

**CITY OF BROOKVILLE  
MONTGOMERY COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS**

*FOR THE YEAR ENDED  
DECEMBER 31, 2006*

**SONJA KEATON, DIRECTOR OF FINANCE**





Mary Taylor, CPA  
Auditor of State

City Council  
City of Brookville  
301 Sycamore Street  
Brookville, Ohio 45309

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

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

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

June 11, 2007

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**CITY OF BROOKVILLE  
MONTGOMERY COUNTY, OHIO**

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

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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

### **Independent Auditor's Report**

Members of Council and Mayor  
City of Brookville  
301 Sycamore Street  
Brookville, Ohio 45309

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 Brookville, Montgomery County, Ohio, (the "City"), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

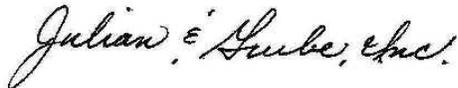
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform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

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

Members of Council and Mayor  
City of Brookville  
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

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 supplementary information. However, we did not audit the information and express no opinion on it.

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

Julian & Grube, Inc.  
May 11, 2007

## CITY OF BROOKVILLE, OHIO

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

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

#### Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$498,255. Net assets of governmental activities increased \$651,671 or 7.83% over 2005 and net assets of business-type activities decreased \$117,416 or 2.59% over 2005.
- General revenues accounted for \$2,870,735 of total governmental activities revenue. Program specific revenues accounted for \$1,792,287 or 38.44% of total governmental activities revenue.
- The City had \$4,082,719 in expenses related to governmental activities; \$1,792,287 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,290,432 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$2,657,546.
- The general fund had revenues and other financing sources of \$3,497,570 in 2006. This represents an increase of \$255,552 from 2005. The expenditures and other financing uses of the general fund, which totaled \$3,546,917 in 2006, increased \$150,982 from 2005. The net decrease in fund balance for the general fund was \$49,347 or 4.68%.
- The street construction maintenance and repair fund had revenues and other financing sources of \$600,760 in 2006. The expenditures of the street construction maintenance and repair fund, totaled \$616,136 in 2006. The net decrease in fund balance for the street construction maintenance and repair fund was \$15,376 or 12.01%.
- The capital improvement fund had revenues and other financing sources of \$2,134,224 in 2006. The expenditures of the capital improvement fund, totaled \$2,149,997 in 2006. The net decrease in fund balance for the capital improvement fund was \$15,773 or 8.01%.
- The fire capital improvement fund had revenues of \$249,205 in 2006. The expenditures of the fire capital improvement fund, totaled \$81,839 in 2006. The net increase in fund balance for the fire capital improvement fund was \$167,366 or 46.85%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, decreased in 2006 by \$117,416. This decrease in net assets was due primarily to increasing operating expenses.
- In the general fund, the actual revenues came in \$81,323 lower than they were in the final budget and actual expenditures and other financing uses were \$240,149 less than the amount in the final budget.

#### 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 BROOKVILLE, OHIO

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

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 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

#### **Reporting the City's Most Significant Funds**

##### *Fund Financial Statements*

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

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

## **CITY OF BROOKVILLE, OHIO**

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

#### ***Governmental Funds***

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, street construction maintenance and repair fund, capital improvement fund and Fire capital improvement 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 20-27 of this report.

#### ***Proprietary Funds***

The City maintains one type of 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, sewer, and refuse management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 28-30 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. The City has no fiduciary funds.

#### ***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 31-56 of this report.

**CITY OF BROOKVILLE, OHIO**

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

**Government-Wide Financial Analysis**

The Statement of Net Assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2006 compared to 2005.

	<b>Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and other assets	\$ 2,593,569	\$ 2,351,370	\$ 935,346	\$ 966,441	\$ 3,528,915	\$ 3,317,811
Capital assets	<u>7,513,028</u>	<u>7,223,256</u>	<u>4,730,466</u>	<u>5,007,461</u>	<u>12,243,494</u>	<u>12,230,717</u>
Total assets	<u>10,106,597</u>	<u>9,574,626</u>	<u>5,665,812</u>	<u>5,973,902</u>	<u>15,772,409</u>	<u>15,548,528</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,275,562	1,404,288	1,069,126	1,251,842	2,344,688	2,656,130
Other liabilities	<u>352,573</u>	<u>307,547</u>	<u>176,584</u>	<u>184,542</u>	<u>529,157</u>	<u>492,089</u>
Total liabilities	<u>1,628,135</u>	<u>1,711,835</u>	<u>1,245,710</u>	<u>1,436,384</u>	<u>2,873,845</u>	<u>3,148,219</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	6,344,477	5,981,104	3,694,371	3,822,936	10,038,848	9,804,040
Restricted	1,014,653	754,741	-	-	1,014,653	754,741
Unrestricted	<u>1,119,332</u>	<u>1,126,946</u>	<u>725,731</u>	<u>714,582</u>	<u>1,845,063</u>	<u>1,841,528</u>
Total net assets	<u>\$ 8,478,462</u>	<u>\$ 7,862,791</u>	<u>\$ 4,420,102</u>	<u>\$ 4,537,518</u>	<u>\$ 12,898,564</u>	<u>\$ 12,400,309</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$12,898,564. At year-end, net assets were \$8,478,462 and \$4,420,102 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 assets. At year-end, capital assets represented 74.33% and 83.49% of total assets for the governmental activities and business-type activities, respectively. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$6,344,477 and \$3,694,371 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.

A portion of the City's net assets, \$1,014,653 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 \$1,119,332 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF BROOKVILLE, OHIO**

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

The following table shows the comparative analysis of changes in net assets for fiscal year 2006 compared to 2005.

	<b>Change in Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,018,623	\$ 872,382	\$ 1,737,835	\$ 1,593,032	\$ 2,756,458	\$ 2,465,414
Operating grants and contributions	302,327	272,995	-	-	302,327	272,995
Capital grants and contributions	471,337	720,986	-	-	471,337	720,986
Total program revenues	<u>1,792,287</u>	<u>1,866,363</u>	<u>1,737,835</u>	<u>1,593,032</u>	<u>3,530,122</u>	<u>3,459,395</u>
General revenues:						
Property taxes	133,729	51,874	-	-	133,729	51,874
Income taxes	2,200,957	1,972,840	-	-	2,200,957	1,972,840
Unrestricted grants and entitlements	322,860	510,906	-	-	322,860	510,906
Investment earnings	100,137	56,133	-	-	100,137	56,133
Miscellaneous	113,052	72,364	-	-	113,052	72,364
Total general revenues	<u>2,870,735</u>	<u>2,664,117</u>	<u>-</u>	<u>-</u>	<u>2,870,735</u>	<u>2,664,117</u>
Total revenues	<u>4,663,022</u>	<u>4,530,480</u>	<u>1,737,835</u>	<u>1,593,032</u>	<u>6,400,857</u>	<u>6,123,512</u>
<b>Expenses:</b>						
General government	809,870	771,650	-	-	809,870	771,650
Security of persons and property	1,891,435	1,773,944	-	-	1,891,435	1,773,944
Public health and welfare	-	10,353	-	-	-	10,353
Transportation	1,167,952	1,079,760	-	-	1,167,952	1,079,760
Leisure time activity	175,324	168,203	-	-	175,324	168,203
Interest and fiscal charges	38,138	1,429	-	-	38,138	1,429
Water	-	-	831,895	754,651	831,895	754,651
Sewer	-	-	745,722	689,659	745,722	689,659
Refuse	-	-	329,034	363,071	329,034	363,071
Total expenses	<u>4,082,719</u>	<u>3,805,339</u>	<u>1,906,651</u>	<u>1,807,381</u>	<u>5,989,370</u>	<u>5,612,720</u>
<b>Special Items:</b>						
Gain on retirement of mortgage note	86,768	-	-	-	86,768	-
Transfers	<u>(51,400)</u>	<u>(10,000)</u>	<u>51,400</u>	<u>10,000</u>	<u>-</u>	<u>-</u>
Change in net assets	615,671	715,141	(117,416)	(204,349)	498,255	510,792
Net assets at beginning of year	<u>7,862,791</u>	<u>7,147,650</u>	<u>4,537,518</u>	<u>4,741,867</u>	<u>12,400,309</u>	<u>11,889,517</u>
Net assets at end of year	<u>\$ 8,478,462</u>	<u>\$ 7,862,791</u>	<u>\$ 4,420,102</u>	<u>\$ 4,537,518</u>	<u>\$ 12,898,564</u>	<u>\$ 12,400,309</u>

**CITY OF BROOKVILLE, OHIO**

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

**Governmental Activities**

Governmental activities net assets increased \$615,671 in 2006. This increase is a result of increasing revenues, primarily property taxes and investment earnings.

