>(5,645)</u>
Total Expenses	<u>\$ 7,021,918</u>	<u>\$ 4,002,988</u>	<u>\$ 7,152,056</u>	<u>\$ 5,780,482</u>

The dependence upon general revenues for governmental activities is apparent, with 57.01% of expenses supported through taxes and other general revenues. The chart below illustrates the City's general revenues and program revenues for 2008 and 2007.

Governmental Activities - General and Program Revenues



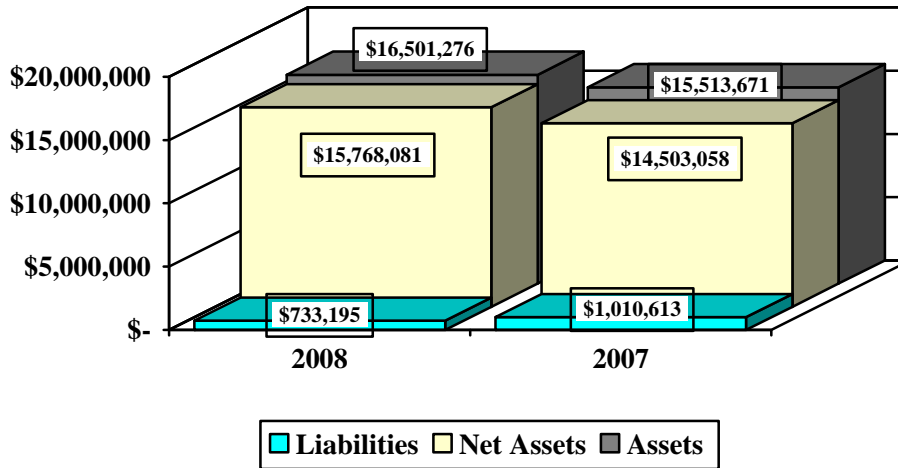
CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Business-type Activities

Business-type activities include the water and sewer enterprise funds. These programs had program revenues of \$1,808,600, general revenues of \$9,407, transfers in of \$1,329,448 and expenses of \$1,882,432 for 2008. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business - type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$6,715,444 which is \$2,132,739 below last year's total of \$8,848,183.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2008 for all major and nonmajor governmental funds.

	<u>Fund Balances</u> 12/31/08	<u>Fund Balances</u> 12/31/07	<u>(Decrease)</u>
Major funds:			
General	\$ 1,597,875	\$ 1,802,785	\$ (204,910)
35% Street Construction	1,297,324	1,735,618	(438,294)
Capital Improvement	2,088,745	3,401,481	(1,312,736)
Other nonmajor governmental funds	<u>1,731,500</u>	<u>1,908,299</u>	<u>(176,799)</u>
Total	<u>\$ 6,715,444</u>	<u>\$ 8,848,183</u>	<u>\$ (2,132,739)</u>

General Fund

The City's general fund balance decreased \$204,910. The table that follows assists in illustrating the revenues of the general fund.

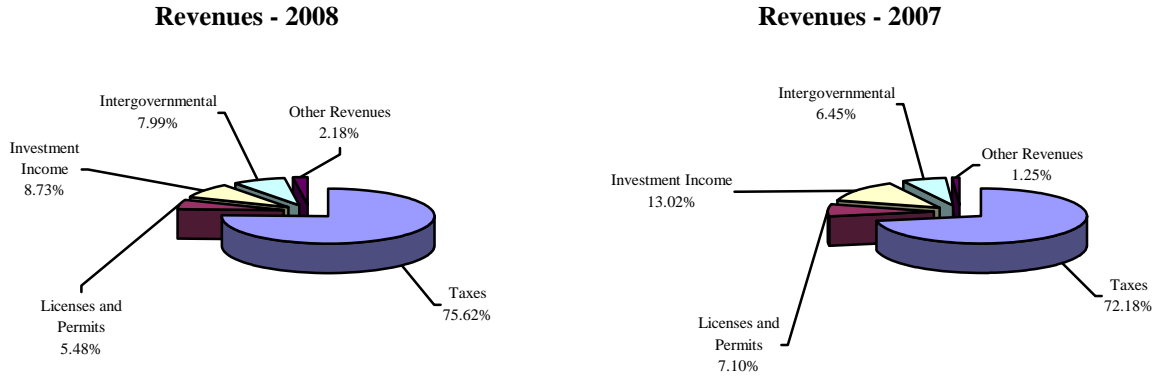
	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,979,672	\$ 2,722,427	9.45 %
Licenses, permits and fees	215,977	267,718	(19.33) %
Investment income	358,928	434,116	(17.32) %
Increase (decrease) in fair market value of investments	(15,109)	57,249	(126.39) %
Intergovernmental	314,937	243,392	29.39 %
Other	<u>86,032</u>	<u>47,025</u>	82.95 %
Total	<u>\$ 3,940,437</u>	<u>\$ 3,771,927</u>	4.47 %

Tax revenue represents 75.62% of all general fund revenue. Tax revenue increased 9.45% from the prior year. The decrease in the fair market value of investments was a result of decreasing market values of the federal agency securities. The City intends to hold the federal agency securities to maturity. All other revenue remained comparable to 2007.

CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

The following charts illustrate the general fund revenues for 2008 and 2007.



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

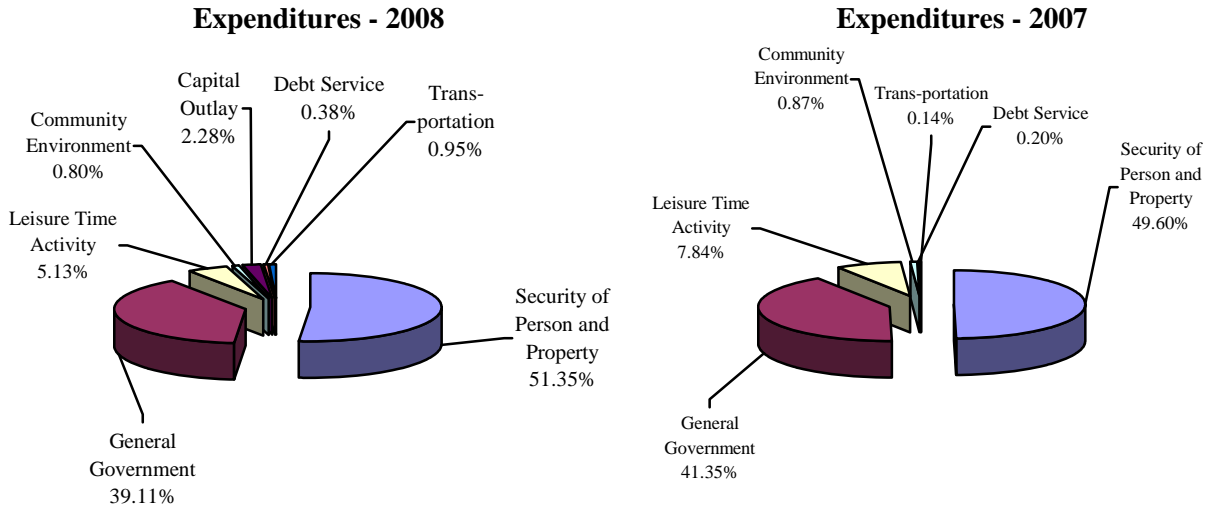
	<u>2008</u> <u>Amount</u>	<u>2007</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 1,561,247	\$ 1,593,779	(2.04) %
Security of persons and property	2,049,821	1,911,802	7.22 %
Transportation	38,123	5,281	621.89 %
Community environment	31,648	33,699	(6.09) %
Leisure time activity	204,927	302,361	(32.22) %
Capital outlay	91,170	-	100.00 %
Debt service	15,247	7,548	102.00 %
Total	<u>\$ 3,992,183</u>	<u>\$ 3,854,470</u>	3.57 %