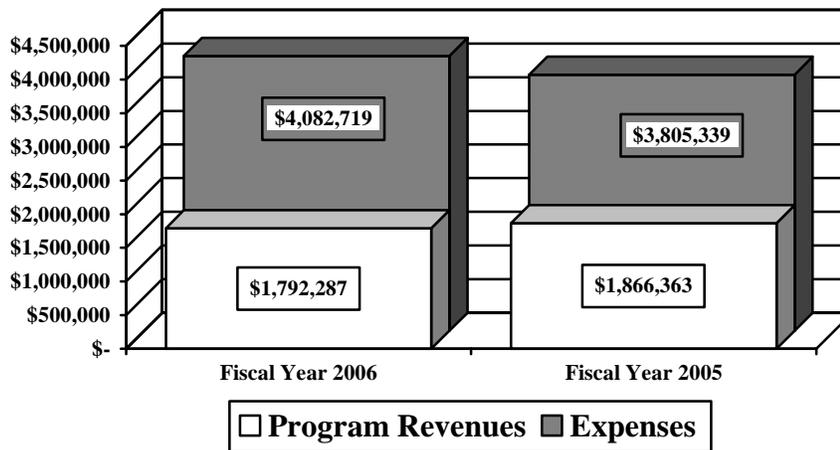
Security of persons and property which primarily supports the operations of the police and fire department accounted for \$1,891,435 or 46.33% of the total expenses of the City. Security of persons and property expenses were partially funded by \$807,170 in direct charges to users of the services. General government expenses totaled \$809,870. General government expenses were partially funded by \$164,749 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$302,327 in operating grants and contributions and \$471,337 in capital grants and contributions. These revenues are restricted to a particular program or purpose. The total grants and contributions subsidized transportation programs.

General revenues totaled \$2,870,735 and amounted to 61.56% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,334,686. 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 \$322,860.

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 for 2006 compared to 2005. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

**Governmental Activities - Program Revenues vs. Total Expenses**



**CITY OF BROOKVILLE, OHIO**

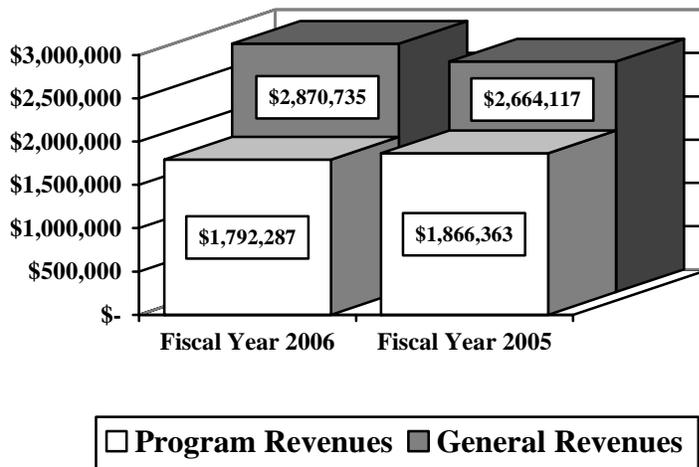
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**Governmental Activities**

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 809,870	\$ 645,121	\$ 771,650	\$ 557,811
Security of persons and property	1,891,435	1,084,265	1,773,944	1,161,605
Public health and welfare	-	-	10,353	-
Transportation	1,167,952	383,306	1,079,760	87,824
Leisure time activity	175,324	139,602	168,203	130,307
Interest and fiscal charges	38,138	38,138	1,429	1,429
<b>Total</b>	<b>\$ 4,082,719</b>	<b>\$ 2,290,432</b>	<b>\$ 3,805,339</b>	<b>\$ 1,938,976</b>

The dependence upon general revenues for governmental activities is apparent, with 56.10% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2006.

**Governmental Activities – General and Program Revenues**

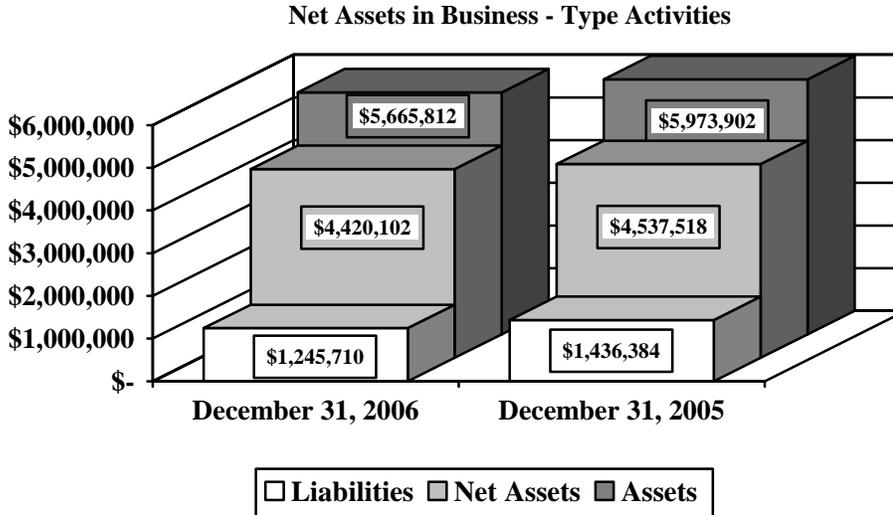


**CITY OF BROOKVILLE, OHIO**

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

**Business-type Activities**

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$1,737,835, transfers in of \$51,400 and expenses of \$1,906,651 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

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

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$1,845,944 which is \$91,430 above last year's total of \$1,754,514. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and non-major governmental funds.

	Fund Balances <u>12/31/2006</u>	Fund Balances <u>12/31/2005</u>	Increase (Decrease)
Major funds:			
General	\$ 1,004,656	\$ 1,054,003	\$ (49,347)
Street construction maintenance and repair	112,652	128,028	(15,376)
Capital improvement	181,140	196,913	(15,773)
Fire capital improvement	524,620	357,254	167,366
Other nonmajor governmental funds	<u>22,876</u>	<u>18,316</u>	4,560
Total	<u>\$ 1,845,944</u>	<u>\$ 1,754,514</u>	<u>\$ 91,430</u>

**CITY OF BROOKVILLE, OHIO**

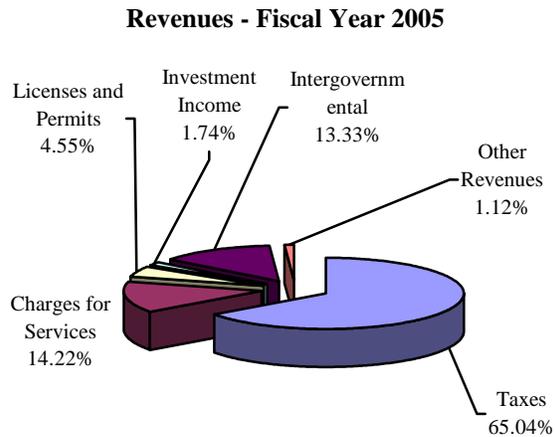
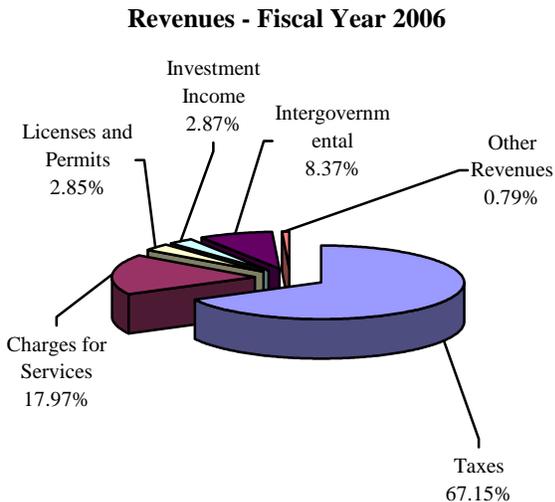
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**General Fund**

The City's general fund balance decreased \$49,347. The table that follows assists in illustrating the revenues of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,337,473	\$ 2,101,727	11.22 %
Charges for services	625,541	459,640	36.09 %
Licenses, permits and fees	99,108	147,161	(32.65) %
Investment income	99,987	56,084	78.28 %
Intergovernmental	291,274	430,684	(32.37) %
Other	<u>27,487</u>	<u>36,266</u>	(24.21) %
Total	<u>\$ 3,480,870</u>	<u>\$ 3,231,562</u>	7.71 %

Tax revenue represents 67.15% of all general fund revenue. The 78.28% increase in investment income is due to the City's new investments and to the increase in interest rates on the City's investments during the year. The 36.09% increase in charges for services is due primarily to a fire levy in passed during 2005 in Clay Township. The levy was passed as a replacement levy with a one mill increase. Clay Township is one of the townships that the City contracts with for fire services. The 32.65% decrease in licenses, permits and fees is due to the decrease in commercial building permits issued in 2006 compared to those issued in 2005.