The largest expenditure line items are security of persons and property and general government. These two expenditures account for 90.46% of total general fund expenditures. The increase in capital outlay and debt service expenditures was a result of a new lease purchase agreement entered into during 2008.

CITY OF ONTARIO, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2008

The following charts illustrate the general fund expenditures for 2008 and 2007.



35% Street Construction Fund

The 35% street construction fund had revenues of \$869,551 in 2008. This represents a decrease of \$518,899 from 2007 revenues. The expenditures of the 35% street construction fund, which totaled \$1,307,845 in 2008, decreased \$581,042 from 2007. The net decrease in fund balance for the 35% street construction fund was \$438,294 or 25.25%.

Capital Improvement Fund

The capital improvement fund had revenues of \$457,544 in 2008. This represents a decrease of \$116,411 from 2007 revenues. The expenditures and other financing uses of the capital improvement fund, which totaled \$1,770,280 in 2008, increased \$1,145,566 from 2007. The net decrease in fund balance for the capital improvement fund was \$1,312,736 or 38.59%.

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 and other financing sources of \$3,844,313 were more than final budgeted revenues and other financing sources by \$98,013. Another significant change was between the final budgeted expenditures and other financing uses and actual expenditures and other financing uses. Actual expenditures and other financing uses were \$329,826 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, 2008

Capital Assets and Debt Administration

Capital Assets

At the end of 2008, the City had \$32,872,771 (net of accumulated depreciation) invested in land, construction in progress land improvements, buildings and improvements, furniture and equipment, vehicles and infrastructure. Of this total, \$19,593,772 was reported in governmental activities and \$13,278,999 was reported in business-type activities. The following table shows 2008 balances compared to 2007:

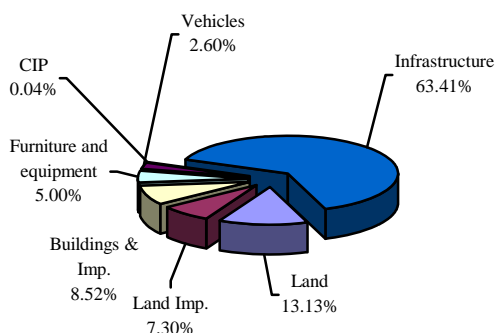
Capital Assets at December 31 (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business - type Activities</u>		<u>Total</u>	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,572,154	\$ 2,572,154	\$ 262,626	\$ 262,626	\$ 2,834,780	\$ 2,834,780
Construction in progress	7,560	-	-	81,175	7,560	81,175
Land improvements	1,430,170	1,525,772	18,067	21,352	1,448,237	1,547,124
Buildings and improvements	1,670,013	1,690,557	1,090,268	1,115,894	2,760,281	2,806,451
Furniture and equipment	980,664	988,939	888,916	1,041,988	1,869,580	2,030,927
Vehicles	509,464	520,393	-	-	509,464	520,393
Infrastructure	12,423,747	10,550,720	11,019,122	10,139,458	23,442,869	20,690,178
Totals	<u>\$ 19,593,772</u>	<u>\$ 17,848,535</u>	<u>\$ 13,278,999</u>	<u>\$ 12,662,493</u>	<u>\$ 32,872,771</u>	<u>\$ 30,511,028</u>

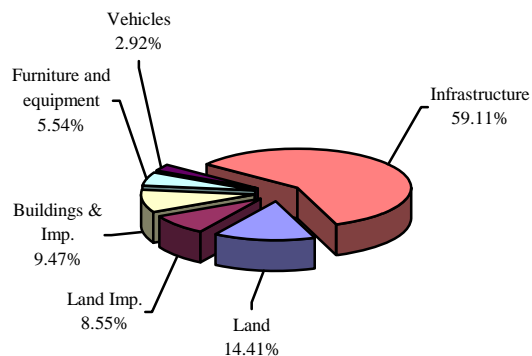
The City's largest governmental activities capital asset category is infrastructure which includes roads and bridges. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 63.41% of the City's total governmental capital assets.

The following graphs show the breakdown of governmental capital assets by category for 2008 and 2007.

Capital Assets - Governmental Activities 2008



Capital Assets - Governmental Activities 2007



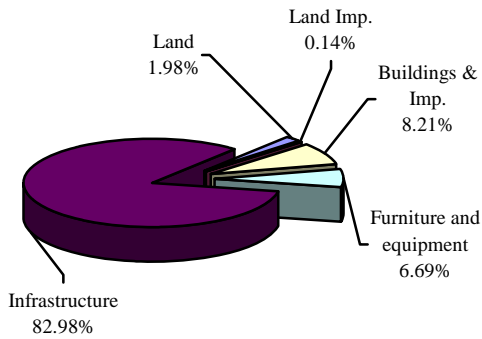
CITY OF ONTARIO, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2008**

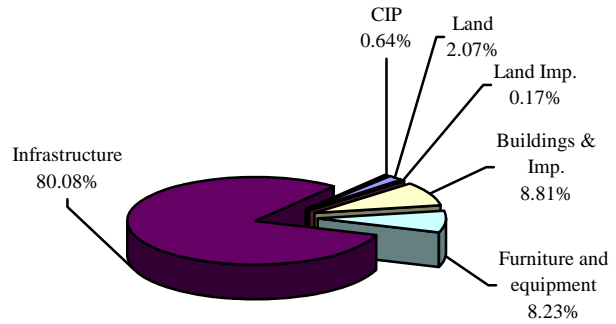
The City's largest business-type capital asset category is infrastructure that primarily includes water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 82.98% of the City's total business-type capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2008 and 2007.