**CITY OF BROOKVILLE, OHIO**

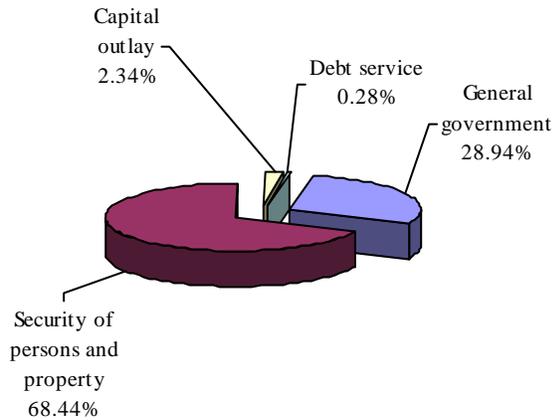
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

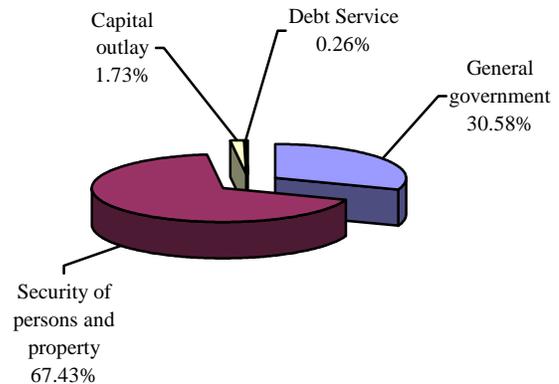
	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 777,079	\$ 758,609	2.43 %
Security of persons and property	1,837,548	1,672,962	9.84 %
Capital outlay	62,838	42,804	46.80 %
Debt service	<u>7,452</u>	<u>6,560</u>	13.60 %
 Total	 <u>\$ 2,684,917</u>	 <u>\$ 2,480,935</u>	 8.22 %

The City increased total expenditures by 8.22%. The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to wage and benefit increases. Capital outlay and debt service increased primarily due to the acquisition of a new capital leases.

**Expenditures - Fiscal Year 2006**



**Expenditures - Fiscal Year 2005**



***Budgeting Highlights***

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.

Budgetary information is presented for the general fund and street construction maintenance and repair fund. In the general fund, the actual revenues came in \$81,323 lower than they were in the final budget and actual expenditures and other financing uses were \$240,149 less than the amount in the final budget. Budgeted revenues were increased \$28,766 from the original to the final budget. Budgeted expenditures and other financing uses were increased \$48,300 from the original to the final budget.

**CITY OF BROOKVILLE, OHIO**

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

***Street Construction Maintenance and Repair Fund***

The street construction maintenance and repair fund had revenues and other financing sources of \$600,760 in 2006. The expenditures of the street construction maintenance and repair fund, totaled \$616,136 in 2006. The net decrease in fund balance for the street construction maintenance and repair fund was \$15,376 or 12.01%.

***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of \$2,134,224 in 2006. The expenditures of the capital improvement fund, totaled \$2,149,997 in 2006. The net decrease in fund balance for the capital improvement fund was \$15,773 or 8.01%.

***Fire Capital Improvement Fund***

The fire capital improvement fund had revenues of \$249,205 in 2006. The expenditures of the fire capital improvement fund, totaled \$81,839 in 2006. The net increase in fund balance for the capital improvement fund was \$167,366 or 46.85%.

***Proprietary Funds***

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

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the City had \$12,243,494 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$7,513,028 was reported in governmental activities and \$4,730,466 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows fiscal 2006 balances compared to 2005:

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

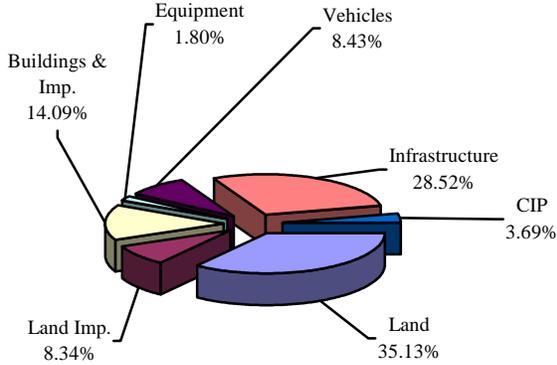
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 2,638,803	\$ 2,696,163	\$ 32,388	\$ 32,388	\$ 2,671,191	\$ 2,728,551
Land improvements	626,276	688,487	3,983,781	4,341,384	4,610,057	5,029,871
Buildings and improvements	1,058,852	1,107,730	190,232	197,157	1,249,084	1,304,887
Equipment	135,323	124,489	47,296	51,720	182,619	176,209
Vehicles	633,682	659,920	35,578	49,809	669,260	709,729
Infrastructure	2,142,854	1,946,467	427,183	335,003	2,570,037	2,281,470
Construction in progress	<u>277,238</u>	<u>-</u>	<u>14,008</u>	<u>-</u>	<u>291,246</u>	<u>-</u>
Totals	<u>\$ 7,513,028</u>	<u>\$ 7,223,256</u>	<u>\$ 4,730,466</u>	<u>\$ 5,007,461</u>	<u>\$ 12,243,494</u>	<u>\$ 12,230,717</u>

**CITY OF BROOKVILLE, OHIO**

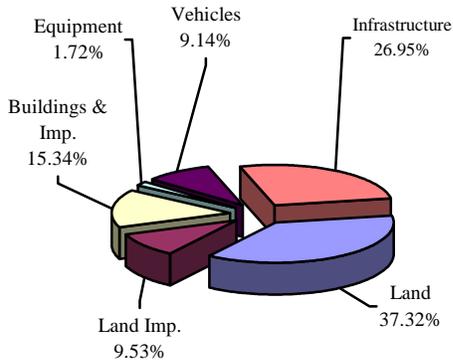
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

**Capital Assets - Governmental Activities 2006**



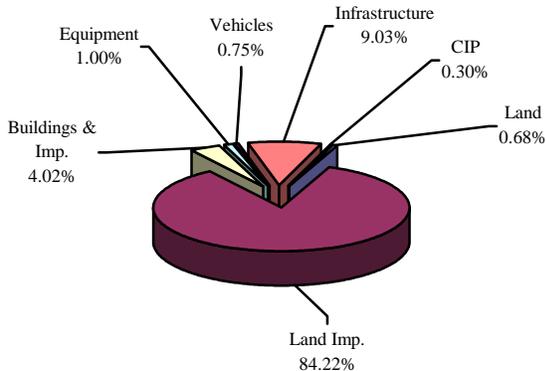
**Capital Assets - Governmental Activities 2005**



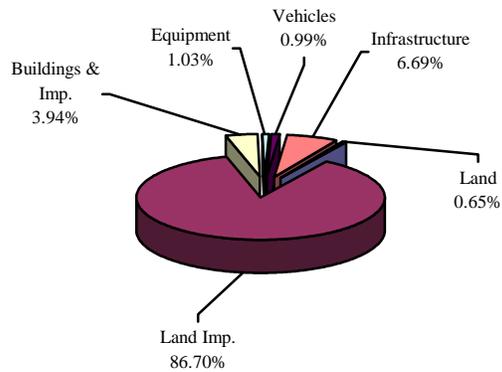
This is the City's third year of reporting infrastructure, and it is already the second largest capital asset category. Infrastructure includes bridges and streets. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 28.52% of the City's total governmental capital assets.

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

**Capital Assets - Business-Type Activities 2006**



**Capital Assets - Business-Type Activities 2005**



The City's largest business-type capital asset category is land improvements which include 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 land improvements (cost less accumulated depreciation) represents approximately 84.22% of the City's total business-type capital assets.