Capital Assets - Business-type Activities 2008



Capital Assets - Business-type Activities 2007



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, 2008

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2008 and 2007:

	Governmental activities	
	<u>2008</u>	<u>2007</u>
Beer property bond	\$ -	\$ 66,333
Lease-purchase agreement	19,643	-
Capital leases payable	<u>76,858</u>	<u>19,301</u>
Total long-term obligations	<u>\$ 96,501</u>	<u>\$ 85,634</u>

	Business-type activities	
	<u>2008</u>	<u>2007</u>
OPWC loans	\$ 511,881	\$ 22,051
Lease-purchase agreement	<u>-</u>	<u>60,407</u>
Total long-term obligations	<u>\$ 511,881</u>	<u>\$ 82,458</u>

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, 2008

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and investments	\$ 6,211,521	\$ 2,575,205	\$ 8,786,726
Cash in segregated accounts	23,077	-	23,077
Receivables (net of allowances for uncollectibles):			
Income taxes	692,713	-	692,713
Real and other taxes	613,275	-	613,275
Accounts	29,992	548,062	578,054
Special assessments	2,520	-	2,520
Accrued interest	6,448	198	6,646
Intergovernmental	228,840	-	228,840
Prepayments	54,602	-	54,602
Materials and supplies inventory	139,462	98,812	238,274
Capital assets:			
Land and construction in progress	2,579,714	262,626	2,842,340
Depreciable capital assets, net	17,014,058	13,016,373	30,030,431
Total capital assets, net	19,593,772	13,278,999	32,872,771
Total assets.	27,596,222	16,501,276	44,097,498
Liabilities:			
Accounts payable.	65,400	5,580	70,980
Accrued wages and benefits	58,210	8,934	67,144
Intergovernmental payable	189,642	145,871	335,513
Claims payable	6,336	-	6,336
Unearned revenue	582,970	-	582,970
Long-term liabilities:			
Due within one year	88,974	32,105	121,079
Due in more than one year	255,925	540,705	796,630
Total liabilities	1,247,457	733,195	1,980,652
Net assets:			
Invested in capital assets, net of related debt	19,497,271	12,767,118	32,264,389
Restricted for:			
Capital projects	2,304,412	-	2,304,412
Debt service	209,809	-	209,809
Transportation improvement projects	2,504,323	-	2,504,323
Court computerization.	46,246	-	46,246
Cemetery	15,632	-	15,632
Other purposes.	101,780	-	101,780
Unrestricted	1,669,292	3,000,963	4,670,255
Total net assets.	\$ 26,348,765	\$ 15,768,081	\$ 42,116,846

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008

	<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	\$ 2,203,909	\$ 337,313	\$ -	\$ -
Security of persons and property	2,277,307	192,236	15,605	-
Public health and welfare	3,113	3,285	1,231	-
Transportation	2,075,079	87,718	577,739	1,754,759
Community environment	83,254	-	34,697	-
Leisure time activity	377,979	11,441	2,906	-
Interest and fiscal charges	1,277	-	-	-
Total governmental activities	<u>7,021,918</u>	<u>631,993</u>	<u>632,178</u>	<u>1,754,759</u>
Business-type activities:				
Water	859,930	782,043	-	-
Sewer	<u>1,022,502</u>	<u>1,026,557</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,882,432</u>	<u>1,808,600</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 8,904,350</u>	<u>\$ 2,440,593</u>	<u>\$ 632,178</u>	<u>\$ 1,754,759</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

Decrease 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
\$ (1,866,596)	\$ -	\$ (1,866,596)
(2,069,466)	-	(2,069,466)
1,403	-	1,403
345,137	-	345,137
(48,557)	-	(48,557)
(363,632)	-	(363,632)
(1,277)	-	(1,277)
<u>(4,002,988)</u>	<u>-</u>	<u>(4,002,988)</u>
-	(77,887)	(77,887)
-	4,055	4,055
-	(73,832)	(73,832)
<u>(4,002,988)</u>	<u>(73,832)</u>	<u>(4,076,820)</u>
449,165	-	449,165
62,989	-	62,989
2,599,240	-	2,599,240
237,571	-	237,571
762,606	-	762,606
270,030	-	270,030
359,727	7,401	367,128
(15,109)	-	(15,109)
85,223	2,006	87,229
4,811,442	9,407	4,820,849
<u>(1,329,448)</u>	<u>1,329,448</u>	<u>-</u>
(520,994)	1,265,023	744,029
<u>26,869,759</u>	<u>14,503,058</u>	<u>41,372,817</u>
<u>\$ 26,348,765</u>	<u>\$ 15,768,081</u>	<u>\$ 42,116,846</u>

CITY OF ONTARIO, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	<u>General</u>	<u>35% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Equity in pooled cash and investments	\$ 1,183,307	\$ 1,285,195	\$ 2,145,326	\$ 1,597,693	\$ 6,211,521
Cash in segregated accounts	-	-	-	23,077	23,077
Receivables (net of allowance for uncollectibles):					
Income taxes	692,713	-	-	-	692,713
Real and other taxes	529,645	-	-	83,630	613,275
Accounts	26,549	-	-	3,443	29,992
Accrued interest	3,106	869	2,110	363	6,448
Special assessments	-	-	-	2,520	2,520
Intergovernmental	71,244	-	6,517	151,079	228,840
Prepayments	54,602	-	-	-	54,602
Materials and supplies inventory	18,812	45,701	-	74,949	139,462
Total assets	<u>\$ 2,579,978</u>	<u>\$ 1,331,765</u>	<u>\$ 2,153,953</u>	<u>\$ 1,936,754</u>	<u>\$ 8,002,450</u>
Liabilities:					
Accounts payable	\$ 33,544	\$ 18,187	\$ 11,284	\$ 2,385	\$ 65,400
Accrued wages and benefits	48,191	10,019	-	-	58,210
Intergovernmental payable	125,450	6,235	53,924	4,033	189,642
Claims payable	6,336	-	-	-	6,336
Deferred revenue	265,110	-	-	119,338	384,448
Unearned revenue	503,472	-	-	79,498	582,970
Total liabilities	<u>982,103</u>	<u>34,441</u>	<u>65,208</u>	<u>205,254</u>	<u>1,287,006</u>
Fund balances:					
Reserved for encumbrances	93,284	98,622	414,823	75,161	681,890
Reserved for prepayments	54,602	-	-	-	54,602
Reserved for materials and supplies inventory	18,812	45,701	-	74,949	139,462
Reserved for debt service	-	-	-	207,289	207,289
Unreserved, undesignated, reported in:					
General fund	1,431,177	-	-	-	1,431,177
Special revenue funds	-	1,153,001	-	1,168,314	2,321,315
Capital projects funds	-	-	1,673,922	205,787	1,879,709
Total fund balances	<u>1,597,875</u>	<u>1,297,324</u>	<u>2,088,745</u>	<u>1,731,500</u>	<u>6,715,444</u>
Total liabilities and fund balances	<u>\$ 2,579,978</u>	<u>\$ 1,331,765</u>	<u>\$ 2,153,953</u>	<u>\$ 1,936,754</u>	<u>\$ 8,002,450</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, 2008**

Total governmental fund balances		\$	6,715,444
<i>Amounts reported for governmental activities on the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			19,593,772
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Real and other taxes	\$	29,268	
Income taxes		182,880	
Licenses, permits and fees		3,500	
Special assessments		2,520	
Intergovernmental revenues		<u>166,280</u>	
Total			384,448
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		(248,398)	
Capital lease payable		(76,858)	
Lease purchase agreement payable		<u>(19,643)</u>	
Total			<u>(344,899)</u>
Net assets of governmental activities		\$	<u><u>26,348,765</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>General</u>	<u>35% Street Construction</u>	<u>Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Income taxes	\$2,533,324	\$ 837,037	\$ 258,837	\$ -	\$ 3,629,198
Real and other taxes	446,348	-	-	62,596	508,944
Charges for services	-	-	-	13,886	13,886
Licenses, permits and fees	215,977	-	-	401,686	617,663
Intergovernmental	314,937	-	119,759	525,190	959,886
Special assessments	-	-	-	6,090	6,090
Investment income	358,928	32,511	78,948	13,568	483,955
Rental income	4,610	-	-	-	4,610
Other.	81,422	3	-	8,959	90,384
Decrease in fair market value of investments.	(15,109)	-	-	-	(15,109)
Total revenues	<u>3,940,437</u>	<u>869,551</u>	<u>457,544</u>	<u>1,031,975</u>	<u>6,299,507</u>
Expenditures:					
Current:					
General government.	1,561,247	-	-	295,797	1,857,044
Security of persons and property	2,049,821	-	-	279,171	2,328,992
Public health and welfare	-	-	-	3,113	3,113
Transportation.	38,123	1,307,845	-	770,801	2,116,769
Community environment	31,648	-	-	51,606	83,254
Leisure time activity	204,927	-	-	36,535	241,462
Capital outlay.	91,170	-	975,447	19,751	1,086,368
Debt service:					
Principal retirement	13,970	-	66,333	-	80,303
Interest and fiscal charges	1,277	-	-	-	1,277
Total expenditures	<u>3,992,183</u>	<u>1,307,845</u>	<u>1,041,780</u>	<u>1,456,774</u>	<u>7,798,582</u>
Excess of expenditures over revenues.	<u>(51,746)</u>	<u>(438,294)</u>	<u>(584,236)</u>	<u>(424,799)</u>	<u>(1,499,075)</u>
Other financing sources (uses):					
Capital lease transaction	64,975	-	-	-	64,975
Lease purchase agreement	26,195	-	-	-	26,195
Sale of capital assets.	3,666	-	-	-	3,666
Transfers in	-	-	-	248,000	248,000
Transfers out	(248,000)	-	(728,500)	-	(976,500)
Total other financing sources (uses)	<u>(153,164)</u>	<u>-</u>	<u>(728,500)</u>	<u>248,000</u>	<u>(633,664)</u>
Net change in fund balances	(204,910)	(438,294)	(1,312,736)	(176,799)	(2,132,739)
Fund balances at beginning 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>
Fund balances at end of year.	<u><u>\$1,597,875</u></u>	<u><u>\$ 1,297,324</u></u>	<u><u>\$ 2,088,745</u></u>	<u><u>\$ 1,731,500</u></u>	<u><u>\$ 6,715,444</u></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, 2008

Net change in fund balances - total governmental funds \$ (2,132,739)

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 capital outlays exceed depreciation expense in the current period.

Capital asset additions	\$ 2,994,099	
Current year depreciation	(1,241,052)	
Total		1,753,047

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. (7,810)

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	3,210	
Income taxes	(29,781)	
Licenses, permits and fees	3,500	
Special assessments	(13,756)	
Intergovernmental revenues	(67,308)	
Total		(104,135)

Capital lease transactions and lease-purchase agreements provide current financial resources in the governmental funds, but the capital lease obligation and the lease-purchase agreement increase long-term liabilities on the statement of net assets. (91,170)

Repayment of bond, lease-purchase and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets. 80,303

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. (18,490)

Change in net assets of governmental activities \$ (520,994)

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, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 1,215,297	\$ 2,477,585	\$ 2,359,764	\$ (117,821)
Real and other taxes	450,000	480,770	457,907	(22,863)
Licenses, permits and fees	111,527	227,366	216,554	(10,812)
Intergovernmental	176,388	359,595	328,552	(31,043)
Investment income	58,285	118,823	378,049	259,226
Rental income	2,374	4,840	4,610	(230)
Other	36,129	73,655	95,211	21,556
Total revenues	<u>2,050,000</u>	<u>3,742,634</u>	<u>3,840,647</u>	<u>98,013</u>
Expenditures:				
Current:				
General government	1,853,107	1,878,807	1,643,202	235,605
Security of persons and property	2,152,451	2,295,641	2,193,570	102,071
Transportation	31,410	31,410	30,803	607
Community environment	39,754	39,754	72,425	(32,671)
Leisure time activity	215,606	376,806	352,592	24,214
Total expenditures	<u>4,292,328</u>	<u>4,622,418</u>	<u>4,292,592</u>	<u>329,826</u>
Excess of expenditures over revenues	<u>(2,242,328)</u>	<u>(879,784)</u>	<u>(451,945)</u>	<u>427,839</u>
Other financing source (uses):				
Sale of capital assets	-	3,666	3,666	-
Transfers out	<u>(313,000)</u>	<u>(248,000)</u>	<u>(248,000)</u>	<u>-</u>
Total other financing source (uses)	<u>(313,000)</u>	<u>(244,334)</u>	<u>(244,334)</u>	<u>-</u>
Net change in fund balance	(2,555,328)	(1,124,118)	(696,279)	427,839
Fund balance at beginning of year	1,532,929	1,532,929	1,532,929	-
Prior year encumbrances appropriated	192,632	192,632	192,632	-
Fund balance at end of year	<u>\$ (829,767)</u>	<u>\$ 601,443</u>	<u>\$ 1,029,282</u>	<u>\$ 427,839</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 35% STREET CONSTRUCTION
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income taxes	\$ 1,456,157	\$ 1,456,157	\$ 1,051,029	\$ (405,128)
Investment income	43,843	43,843	31,642	(12,201)
Other	-	-	3	3
Total revenues	1,500,000	1,500,000	1,082,674	(417,326)
Expenditures:				
Current:				
Transportation	1,798,166	1,650,666	1,434,043	216,623
Total expenditures	1,798,166	1,650,666	1,434,043	216,623
Net change in fund balance.	(298,166)	(150,666)	(351,369)	(200,703)
Fund balance at beginning of year	1,406,394	1,406,394	1,406,394	-
Prior year encumbrances appropriated	113,361	113,361	113,361	-
Fund balance at end of year.	\$ 1,221,589	\$ 1,369,089	\$ 1,168,386	\$ (200,703)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2008