**CITY OF BROOKVILLE, OHIO**

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

***Debt Administration***

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

	Governmental Activities	
	2006	2005
Mortgage note payable	\$ -	\$ 1,229,040
Notes payable	1,148,000	-
Capital leases payable	20,551	13,112
Compensated absences	107,011	162,136
 Total long-term obligations	 \$ 1,275,562	 \$ 1,404,288
	Business-type Activities	
	2006	2005
OPWC loans	\$ 745,205	\$ 819,354
OWDA loan	290,890	365,171
Compensated absences	33,031	67,317
 Total long-term obligations	 \$ 1,069,126	 \$ 1,251,842

**Economic Conditions and Outlook**

The City's Administration considers the impact of various economic factors when establishing the fiscal year budget. The continued challenges resulting from regional loss of employment, reduction of revenue and stagnant economic development have yielded significant influence on the objectives established in the budget the last few years.

Even though we continued to face flat revenues in 2006, compared to the "good years" of the 90's, we still experienced a successful year relative to what we were able to accomplish. Service levels were maintained, even though the City experienced a layoff in the Service Department. The City completed numerous Capital Improvement projects that will have a lasting impact on the City for years to come. Several of the projects received grant fund assistance.

Despite the uncertainty still surrounding the economy, the City continues to carefully monitor two primary sources of revenue, local income taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue streams, City Council continues to pursue economic development and job creation, in order to maintain the community's reputation for high public safety standards, and adoption of a budget designed to promote long-term fiscal stability.

A substantial portion of the General Fund revenues (64.3%) comes from the City's 1.75 percent income tax; much of which is derived from our industrial sector in the Mosier Industrial Park. Growth in overall income tax collections between 2000 and 2002 were non-existent; in fact income tax declined to a low of \$1,723,633 in 2002. Income tax began to increase again in 2003 and saw a high of \$2,231,794 in 2004, which can be attributed to the construction of a new 4-12 grade school building in Brookville. Total cash-basis income tax revenue for 2006 was \$2,176,690, and increase of \$64,468 or 3.1% from the previous year.

**CITY OF BROOKVILLE, OHIO**

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

In recent years, the City's General Fund cash balance has declined from \$1.2 million in 2001 to \$667,699 in 2006. Most of that can be attributed to the flat revenue we saw in local government funds, which froze revenue at the 2000 level, the continuing decline in Inheritance Tax, and of course ongoing expenses, which seem to grow at a faster rate than revenues coming in. As interest rates begin to climb, which they did in 2006, and as the City continues to acquire new businesses and assist existing businesses with their expansions, balances in the General Fund should stabilize and begin to grow again.

**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 please contact: Sonja Keaton, Director of Finance, 301 Sycamore Street, Brookville, Ohio 45309.

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF BROOKVILLE, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2006

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 1,501,483	\$ 424,567	\$ 1,926,050
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	310,796	-	310,796
Real and other taxes . . . . .	134,905	-	134,905
Accounts . . . . .	220,490	501,983	722,473
Accrued interest . . . . .	3,503	-	3,503
Special assessments . . . . .	1,030	-	1,030
Due from other governments . . . . .	356,869	-	356,869
Prepayments . . . . .	39,960	8,311	48,271
Materials and supplies inventory. . . . .	24,533	485	25,018
Capital assets:			
Land and construction in progress. . . . .	2,916,041	46,396	2,962,437
Depreciable capital assets, net . . . . .	4,596,987	4,684,070	9,281,057
Total capital assets. . . . .	<u>7,513,028</u>	<u>4,730,466</u>	<u>12,243,494</u>
Total assets. . . . .	<u>10,106,597</u>	<u>5,665,812</u>	<u>15,772,409</u>
<b>Liabilities:</b>			
Accounts payable. . . . .	44,069	156,410	200,479
Contracts payable. . . . .	49,871	-	49,871
Accrued wages and benefits . . . . .	46,760	12,248	59,008
Due to other governments . . . . .	43,811	6,266	50,077
Pension obligation payable. . . . .	41,712	1,660	43,372
Deferred revenue. . . . .	126,350	-	126,350
Long-term liabilities:			
Due within one year . . . . .	97,011	172,549	269,560
Due in more than one year . . . . .	1,178,551	896,577	2,075,128
Total liabilities . . . . .	<u>1,628,135</u>	<u>1,245,710</u>	<u>2,873,845</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	6,344,477	3,694,371	10,038,848
Restricted for:			
Capital projects. . . . .	805,093	-	805,093
Debt service . . . . .	1,175	-	1,175
Street construction, maintenance and repair. . . . .	112,652	-	112,652
Other purposes . . . . .	95,733	-	95,733
Unrestricted. . . . .	<u>1,119,332</u>	<u>725,731</u>	<u>1,845,063</u>
Total net assets . . . . .	<u>\$ 8,478,462</u>	<u>\$ 4,420,102</u>	<u>\$ 12,898,564</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government . . . . .	\$ 809,870	\$ 164,749	\$ -	\$ -
Security of persons and property. . . . .	1,891,435	807,170	-	-
Transportation . . . . .	1,167,952	10,982	302,327	471,337
Leisure time activity. . . . .	175,324	35,722	-	-
Interest and fiscal charges. . . . .	38,138	-	-	-
	4,082,719	1,018,623	302,327	471,337
<b>Business-Type Activities:</b>				
Water . . . . .	831,895	908,294	-	-
Sewer . . . . .	745,722	499,328	-	-
Refuse . . . . .	329,034	330,213	-	-
	1,906,651	1,737,835	-	-
Total business-type activities . . . . .	1,906,651	1,737,835	-	-
Total primary government. . . . .	\$ 5,989,370	\$ 2,756,458	\$ 302,327	\$ 471,337

**General Revenues:**

Property taxes levied for:	
General purposes. . . . .	
Income taxes levied for:	
General purposes. . . . .	
Grants and entitlements not restricted to specific programs . . . . .	
Investment earnings . . . . .	
Miscellaneous . . . . .	
 Total general revenues. . . . .	

**Special Items:**

Gain on retirement of mortgage note . . . . .	
 Total general revenues and special items . . . . .	
 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**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (645,121)	\$ -	\$ (645,121)
(1,084,265)	-	(1,084,265)
(383,306)	-	(383,306)
(139,602)	-	(139,602)
(38,138)	-	(38,138)
<u>(2,290,432)</u>	<u>-</u>	<u>(2,290,432)</u>
-	76,399	76,399
-	(246,394)	(246,394)
-	1,179	1,179
<u>-</u>	<u>(168,816)</u>	<u>(168,816)</u>
<u>(2,290,432)</u>	<u>(168,816)</u>	<u>(2,459,248)</u>
133,729	-	133,729
2,200,957	-	2,200,957
322,860	-	322,860
100,137	-	100,137
113,052	-	113,052
<u>2,870,735</u>	<u>-</u>	<u>2,870,735</u>
<u>86,768</u>	<u>-</u>	<u>86,768</u>
2,957,503	-	2,957,503
<u>(51,400)</u>	<u>51,400</u>	<u>-</u>
615,671	(117,416)	498,255
<u>7,862,791</u>	<u>4,537,518</u>	<u>12,400,309</u>
<u>\$ 8,478,462</u>	<u>\$ 4,420,102</u>	<u>\$ 12,898,564</u>