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Equity in pooled cash and investments	\$ 1,508,156	\$ 1,067,049	\$ 2,575,205
Receivables (net of allowance for uncollectibles):			
Accounts	231,706	316,356	548,062
Accrued interest	132	66	198
Materials and supplies inventory	78,759	20,053	98,812
Total current assets	<u>1,818,753</u>	<u>1,403,524</u>	<u>3,222,277</u>
Noncurrent assets:			
Capital assets:			
Land	262,626	-	262,626
Depreciable capital assets, net	5,491,045	7,525,328	13,016,373
Total capital assets, net	<u>5,753,671</u>	<u>7,525,328</u>	<u>13,278,999</u>
Total assets	<u>7,572,424</u>	<u>8,928,852</u>	<u>16,501,276</u>
Liabilities:			
Current liabilities:			
Accounts payable.	5,580	-	5,580
Accrued wages and benefits	5,357	3,577	8,934
Intergovernmental payable	3,584	142,287	145,871
Compensated absences payable - current.	8,454	5,146	13,600
OPWC loan payable - current.	1,838	16,667	18,505
Total current liabilities	<u>24,813</u>	<u>167,677</u>	<u>192,490</u>
Long-term liabilities:			
Compensated absences payable.	32,599	14,730	47,329
OPWC loan payable	18,376	475,000	493,376
Total long-term liabilities.	<u>50,975</u>	<u>489,730</u>	<u>540,705</u>
Total liabilities	<u>75,788</u>	<u>657,407</u>	<u>733,195</u>
Net assets:			
Invested in capital assets, net of related debt.	5,733,457	7,033,661	12,767,118
Unrestricted	1,763,179	1,237,784	3,000,963
Total net assets	<u>\$ 7,496,636</u>	<u>\$ 8,271,445</u>	<u>\$ 15,768,081</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, 2008

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Operating revenues:			
Charges for services	\$ 782,043	\$ 1,026,557	\$ 1,808,600
Other	2,006	-	2,006
Total operating revenues	<u>784,049</u>	<u>1,026,557</u>	<u>1,810,606</u>
Operating expenses:			
Personal services	255,721	173,739	429,460
Contract services	144,471	608,897	753,368
Materials and supplies	121,000	17,135	138,135
Depreciation	308,859	220,881	529,740
Other	4,720	700	5,420
Total operating expenses.	<u>834,771</u>	<u>1,021,352</u>	<u>1,856,123</u>
Operating income (loss)	<u>(50,722)</u>	<u>5,205</u>	<u>(45,517)</u>
Nonoperating revenues (expenses):			
Interest revenue.	4,934	2,467	7,401
Interest expense and fiscal charges	(25,159)	(1,150)	(26,309)
Total nonoperating revenues (expenses)	<u>(20,225)</u>	<u>1,317</u>	<u>(18,908)</u>
Income (loss) before capital contributions and transfers	(70,947)	6,522	(64,425)
Capital contributions	-	600,948	600,948
Transfers in.	<u>728,500</u>	<u>-</u>	<u>728,500</u>
Changes in net assets	657,553	607,470	1,265,023
Net assets at beginning of year	<u>6,839,083</u>	<u>7,663,975</u>	<u>14,503,058</u>
Net assets at end of year.	<u>\$ 7,496,636</u>	<u>\$ 8,271,445</u>	<u>\$ 15,768,081</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2008

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
Cash flows from operating activities:			
Cash received from customers	\$ 781,320	\$ 1,020,402	\$ 1,801,722
Cash received from other operations	2,006	-	2,006
Cash payments for personal services	(252,471)	(169,776)	(422,247)
Cash payments for contract services	(152,469)	(606,357)	(758,826)
Cash payments for materials and supplies	(111,058)	(11,055)	(122,113)
Cash payments for other expenses	(4,720)	(700)	(5,420)
Net cash provided by operating activities	<u>262,608</u>	<u>232,514</u>	<u>495,122</u>
Cash flows from noncapital financing activities:			
Cash received from transfers in	<u>728,500</u>	-	<u>728,500</u>
Net cash provided by noncapital financing activities	<u>728,500</u>	-	<u>728,500</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(33,613)	(517,221)	(550,834)
Proceeds of OPWC loan	-	500,000	500,000
Principal retirement on OPWC loan	(1,838)	(8,333)	(10,171)
Principal retirement on notes	(700,000)	-	(700,000)
Principal retirement on lease-purchase agreement . .	(30,203)	(30,204)	(60,407)
Interest and fiscal charges	<u>(29,651)</u>	<u>(1,150)</u>	<u>(30,801)</u>
Net cash (used in) capital and related financing activities	<u>(795,305)</u>	<u>(56,908)</u>	<u>(852,213)</u>
Cash flows from investing activities:			
Interest received	<u>4,802</u>	<u>2,401</u>	<u>7,203</u>
Net cash provided by investing activities	<u>4,802</u>	<u>2,401</u>	<u>7,203</u>
Net increase in cash and cash equivalents	200,605	178,007	378,612
Cash and cash equivalents at beginning of year . . .	<u>1,307,551</u>	<u>889,042</u>	<u>2,196,593</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,508,156</u></u>	<u><u>\$ 1,067,049</u></u>	<u><u>\$ 2,575,205</u></u>

- - continued

CITY OF ONTARIO, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ (50,722)	\$ 5,205	\$ (45,517)
Adjustments:			
Depreciation	308,859	220,881	529,740
Changes in assets and liabilities:			
Decrease in materials and supplies inventory	7,080	7,509	14,589
(Increase) in accounts receivable.	(723)	(6,155)	(6,878)
(Decrease) in accounts payable.	(5,147)	(1,249)	(6,396)
Increase in accrued wages and benefits.	1,468	656	2,124
Increase (decrease) in due to other governments.	(1,491)	1,354	(137)
Increase in compensated absences payable	3,284	4,313	7,597
Net cash provided by operating activities	<u>\$ 262,608</u>	<u>\$ 232,514</u>	<u>\$ 495,122</u>

Non-cash transactions:

At December 31, 2007 and 2008, the water fund purchased \$4,356 and \$0, respectively, in capital assets on account.
 At December 31, 2007 and 2008, the sewer fund purchased \$1,180 and \$0, respectively, in capital assets on account.
 During 2008, the sewer fund received \$600,948 in capital contributions from governmental funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2008

	<u>Agency</u>
Assets:	
Equity in pooled cash and investments	\$ 46,895
Liabilities:	
Accounts payable	\$ 1,100
Deposits held and due to others	45,795
Total liabilities	\$ 46,895

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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 statement includes 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, 2008

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 charter of the City of Ontario and/or the general laws of Ohio.

35% street construction fund - The 35% 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, 2008

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; (c) for grants and other resources whose use is restricted to a particular purpose; and (d) for distribution of major's court fines.

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 funds are agency funds used to account for subdivision inspection deposits.

D. Measurement Focus and Basis of Accounting

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

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

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

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current 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 taxes, 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, 2008, but which were levied to finance year 2009 operations, and other revenues received in advance of the 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, 2008 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, 2008

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 to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the cash management pool 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 2008, investments were limited to certificates of deposit, overnight repurchase agreements, federal agency securities and U.S. government money market mutual funds. Except for nonparticipating investment contracts, investments are reported at fair market value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements and nonnegotiable certificates of deposit, are reported at cost.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be distributed to specific funds. Interest revenue earned and credited to the general fund during 2008 amounted to \$358,928, which includes \$286,795 assigned from other funds of the City.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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, 2008, 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, 2008

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, 2008 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and 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 Activity

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

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

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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

N. 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.

O. 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.

P. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. The sewer fund received \$600,948 in capital contributions from governmental funds during 2008.

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 are charges for services for water and sewer services. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

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 2008.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2008, the City has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions", GASB Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 establishes uniform standards of financial reporting for other postemployment benefits and increases the usefulness and improves the faithfulness of representations in the financial reports. The implementation of GASB Statement No. 45 did not have an effect on the financial statements of the City; however, certain disclosures related to postemployment benefits (see Note 17) have been modified to conform to the new reporting requirements.

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The implementation of GASB Statement No. 49 did not have an effect on the financial statements of the City.

GASB Statement No. 50 establishes standards that more closely align the financial reporting requirements for pensions with those of other postemployment benefits. The implementation of GASB Statement No. 50 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.

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two 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 Treasury Asset Reserve of Ohio (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.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and,
3. Obligations of the City.

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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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, 2008 was \$23,077. These depository accounts are included in “deposits with financial institutions” below.

B. Deposits with Financial Institutions

At December 31, 2008, the carrying amount of all City deposits was \$5,467,540. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2008, \$4,205,455 of the City’s bank balance of \$5,780,717 was exposed to custodial risk as discussed below, while \$1,575,262 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, 2008, the City had the following investments and maturities:

Investment type	Fair Value	Investment Maturities				
		6 months or less	7 to 12 months	13 to 18 months	19 or more months	Greater than 24 months
FFCB	\$ 1,877,469	\$ -	\$ -	\$ 767,577	\$ 852,626	\$ 257,266
FHLMC	250,234	250,234	-	-	-	-
U.S. Government money market mutual fund	996,455	996,455	-	-	-	-
Repurchase agreement	265,000	265,000	-	-	-	-
Total	\$ 3,389,158	\$ 1,511,689	\$ -	\$ 767,577	\$ 852,626	\$ 257,266

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 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. The City's investment in U.S. government money market mutual funds were rated AAAM by Standard & Poor's.

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 \$265,000 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, 2008:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FFCB	\$ 1,877,469	55.40%
FHLMC	250,234	7.38%
U.S. Government money market mutual funds	996,455	29.40%
Repurchase agreement	265,000	7.82%
Total	<u>\$ 3,389,158</u>	<u>100.00%</u>

D. Reconciliation of Cash and Investments 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, 2008:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 5,467,540
Investments	<u>3,389,158</u>
Total	<u>\$ 8,856,698</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 6,234,598
Business-type activities	2,575,205
Agency funds	<u>46,895</u>
Total	<u>\$ 8,856,698</u>

NOTE 5 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2008, consisted of the following, as reported on the fund financial statements:

Transfers from general fund to:

Nonmajor governmental funds	\$ 248,000
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Transfers from capital improvement fund to:

Water	<u>728,500</u>
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Total	<u>\$ 976,500</u>
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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.

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

The \$728,500 transfer between the capital improvement fund and the water fund represents the transfer of debt service payments (related to the water system improvement note, see Note 14) to the fund that reports the liability.

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

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. 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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 6 - PROPERTY TAXES - (Continued)

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. 2008 public utility property taxes became a lien December 31, 2007, are levied after October 1, 2008, and are collected in 2009 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 2008 (other than public utility property) represent the collection of 2008 taxes. Tangible personal property taxes received in 2008 were levied after October 1, 2007, on the true value as of December 31, 2007. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, was 6.25% for 2008. This percentage will be reduced to 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 2008-2010, 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 County, including the City of Ontario. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2008 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2008 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a revenue.

The full tax rate for all City operations for the year ended December 31, 2008 was \$10.59 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

<u>Real property</u>	
Residential/agricultural	\$ 113,649,560
Commercial/industrial/mineral	89,557,730
Tangible personal property	22,030,215
<u>Public utility</u>	
Real	88,550
Personal	3,715,810
Total assessed value	<u>\$ 229,041,865</u>

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

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. During 2008, by City ordinance, income tax proceeds, after income tax department expenditures, are credited to the following: general fund, capital improvement fund, and the 35% street construction fund. On the modified accrual basis of accounting, total income tax revenue was \$3,629,198 in 2008.

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.

NOTE 9 - RECEIVABLES

Receivables at December 31, 2008, consisted of taxes, accrued interest, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements, shared revenue. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental activities:

Income taxes	\$ 692,713
Real and other taxes	613,275
Accounts	29,992
Special assessments	2,520
Accrued interest	6,448
Intergovernmental	228,840

Business-type activities:

Accounts	548,062
Accrued interest	198

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, 2008

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

<u>Governmental activities:</u>	Balance			Balance	
	12/31/2007	Additions	Disposals	12/31/2008	
<i>Capital assets, not being depreciated:</i>					
Land	\$ 2,572,154	\$ -	\$ -	\$ 2,572,154	
Construction in progress	<u>-</u>	<u>7,560</u>	<u>-</u>	<u>7,560</u>	
Total capital assets, not being depreciated	<u>2,572,154</u>	<u>7,560</u>	<u>-</u>	<u>2,579,714</u>	
<i>Capital assets, being depreciated:</i>					
Land improvements	2,593,766	38,047	-	2,631,813	
Buildings and improvements	3,108,232	63,428	-	3,171,660	
Furniture and equipment	2,623,896	201,013	-	2,824,909	
Vehicles	1,284,464	101,451	(56,118)	1,329,797	
Infrastructure	<u>15,439,395</u>	<u>2,582,600</u>	<u>-</u>	<u>18,021,995</u>	
Total capital assets, being depreciated	<u>25,049,753</u>	<u>2,986,539</u>	<u>(56,118)</u>	<u>27,980,174</u>	
<i>Less: accumulated depreciation:</i>					
Land improvements	(1,067,994)	(133,649)	-	(1,201,643)	
Buildings and improvements	(1,417,675)	(83,972)	-	(1,501,647)	
Furniture and equipment	(1,634,957)	(209,288)	-	(1,844,245)	
Vehicles	(764,071)	(104,570)	48,308	(820,333)	
Infrastructure	<u>(4,888,675)</u>	<u>(709,573)</u>	<u>-</u>	<u>(5,598,248)</u>	
Total accumulated depreciation	<u>(9,773,372)</u>	<u>(1,241,052)</u>	<u>48,308</u>	<u>(10,966,116)</u>	
Total capital assets, being depreciated, net	<u>15,276,381</u>	<u>1,745,487</u>	<u>(7,810)</u>	<u>17,014,058</u>	
Governmental activities capital assets, net	<u>\$ 17,848,535</u>	<u>\$ 1,753,047</u>	<u>\$ (7,810)</u>	<u>\$ 19,593,772</u>	