**CITY OF BROOKVILLE, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2006

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>	<u>Capital Improvement</u>	<u>Fire Capital Improvement</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 670,697	\$ 92,828	\$ 190,361	\$ 523,218
Receivables (net of allowance for uncollectibles):				
Income taxes. . . . .	310,796	-	-	-
Real and other taxes. . . . .	134,905	-	-	-
Accounts . . . . .	217,342	3,110	-	-
Accrued interest . . . . .	3,479	24	-	-
Special assessments. . . . .	-	-	1,030	-
Due from other governments . . . . .	75,789	140,725	138,953	1,402
Prepayments. . . . .	31,684	6,839	-	-
Materials and supplies inventory . . . . .	15,242	9,291	-	-
Total assets . . . . .	<u>\$ 1,459,934</u>	<u>\$ 252,817</u>	<u>\$ 330,344</u>	<u>\$ 524,620</u>
<b>Liabilities:</b>				
Accounts payable . . . . .	\$ 35,965	\$ 6,647	\$ -	\$ -
Contracts payable . . . . .	-	-	49,871	-
Accrued wages and benefits. . . . .	39,735	6,216	-	-
Due to other governments. . . . .	38,599	4,623	-	-
Pension obligation payable . . . . .	40,760	842	-	-
Deferred revenue . . . . .	300,219	121,837	99,333	-
Total liabilities . . . . .	<u>455,278</u>	<u>140,165</u>	<u>149,204</u>	<u>-</u>
<b>Fund Balances:</b>				
Reserved for encumbrances. . . . .	304	235	12,087	428,247
Reserved for prepayments . . . . .	31,684	6,839	-	-
Reserved for materials and supplies inventory . . . . .	15,242	9,291	-	-
Unreserved, undesignated, reported in:				
General fund. . . . .	957,426	-	-	-
Special revenue funds. . . . .	-	96,287	-	-
Debt service fund . . . . .	-	-	-	-
Capital projects funds. . . . .	-	-	169,053	96,373
Total fund balances . . . . .	<u>1,004,656</u>	<u>112,652</u>	<u>181,140</u>	<u>524,620</u>
Total liabilities and fund balances. . . . .	<u>\$ 1,459,934</u>	<u>\$ 252,817</u>	<u>\$ 330,344</u>	<u>\$ 524,620</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$ 24,379	\$ 1,501,483
-	310,796
-	134,905
38	220,490
-	3,503
-	1,030
-	356,869
1,437	39,960
-	24,533
<u>\$ 25,854</u>	<u>\$ 2,593,569</u>
\$ 1,457	\$ 44,069
-	49,871
809	46,760
589	43,811
110	41,712
13	521,402
<u>2,978</u>	<u>747,625</u>
50	440,923
1,437	39,960
-	24,533
-	957,426
20,214	116,501
1,175	1,175
-	265,426
<u>22,876</u>	<u>1,845,944</u>
<u>\$ 25,854</u>	<u>\$ 2,593,569</u>

**CITY OF BROOKVILLE, OHIO**

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

<b>Total governmental fund balances</b>		\$ 1,845,944
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		7,513,028
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 2,255	
Income taxes	85,847	
Charges for services	2,891	
Licenses, permits and fees	17,173	
Special assessments	380	
Intergovernmental revenues	286,446	
Accrued interest	60	
Total		395,052
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	(107,011)	
Capital lease payable	(20,551)	
Note payable	(1,148,000)	
		(1,275,562)
<b>Net assets of governmental activities</b>		<b>\$ 8,478,462</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF BROOKVILLE, OHIO**

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

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>	<u>Capital Improvement</u>	<u>Fire Capital Improvement</u>
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 2,201,042	\$ -	\$ -	\$ -
Property and other taxes . . . . .	136,431	-	-	-
Charges for services . . . . .	625,541	8,104	-	247,270
Licenses, permits and fees . . . . .	99,108	-	-	-
Intergovernmental . . . . .	291,274	282,375	372,384	-
Special assessments . . . . .	-	-	16,184	-
Investment income . . . . .	99,987	103	-	-
Rental income . . . . .	26,341	-	-	-
Donations . . . . .	5	-	-	1,935
Other . . . . .	1,141	60,178	-	-
Total revenues . . . . .	<u>3,480,870</u>	<u>350,760</u>	<u>388,568</u>	<u>249,205</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	777,079	-	-	-
Security of persons and property . . . . .	1,837,548	-	-	-
Transportation . . . . .	-	616,136	-	-
Leisure time activity . . . . .	-	-	-	-
Capital outlay . . . . .	62,838	-	984,997	81,839
Debt service:				
Principal retirement . . . . .	5,867	-	1,142,272	-
Interest and fiscal charges . . . . .	1,585	-	22,728	-
Total expenditures . . . . .	<u>2,684,917</u>	<u>616,136</u>	<u>2,149,997</u>	<u>81,839</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>795,953</u>	<u>(265,376)</u>	<u>(1,761,429)</u>	<u>167,366</u>
<b>Other financing sources (uses):</b>				
Sale of capital assets . . . . .	-	-	80,656	-
Sale of notes . . . . .	-	-	1,165,000	-
Capital lease transaction . . . . .	16,700	-	-	-
Transfers in . . . . .	-	250,000	500,000	-
Transfers out . . . . .	(862,000)	-	-	-
Total other financing sources (uses) . . . . .	<u>(845,300)</u>	<u>250,000</u>	<u>1,745,656</u>	<u>-</u>
Net change in fund balances . . . . .	(49,347)	(15,376)	(15,773)	167,366
<b>Fund balances at beginning of year . . . . .</b>	<u>1,054,003</u>	<u>128,028</u>	<u>196,913</u>	<u>357,254</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,004,656</u>	<u>\$ 112,652</u>	<u>\$ 181,140</u>	<u>\$ 524,620</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 2,201,042
-	136,431
11,526	892,441
24,183	123,291
-	946,033
-	16,184
-	100,090
-	26,341
-	1,940
7,809	69,128
<u>43,518</u>	<u>4,512,921</u>
-	777,079
1,411	1,838,959
-	616,136
103,722	103,722
-	1,129,674
17,000	1,165,139
13,825	38,138
<u>135,958</u>	<u>5,668,847</u>
<u>(92,440)</u>	<u>(1,155,926)</u>
-	80,656
-	1,165,000
-	16,700
97,000	847,000
-	(862,000)
<u>97,000</u>	<u>1,247,356</u>
4,560	91,430
18,316	1,754,514
<u>\$ 22,876</u>	<u>\$ 1,845,944</u>

**CITY OF BROOKVILLE, OHIO**

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

**Net change in fund balances - total governmental funds** \$ 91,430

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

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

Capital asset additions	\$ 746,946	
Current year depreciation	(388,455)	
Total		358,491

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. (68,719)

Proceeds of notes and capital leases are recognized as revenue in the governmental funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities in the statement of activities. (1,181,700)

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

Property taxes	(2,702)	
Income taxes	(85)	
Charges for services	2,891	
Licenses, permits and fees	17,173	
Special assessments	(324)	
Intergovernmental revenues	117,458	
Accrued interest	47	
Total		134,458

Repayment of capital lease and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This includes the gain from early retirement of debt. 1,251,907

Capital lease obligation payable balance forgiven as part of the lease trade-in agreement. This reduces the liability on the statement of net assets. 3,394

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. 26,410

**Change in net assets of governmental activities** \$ 615,671

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 2,210,463	\$ 2,228,948	\$ 2,176,690	\$ (52,258)
Property and other taxes . . . . .	138,548	139,707	136,431	(3,276)
Charges for services . . . . .	536,299	540,784	528,105	(12,679)
Licenses and permits and fees . . . . .	114,917	115,878	113,161	(2,717)
Intergovernmental . . . . .	312,005	314,614	307,238	(7,376)
Investment income . . . . .	100,880	101,724	99,339	(2,385)
Rental income . . . . .	26,750	26,973	26,341	(632)
Donations . . . . .	5	5	5	-
Total revenues. . . . .	<u>3,439,867</u>	<u>3,468,633</u>	<u>3,387,310</u>	<u>(81,323)</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	884,379	866,879	808,879	58,000
Security of persons and property . . . . .	1,809,265	1,845,665	1,829,446	16,219
Capital outlay. . . . .	70,088	70,088	46,558	23,530
Total expenditures . . . . .	<u>2,763,732</u>	<u>2,782,632</u>	<u>2,684,883</u>	<u>97,749</u>
Excess of revenues over expenditures . . . . .	<u>676,135</u>	<u>686,001</u>	<u>702,427</u>	<u>16,426</u>
<b>Other financing uses:</b>				
Transfers out. . . . .	<u>(975,000)</u>	<u>(1,004,400)</u>	<u>(862,000)</u>	<u>142,400</u>
Total other financing uses. . . . .	<u>(975,000)</u>	<u>(1,004,400)</u>	<u>(862,000)</u>	<u>142,400</u>
Net change in fund balance . . . . .	(298,865)	(318,399)	(159,573)	158,826
<b>Fund balance at beginning of year . . . . .</b>	823,040	823,040	823,040	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>4,232</u>	<u>4,232</u>	<u>4,232</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 528,407</u>	<u>\$ 508,873</u>	<u>\$ 667,699</u>	<u>\$ 158,826</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Charges for services . . . . .	\$ 8,833	\$ 8,833	\$ 9,097	\$ 264
Intergovernmental . . . . .	277,661	277,661	285,972	8,311
Investment income . . . . .	77	77	79	2
Other . . . . .	58,429	58,429	60,178	1,749
Total revenues. . . . .	<u>345,000</u>	<u>345,000</u>	<u>355,326</u>	<u>10,326</u>
<b>Expenditures:</b>				
Current:				
Transportation . . . . .	684,949	687,949	621,088	66,861
Total expenditures . . . . .	<u>684,949</u>	<u>687,949</u>	<u>621,088</u>	<u>66,861</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(339,949)</u>	<u>(342,949)</u>	<u>(265,762)</u>	<u>77,187</u>
<b>Other financing sources:</b>				
Transfers in. . . . .	250,000	250,000	250,000	-
Total other financing sources . . . . .	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Net change in fund balance . . . . .	(89,949)	(92,949)	(15,762)	77,187
<b>Fund balance at beginning of year . . . . .</b>	103,366	103,366	103,366	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>1,949</u>	<u>1,949</u>	<u>1,949</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 15,366</u>	<u>\$ 12,366</u>	<u>\$ 89,553</u>	<u>\$ 77,187</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2006

	<b>Business-Type Activities -Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Total</b>
<b>Assets:</b>				
Current assets:				
Equity in pooled cash and cash equivalents . . . . .	\$ 110,441	\$ 282,591	\$ 31,535	\$ 424,567
Receivables (net of allowance for uncollectibles):				
Accounts . . . . .	268,417	129,210	104,356	501,983
Prepayments . . . . .	2,137	4,308	1,866	8,311
Materials and supplies inventory . . . . .	-	485	-	485
Total current assets . . . . .	<u>380,995</u>	<u>416,594</u>	<u>137,757</u>	<u>935,346</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress . . . . .	14,008	32,388	-	46,396
Depreciable capital assets, net . . . . .	537,146	4,111,346	35,578	4,684,070
Total capital assets . . . . .	<u>551,154</u>	<u>4,143,734</u>	<u>35,578</u>	<u>4,730,466</u>
Total assets . . . . .	<u>932,149</u>	<u>4,560,328</u>	<u>173,335</u>	<u>5,665,812</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable. . . . .	133,094	6,192	17,124	156,410
Accrued wages and benefits . . . . .	3,452	4,850	3,946	12,248
Compensated absences . . . . .	5,334	7,525	6,160	19,019
Due to other governments . . . . .	1,669	2,486	2,111	6,266
Pension obligation payable. . . . .	468	657	535	1,660
Current portion of OPWC loan . . . . .	27,794	47,694	-	75,488
Current portion of OWDA loan . . . . .	-	78,042	-	78,042
Total current liabilities . . . . .	<u>171,811</u>	<u>147,446</u>	<u>29,876</u>	<u>349,133</u>
Long-term liabilities:				
OPWC loans payable . . . . .	198,933	470,784	-	669,717
OWDA loans payable . . . . .	-	212,848	-	212,848
Compensated absences . . . . .	3,390	5,424	5,198	14,012
Total long-term liabilities . . . . .	<u>202,323</u>	<u>689,056</u>	<u>5,198</u>	<u>896,577</u>
Total liabilities . . . . .	<u>374,134</u>	<u>836,502</u>	<u>35,074</u>	<u>1,245,710</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt. . . . .	324,427	3,334,366	35,578	3,694,371
Unrestricted . . . . .	233,588	389,460	102,683	725,731
Total net assets . . . . .	<u>\$ 558,015</u>	<u>\$ 3,723,826</u>	<u>\$ 138,261</u>	<u>\$ 4,420,102</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

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

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Total</b>
<b>Operating revenues:</b>				
Charges for services . . . . .	\$ 870,794	\$ 464,583	\$ 330,213	\$ 1,665,590
Tap-in fees. . . . .	37,500	31,320	-	68,820
Total operating revenues . . . . .	<u>908,294</u>	<u>495,903</u>	<u>330,213</u>	<u>1,734,410</u>
<b>Operating expenses:</b>				
Personal services . . . . .	124,825	185,473	136,700	446,998
Contract services . . . . .	641,438	172,943	146,337	960,718
Materials and supplies . . . . .	6,769	-	31,766	38,535
Depreciation . . . . .	46,530	343,084	14,231	403,845
Total operating expenses. . . . .	<u>819,562</u>	<u>701,500</u>	<u>329,034</u>	<u>1,850,096</u>
Operating income (loss) . . . . .	<u>88,732</u>	<u>(205,597)</u>	<u>1,179</u>	<u>(115,686)</u>
<b>Nonoperating revenues (expenses):</b>				
Interest expense and fiscal charges . . . . .	(12,333)	(44,222)	-	(56,555)
Special assessments . . . . .	-	3,425	-	3,425
Total nonoperating revenues (expenses) . . . . .	<u>(12,333)</u>	<u>(40,797)</u>	<u>-</u>	<u>(53,130)</u>
Income (loss) before capital contributions and transfers . . . . .	76,399	(246,394)	1,179	(168,816)
Capital contributions . . . . .	36,400	-	-	36,400
Transfers in. . . . .	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>15,000</u>
Changes in net assets . . . . .	112,799	(246,394)	16,179	(117,416)
<b>Net assets at beginning of year. . . . .</b>	<u>445,216</u>	<u>3,970,220</u>	<u>122,082</u>	<u>4,537,518</u>
<b>Net assets at end of year. . . . .</b>	<u>\$ 558,015</u>	<u>\$ 3,723,826</u>	<u>\$ 138,261</u>	<u>\$ 4,420,102</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>				
Cash received from customers . . . . .	\$ 838,422	\$ 478,519	\$ 327,575	\$ 1,644,516
Cash received from tap-in fees . . . . .	37,500	31,320	-	68,820
Cash payments for personal services . . . . .	(127,097)	(189,777)	(161,658)	(478,532)
Cash payments for contract services . . . . .	(644,940)	(170,287)	(150,398)	(965,625)
Cash payments for materials and supplies . . . . .	(6,616)	(10,862)	(24,536)	(42,014)
Net cash provided by (used in) operating activities.	<u>97,269</u>	<u>138,913</u>	<u>(9,017)</u>	<u>227,165</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash received from transfers in . . . . .	-	-	15,000	15,000
Cash received from special assessments. . . . .	-	3,425	-	3,425
Net cash provided by noncapital financing activities . . . . .	<u>-</u>	<u>3,425</u>	<u>15,000</u>	<u>18,425</u>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets . . . . .	(63,993)	(26,457)	-	(90,450)
Principal retirement on OPWC loans . . . . .	(26,455)	(47,694)	-	(74,149)
Principal retirement on OWDA loan. . . . .	-	(74,281)	-	(74,281)
Interest and fiscal charges . . . . .	(12,333)	(44,222)	-	(56,555)
Net cash used in capital and related financing activities . . . . .	<u>(102,781)</u>	<u>(192,654)</u>	<u>-</u>	<u>(295,435)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	(5,512)	(50,316)	5,983	(49,845)
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>115,953</u>	<u>332,907</u>	<u>25,552</u>	<u>474,412</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u><u>\$ 110,441</u></u>	<u><u>\$ 282,591</u></u>	<u><u>\$ 31,535</u></u>	<u><u>\$ 424,567</u></u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>				
Operating income (loss) . . . . .	\$ 88,732	\$ (205,597)	\$ 1,179	\$ (115,686)
Adjustments:				
Depreciation. . . . .	46,530	343,084	14,231	403,845
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable . . . . .	(32,372)	13,936	(2,638)	(21,074)
Decrease in prepayments . . . . .	701	930	693	2,324
Increase (decrease) in accounts payable . . . . .	(3,366)	(8,248)	3,160	(8,454)
Increase in accrued wages and benefits. . . . .	1,541	2,127	1,294	4,962
Decrease in due to other governments . . . . .	(1,335)	(1,756)	(2,048)	(5,139)
Decrease in compensated absences payable . . . . .	(3,371)	(5,851)	(25,064)	(34,286)
Increase in pension obligation payable. . . . .	209	288	176	673
Net cash provided by (used in) operating activities . . . . .	<u><u>\$ 97,269</u></u>	<u><u>\$ 138,913</u></u>	<u><u>\$ (9,017)</u></u>	<u><u>\$ 227,165</u></u>

**Non-cash capital transactions:**

The Water fund received \$36,400 in capital contributions from other governmental funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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## **CITY OF BROOKVILLE, OHIO**

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

#### **NOTE 1 - DESCRIPTION OF THE CITY**

The City of Brookville (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City operates under a council-manager government and provides the following services: police protection, water, sewer and refuse utility services, street maintenance and repair, as well as other services.

Management believes the financial statements included in this report represent all of the funds of the City over which the City officials have direct operating control.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) 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 City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The most significant of the City's accounting policies are described below.

##### **A. Reporting Entity**

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

The primary government consists of all funds and departments which provide various services including police protection, street maintenance and repair, parks, recreation, water, sewer and refuse services. Council and the City Manager are directly responsible for these activities. The accompanying financial statements present the City, which has no component units.