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

<u>Governmental activities:</u>	
General government	\$ 77,988
Security of persons and property	121,219
Transportation	904,444
Leisure time activity	<u>137,401</u>
Total depreciation expense - governmental activities	<u>\$ 1,241,052</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 10 - CAPITAL ASSETS - (Continued)

<u>Business-type activities:</u>	Balance 12/31/2007	Additions	Disposals	Balance 12/31/2008
<i>Capital assets, not being depreciated:</i>				
Land	\$ 262,626	\$ -	\$ -	\$ 262,626
Construction in progress	<u>81,175</u>	<u>-</u>	<u>(81,175)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>343,801</u>	<u>-</u>	<u>(81,175)</u>	<u>262,626</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	54,622	-	-	54,622
Buildings and improvements	1,940,410	25,595	-	1,966,005
Furniture and equipment	2,596,119	10,703	-	2,606,822
Infrastructure:				
Sewer lines	8,046,103	1,191,123	-	9,237,226
Water lines	<u>5,603,343</u>	<u>-</u>	<u>-</u>	<u>5,603,343</u>
Total capital assets, being depreciated	<u>18,240,597</u>	<u>1,227,421</u>	<u>-</u>	<u>19,468,018</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(33,270)	(3,285)	-	(36,555)
Buildings and improvements	(824,516)	(51,221)	-	(875,737)
Furniture and equipment	(1,554,131)	(163,775)	-	(1,717,906)
Infrastructure:				
Sewer lines	(1,921,377)	(178,913)	-	(2,100,290)
Water lines	<u>(1,588,611)</u>	<u>(132,546)</u>	<u>-</u>	<u>(1,721,157)</u>
Total accumulated depreciation	<u>(5,921,905)</u>	<u>(529,740)</u>	<u>-</u>	<u>(6,451,645)</u>
Total capital assets, being depreciated, net	<u>12,318,692</u>	<u>697,681</u>	<u>-</u>	<u>13,016,373</u>
Business-type activities capital assets, net	<u>\$ 12,662,493</u>	<u>\$ 697,681</u>	<u>\$ (81,175)</u>	<u>\$ 13,278,999</u>

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

Business-type activities:

Water	\$ 308,859
Sewer	<u>220,881</u>
Total depreciation expense - business-type activities	<u>\$ 529,740</u>

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 11 - LEASE-PURCHASE AGREEMENT

During 2008, the City entered into a lease-purchase agreement for 911-system equipment. This lease meets 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 \$26,195. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2008 was \$2,620, leaving a current book value of \$23,575. A corresponding liability was recorded in the government-wide financial statements. Principal payments of \$6,552 were paid out of the general fund.

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 \$30,203 and \$30,204 in principal payments on the lease-purchase agreement during 2008 from the water and sewer funds, respectively. The lease payments reduce the liability for the lease-purchase agreement payable in the water and sewer funds. 2008 was the final year of payment on the fire-fly lease-purchase agreement.

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, 2008.

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2009	\$ 6,552
2010	6,552
2011	6,552
2012	<u>6,552</u>
Total future minimum lease payments	26,208
Less: amount representing interest	<u>(6,565)</u>
Present value of future minimum lease payments	<u>\$ 19,643</u>

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

In 2008 and previous years, the City entered into capitalized leases for copiers. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

General capital assets consisting of equipment have been capitalized in the amount of \$101,376. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2008 was \$31,929, leaving a current book value of \$69,447. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments on the leases, totaled \$7,418 and \$1,277, respectively and were paid out of the general fund.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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, 2008.

<u>Year Ending December 31,</u>	<u>Total</u>
2009	\$ 28,837
2010	14,672
2011	14,672
2012	14,672
2013	14,672
2014	<u>2,446</u>
Total future minimum lease payments	89,971
Less: amount representing interest	<u>(13,113)</u>
Present value of future minimum lease payments	<u>\$ 76,858</u>

NOTE 13 - LONG-TERM OBLIGATIONS

A. During 2008, the following activity occurred in governmental and business-type activities long-term obligations:

	Balance			Balance		Due within
	12/31/2007	Additions	Disposals	12/31/2008	One Year	
<u>Governmental activities:</u>						
Beer property bonds	\$ 66,333	\$ -	\$ (66,333)	\$ -	\$ -	
Capital lease payable	19,301	64,975	(7,418)	76,858	23,429	
Lease-purchase agreement	-	26,195	(6,552)	19,643	4,073	
Compensated absences	<u>229,908</u>	<u>67,988</u>	<u>(49,498)</u>	<u>248,398</u>	<u>61,472</u>	
Total governmental activities	<u>\$ 315,542</u>	<u>\$ 159,158</u>	<u>\$ (129,801)</u>	<u>\$ 344,899</u>	<u>\$ 88,974</u>	
<u>Business-type activities:</u>						
OPWC water treatment loan	\$ 22,052	\$ -	\$ (1,838)	\$ 20,214	\$ 1,838	
OPWC sewer improvement loan	<u>-</u>	<u>500,000</u>	<u>(8,333)</u>	<u>491,667</u>	<u>16,667</u>	
Total OPWC loans	<u>22,052</u>	<u>500,000</u>	<u>(10,171)</u>	<u>511,881</u>	<u>18,505</u>	
Lease-purchase agreement	60,407	-	(60,407)	-	-	
Compensated absences	<u>53,332</u>	<u>15,911</u>	<u>(8,314)</u>	<u>60,929</u>	<u>13,600</u>	
Total business-type activities	<u>\$ 135,791</u>	<u>\$ 515,911</u>	<u>\$ (78,892)</u>	<u>\$ 572,810</u>	<u>\$ 32,105</u>	

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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 final payment was made on the bonds during 2008.

The City's lease-purchase agreement obligations are described in Note 11.

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

Compensated absences for governmental activities will be paid from the fund from which the employee is paid which, for the City, is the general fund and the street construction and maintenance fund (a nonmajor governmental fund).

The interest-free 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 interest-free OPWC sewer improvement loan was entered into during 2008 to finance improvements to the City's sewer system. The OPWC sewer improvement loan will all be paid from the sewer fund. The OPWC loans are to be paid from water and sewer resources, however, the loans are backed by the full faith and credit of the City.

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

Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2008 are as follows:

Year Ending December 31,	Business-type Activities		
	OPWC Water	OPWC Sewer	Total OPWC
	Treatment Loan Principal	Improvement Loan Principal	
2009	\$ 1,838	\$ 16,667	\$ 18,505
2010	1,838	16,667	18,505
2011	1,838	16,667	18,505
2012	1,838	16,667	18,505
2013	1,838	16,667	18,505
2014-2018	9,186	83,335	92,521
2019-2023	1,838	83,335	85,173
2024-2028	-	83,335	83,335
2029-2033	-	83,330	83,330
2034-2038	-	74,997	74,997
Total	\$ 20,214	\$ 491,667	\$ 511,881

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

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, 2008, the City's overall legal debt margin was \$21,931,334 and the unvoted debt margin was \$11,409,329.

NOTE 14 - NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2008, follows:

Business-type activities		Outstanding <u>12/31/07</u>	<u>Issued</u>	<u>Retired</u>	Outstanding <u>12/31/08</u>
2007 water system improvement note	3.85%	\$ 700,000	\$ -	\$ (700,000)	\$ -

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 was backed by the full faith and credit of the City and matured within one year. The note was paid in full during 2008.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 2008, 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.

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. The claims liability of \$6,336 reported on the financial statements at December 31, 2008 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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 15 - RISK MANAGEMENT - (Continued)

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>
2008	\$ 3,037	\$ 43,202	\$ (39,903)	\$ 6,336
2007	2,433	35,149	(34,545)	3,037

NOTE 16 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - 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. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension 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.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2008, member and contribution rates were consistent across all three plans. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan. The 2008 member contribution rates were 10.00% for members in State and local classifications. Public safety and law enforcement members contributed 10.10%.

The City's contribution rate for 2008 was 14.00%, except for those plan members in law enforcement or public safety, for whom the City's contribution was 17.40% of covered payroll. For 2008, a portion equal to 7.00% of covered payroll was allocated to fund the post-employment health care plan.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 16 - PENSION PLANS - (Continued)

The City's contribution rate for pension benefits for 2008 was 7.00%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 10.40% of covered payroll. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2008, 2007, and 2006 were \$112,257, \$133,764, and \$150,880, respectively; 92.05% has been contributed for 2008 and 100% has been contributed for 2007 and 2006.

B. Ohio Police and Fire Pension Fund

Plan Description - 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.

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% for police officers. Contribution rates are established by State statute. For 2008, the portion of the City's contributions to fund pension obligations was 12.75% for police officers. The City's required contributions for pension obligations to OP&F for police officers for the years ended December 31, 2008, 2007, and 2006 were \$148,472, \$128,390, and \$106,142, respectively; 77.70% has been contributed for 2008 and 100% has been contributed for 2007 and 2006.

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which 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, 2008

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Funding Policy - The post-employment healthcare plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2008, local government employers contributed 14.00% of covered payroll (17.40% for public safety and law enforcement). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The amount of the employer contributions which was allocated to fund post-employment healthcare for 2008 was 7.00% of covered payroll.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2008, 2007, and 2006 were \$112,527, \$88,107 and \$62,218, respectively; 92.05% has been contributed for 2008 and 100% has been contributed for 2007 and 2006.

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

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is 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.

CITY OF ONTARIO, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Funding Policy - The OP&F's post-employment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OP&F. Participating employers are required to contribute to the pension plan at rates expressed as of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2008, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the OPEB Plan.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers for the years ended December 31, 2008, 2007, and 2006 were \$78,603, \$67,971, and \$69,881, respectively; 77.70% has been contributed for 2008 and 100% has been contributed for 2007 and 2006.

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); and,
4. Investments are reported at fair value (GAAP basis) rather than cost (budget basis).

CITY OF ONTARIO, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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 35% street construction fund.

Net Change in Fund Balance

	<u>General</u>	<u>35% Street Construction</u>
Budget basis	\$ (696,279)	\$ (351,369)
Net adjustment for revenue accruals	99,790	(213,123)
Net adjustment for expenditure accruals	188,524	9,389
Net adjustment for other sources/(uses)	91,170	-
Adjustment for encumbrances	<u>111,885</u>	<u>116,809</u>
GAAP basis	<u>\$ (204,910)</u>	<u>\$ (438,294)</u>

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, 2008.

B. Litigation

The City is not party to legal proceedings which will have a material effect, if any, on the financial condition of the City.



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Serving Ohio Local Governments

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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, 2008 and have issued our report thereon dated August 21, 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 deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting as item 2008-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 or material weaknesses. However, we consider the significant deficiency described above (2008-COO-001) to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Ontario's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 2008-COO-002.

We noted certain matters that we reported to the management of the City of Ontario in a separate letter dated August 21, 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 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.
August 21, 2009

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2008**

FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2008-COO-001

Significant Deficiency/Material Weakness

All bank accounts should be reconciled in a timely manner monthly to help ensure accuracy of receipt and expenditure postings. In addition, these reconciliations should be provided to management for review.

The City's bank accounts were not accurately reconciled for the year ended December 31, 2008 until July, 2009.

Unreconciled bank accounts in a timely manner means that errors or other problems might not be recognized and resolved on a timely basis.

We recommend the City implement procedures to help ensure that bank statements are reconciled to the City's books in a timely manner. We further recommend that the bank reconciliations be presented to the City Council and approved on a monthly basis. All reconciling amounts should be easily identifiable.

Client Response: We are working diligently to perform timely reconciliations. We are currently up to date (July, 2009) with our reconciliations with all amounts easily identified. In the future, these reconciliations will be prepared immediately after month end and submitted to City Council with monthly financial reports for review.

Finding Number	2008-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 complete an accurate GAAP report until August, 2009.

Lack of timely filing of an accurate report inhibits the biennial 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's GAAP report preparation was delayed due to untimely bank reconciliations. This was due to numerous issues which the City has addressed, including implementation of new procedures. The City does not anticipate any future timeliness of filing.

**CITY OF ONTARIO
RICHLAND COUNTY, OHIO**

STATUS OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2007-COO-001	<u>Significant Deficiency/Material Weakness</u> - The City's bank accounts were not accurately reconciled at December 31, 2007 for the preceding year.	No	Not corrected - repeated as finding 2008-COO-001
2007-COO-002	Ohio Administrative Code Section 117-2-03(B) requires GAAP basis filing entities to file their report within 150 days of year end.	No	Not corrected - repeated as finding 2008-COO-002



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