##### **B. Basis of Presentation - Fund Accounting**

The City's BFS 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 BROOKVILLE, OHIO**

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

**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 are self-financing or draw from the general revenues of the City.

***Fund Financial Statements*** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise 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. This includes, but is not limited to, police and fire protection, public health activities, and the general administration of City functions.

*Street Construction, Maintenance and Repair Fund* - This fund accounts for all transactions relating to street maintenance and construction.

*Capital Improvement Fund* - The capital improvement fund accounts for all transactions relating to the construction and improvements other than those financed by proprietary funds.

**CITY OF BROOKVILLE, OHIO**

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

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

*Fire Capital Improvement Fund* - The fire capital improvement fund accounts for revenues collected through EMS receipts to be used for construction and improvements relating to the fire department.

Other governmental funds of the City are used to account for grants and other resources whose use is restricted to a particular purpose.

*Proprietary Funds* - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows.

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

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

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

*Refuse Fund* - This fund accounts for the operations providing refuse removal to the residents and commercial users located with 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 has no fiduciary funds.

**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.

## CITY OF BROOKVILLE, OHIO

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

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

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities and operating expenses for the internal service fund include personnel costs, claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

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

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

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

## CITY OF BROOKVILLE, OHIO

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

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

**Deferred Revenue** - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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 Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code (ORC) and entails the preparation of budgetary documents within an established timetable. 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 Montgomery County Commissioners waived the tax budget for fiscal year 2006. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources. All funds, other than agency funds, are legally required to be budgeted and appropriated.

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Appropriation budgets are legally required for each fund at the object level. This is known as the legal level of budgetary control. Appropriation modifications outside the legal level of budgetary control must be approved by City Council. A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31.

An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified and the fund balance at the beginning of the year.

## CITY OF BROOKVILLE, OHIO

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

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

##### **G. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized during the year for budget control purposes. Encumbrances outstanding at year-end are reported as expenditures under the City's budgetary basis of accounting. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances for governmental funds since they do not constitute expenditures or liabilities.

##### **H. Cash and Cash Equivalents**

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

During 2006, investments were limited to nonnegotiable certificates of deposit, and investments in State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

The City has invested funds in STAR Ohio during 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2006.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2006 amounted to \$99,987, which included \$59,238 assigned from other funds of the City.

For purpose of presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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.

##### **I. Inventories of Materials and Supplies**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

**CITY OF BROOKVILLE, OHIO**

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

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

**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 \$5,000. The City’s infrastructure consists of culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, 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. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20 years	20 years
Buildings and improvements	50 years	50 years
Equipment	15 years	15 years
Vehicles	8 years	8 years
Infrastructure	20 years	50 years

**K. Compensated Absences**

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service or any employee with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16. Sick leave benefits were accrued using the “vesting” method.

## CITY OF BROOKVILLE, OHIO

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

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

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates. Payment of vacation and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of vacation and sick leave when such payments become due.

The entire compensated absence liability is reported on the government-wide financial statements.

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

#### **L. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions 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 BFS.

#### **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, materials and supplies inventory, and prepayments in the governmental fund financial statements.

**CITY OF BROOKVILLE, OHIO**

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

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

**O. Estimates**

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS 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 Water enterprise fund received contributions of capital of \$36,400 during 2006.

**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 adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources 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, sewer and refuse programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**S. Prepaid Items and Materials and Supplies Inventory**

Payments made to vendors for services that will benefit beyond year-end are recorded as prepaid expenditures. Prepayments are accounted for using the consumption method. On governmental fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

**T. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. A special item has been reported in the amount of \$86,768 during 2006 to report the gain on the payment of the mortgage revenue note. See note 9 for detail.

## CITY OF BROOKVILLE, OHIO

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

#### NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

##### **Change in Accounting Principles**

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

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

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

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

#### NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Director of Finance 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.

Interim monies to 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;

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool STAR Ohio;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 Director of Finance or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the City had \$200 in undeposited cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At December 31, 2006, the carrying amount of all City deposits was \$1,562,817. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$1,374,139 of the City's bank balance of \$1,774,139 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

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

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Investments**

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

<u>Investment type</u>	<u>Fair Value</u>	Investment <u>Maturity</u> 6 months or <u>less</u>
STAR Ohio	\$ 363,033	\$ 363,033
	<u>\$ 363,033</u>	<u>\$ 363,033</u>

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

*Credit Risk:* Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

*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 percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 363,033	100.00%
	<u>\$ 363,033</u>	<u>100.00%</u>

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

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

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,562,817
Investments	363,033
Cash on hand	<u>200</u>
Total	<u>\$ 1,926,050</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,501,483
Business type activities	<u>424,567</u>
Total	<u>\$ 1,926,050</u>

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 5 - INTERFUND TRANSFERS**

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

Transfers from General Fund to:

Street Construction, Maintenance and Repair	\$ 250,000
Capital Improvement	500,000
Nonmajor Governmental Funds	97,000
Refuse	<u>15,000</u>
Total transfers	<u>\$ 862,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget required 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, and (4) transfer assets purchased by governmental funds to enterprise funds.

Interfund balances between governmental funds are eliminated on the government-wide financial statements. Interfund balances between governmental activities and business-type activities are reported as transfers on the statement of net assets.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2002. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 25 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 6 - PROPERTY TAXES - (Continued)**

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

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively. The full tax rate for all City operations for the year ended December 31, 2006 was 1.3 mills of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property tax	\$ 101,151,110
Public utility tangible personal property	2,292,810
Tangible personal property	<u>5,450,212</u>
Total assessed valuation	<u>\$ 108,894,132</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

**NOTE 7 - LOCAL INCOME TAX**

The 1.75 percent City income tax, which is not subject to renewal, is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income tax on income they earn outside the City; however, full credit is allowed for all income taxes these residents pay to other municipalities as long as the City they work in has an income tax that is equal or greater than the City's 1.75 percent. If a resident works somewhere, where the tax is less than 1.75 percent or there is no income tax, they will have to pay the difference or all, depending on where they work. Employers within the city are required to withhold income tax on employee compensation and remit the tax to the City at least quarterly. Major employers are required to remit withholdings to the City monthly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2006. Income tax revenue for 2006 was \$2,201,042. Income tax revenue is reported in the general fund.

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due from other governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 8 - RECEIVABLES - (Continued)**

A summary of the items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Income taxes	\$ 310,796
Real and other taxes	134,905
Accounts	220,490
Accrued interest	3,503
Special assessments	1,030
Intergovernmental receivables	356,869

**Business-type Activities:**

Accounts	501,983
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

**NOTE 9 - MORTGAGE NOTE**

The City entered into an agreement with a land owner in which the City purchased 66.773 acres of land in September 2001 via a mortgage note. The City took ownership of the land and is selling it in pieces at no profit in an effort to develop a business park. The amount of the mortgage note is a varying requirement based on the time the land is sold. It ranges from \$22,500 an acre through September 21, 2005 and increases annually by incremental amounts until maturity on September 26, 2011 at which time the price is \$28,600 per acre.

During 2006 the City paid the mortgage note in full with the proceeds of a new note. The mortgage note payoff was \$1,142,272, and the current value of the land recorded as a liability on the City's books at payoff was \$1,229,040. The difference of \$86,768 is due to the varying rate per acre at which the mortgage note was calculated annually and has been reported as a special item on the statement of activities. The note was retired from the capital improvement fund in the amount of \$1,142,272.

The land has been recorded on the City's governmental capital assets in the amount of \$1,092,480.

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 10 - CAPITAL ASSETS**

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

<b><u>Governmental Activities:</u></b>	Balance <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,696,163	\$ -	\$ (57,360)	\$ 2,638,803
Construction in progress	<u>-</u>	<u>277,238</u>	<u>-</u>	<u>277,238</u>
Total capital assets, not being depreciated	<u>2,696,163</u>	<u>277,238</u>	<u>(57,360)</u>	<u>2,916,041</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,588,963	-	-	1,588,963
Buildings and improvements	1,675,759	-	-	1,675,759
Equipment	445,317	76,913	(18,090)	504,140
Vehicles	1,560,032	69,162	(35,206)	1,593,988
Infrastructure	<u>2,015,416</u>	<u>323,633</u>	<u>-</u>	<u>2,339,049</u>
Total capital assets, being depreciated	<u>7,285,487</u>	<u>469,708</u>	<u>(53,296)</u>	<u>7,701,899</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(900,476)	(62,211)	-	(962,687)
Buildings and improvements	(568,029)	(48,878)	-	(616,907)
Equipment	(320,828)	(62,373)	14,384	(368,817)
Vehicles	(900,112)	(87,747)	27,553	(960,306)
Infrastructure	<u>(68,949)</u>	<u>(127,246)</u>	<u>-</u>	<u>(196,195)</u>
Total accumulated depreciation	<u>(2,758,394)</u>	<u>(388,455)</u>	<u>41,937</u>	<u>(3,104,912)</u>
Total capital assets, being depreciated, net	<u>4,527,093</u>	<u>81,253</u>	<u>(11,359)</u>	<u>4,596,987</u>
Governmental activities capital assets, net	<u>\$ 7,223,256</u>	<u>\$ 358,491</u>	<u>\$ (68,719)</u>	<u>\$ 7,513,028</u>

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 10 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental activities as follows:

**Governmental activities:**

General government	\$ 32,610
Security of persons and property	81,313
Transportation	196,234
Leisure time activity	<u>78,298</u>
Total depreciation expense - governmental activities	<u>\$388,455</u>

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

<b><u>Business-type Activities:</u></b>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 32,388	\$ -	\$ -	\$ 32,388
Construction in progress	<u>-</u>	<u>14,008</u>	<u>-</u>	<u>14,008</u>
Total capital assets, not being depreciated	<u>32,388</u>	<u>14,008</u>	<u>-</u>	<u>46,396</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	8,795,210	-	-	8,795,210
Buildings and improvements	346,271	-	-	346,271
Equipment	66,355	-	-	66,355
Vehicles	175,796	-	-	175,796
Infrastructure	<u>369,839</u>	<u>112,842</u>	<u>-</u>	<u>482,681</u>
Total capital assets, being depreciated	<u>9,753,471</u>	<u>112,842</u>	<u>-</u>	<u>9,866,313</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(4,453,826)	(357,603)	-	(4,811,429)
Buildings and improvements	(149,114)	(6,925)	-	(156,039)
Equipment	(14,635)	(4,424)	-	(19,059)
Vehicles	(125,987)	(14,231)	-	(140,218)
Infrastructure	<u>(34,836)</u>	<u>(20,662)</u>	<u>-</u>	<u>(55,498)</u>
Total accumulated depreciation	<u>(4,778,398)</u>	<u>(403,845)</u>	<u>-</u>	<u>(5,182,243)</u>
Total capital assets, being depreciated, net	<u>4,975,073</u>	<u>(291,003)</u>	<u>-</u>	<u>4,684,070</u>
Business-type activities capital assets, net	<u>\$ 5,007,461</u>	<u>\$ (276,995)</u>	<u>\$ -</u>	<u>\$ 4,730,466</u>

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 10 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to business-type activities as follows:

**Business-type activities:**

Water	\$ 46,530
Sewer	343,084
Refuse	<u>14,231</u>
Total depreciation expense - business-type activities	<u>\$403,845</u>

**NOTE 11 - VACATION AND SICK LEAVE LIABILITY**

Vacation and sick leave accumulated by governmental fund type employees has been recorded in the statement of net assets to the extent they were not paid using current expendable available resources. Vacation and sick leave earned by proprietary funds type employees is expensed when earned and has been recorded in the fund. Upon termination of City service, a fully vested employee is entitled to a percentage of their accumulated sick leave based on their years of service. At December 31, 2006, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$50,936 and vested benefits for sick leave, totaled \$56,075. For proprietary fund types, vested benefits for vacation leave totaled \$19,019 and vested benefits for sick leave totaled \$14,012 at December 31, 2006. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

**NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE**

During 2006, the City entered into two new capital lease agreements for copiers. In a prior year, the City entered into a capital lease agreements for copiers and a file server. 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. At inception, capital lease transactions are accounted for as capital outlay expenditure and other financing source in the appropriate fund.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$32,287. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$9,464, leaving a current book value of \$22,823. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$5,867 paid by the general fund. In addition to the amount of principal retired the City also traded in leases with principal balances of \$3,394.

**CITY OF BROOKVILLE, OHIO**

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

**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 minimum lease payments as of December 31, 2006.

<u>Year Ending</u> <u>December 31,</u>	<u>General</u>
2007	\$ 8,556
2008	4,865
2009	4,159
2010	4,159
2011	<u>2,394</u>
Total future minimum lease payments	24,133
Less: amount representing interest	<u>(3,582)</u>
Present value of net minimum lease payments	<u>\$ 20,551</u>

**NOTE 13 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

<b>Governmental Activities:</b>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/06</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Mortgage Note Payable	\$ 1,229,040	\$ -	\$ (1,229,040)	\$ -	\$ -
Note Payable	-	1,165,000	(17,000)	1,148,000	39,000
Capital Lease Payable	13,112	16,700	(9,261)	20,551	7,075
Compensated Absences	<u>162,136</u>	<u>59,904</u>	<u>(115,029)</u>	<u>107,011</u>	<u>50,936</u>
Total governmental activities long-term obligations	<u>\$ 1,404,288</u>	<u>\$ 1,241,604</u>	<u>\$ (1,370,330)</u>	<u>\$ 1,275,562</u>	<u>\$ 97,011</u>

*Compensated absences:* Compensated absences are reported in the Statement of Net Assets and will be paid from the fund from which the employee's salaries are paid which will primarily be the General fund, Street Construction and Maintenance fund and Parks and Recreation fund.

*Note payable:* In September of 2006 the City entered into a 20 year note to pay off the mortgage note for the industrial park. A portion of the note, \$700,000, bears a fixed rate of 4.62% while the remaining \$465,000 is variable. The notes will mature in January of 2026.

*Mortgage Note payable:* The City paid the mortgage revenue note in full during 2006 (see Note 9). The difference of \$86,768 between the actual payoff of \$1,142,272 and the liability reported at December 31, 2005 has been reported as a special item in the Statement of Activities.

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

The following is the summary of the City's future annual debt service and interest requirements for note payable:

Year Ending December 31,	Note Payable		
	Principal	Interest	Total
2007	\$ 39,000	\$ 50,438	\$ 89,438
2008	41,000	48,692	89,692
2009	43,000	46,847	89,847
2010	45,000	44,921	89,921
2011	47,000	42,905	89,905
2012 - 2016	270,000	180,823	450,823
2017 - 2021	335,000	114,651	449,651
2022 - 2026	328,000	34,240	362,240
	<u>\$ 1,148,000</u>	<u>\$ 563,517</u>	<u>\$ 1,711,517</u>

**B.** During the fiscal year 2006, the following changes occurred in the City's business-type long-term liabilities:

<b>Business-Type Activities:</b>	Interest Rate	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Amount Due in One Year
<u>OPWC loans</u>						
Water Tower	5.00%	\$ 253,182	\$ -	\$ (26,455)	\$ 226,727	\$ 27,794
Wolf Creek Sanitary Trunk Main	0.00%	32,500	-	(5,000)	27,500	5,000
Wastewater Treatment Plant	0.00%	533,672	-	(42,694)	490,978	42,694
Total OPWC loans		819,354	-	(74,149)	745,205	75,488
<u>OWDA loan</u>						
Wastewater Treatment Plant	5.00%	365,171	-	(74,281)	290,890	78,042
<u>Other Long-term obligations</u>						
Compensated Absences		67,317	19,019	(53,305)	33,031	19,019
Total business-type long-term obligation		<u>\$ 1,251,842</u>	<u>\$ 19,019</u>	<u>\$ (201,735)</u>	<u>\$ 1,069,126</u>	<u>\$ 172,549</u>

The City has entered into three debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund a new water tower, the Wolf Creek sanitary trunk extension and wastewater treatment plant improvements. The amounts due to the OPWC are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2006, the City has outstanding borrowings of \$226,727 in the water fund and \$27,500 and \$490,978 in the sewer fund which matures on January 1, 2014, July 1, 2012 and July 1, 2018 respectively. The loan agreements require semi-annual payments based on the actual amount loaned. The Wolfcreek sanitary trunk main and the wastewater treatment plant of the OPWC loans are interest free, the Water Tower has a rate of 5%.

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund a wastewater treatment project. The amounts due to the OWDA are payable solely from sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2006, the City has outstanding borrowings of \$290,890 which matures on July 1, 2010. The loan agreement requires semi-annual payments based on the actual amount loaned.

On May 15, 1984, the City issued mortgage revenue bonds to advance refund the 1964 mortgage revenue bonds by purchasing U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The trust was called in November 2006. The refunded bonds are not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.

The following is the summary of the City's future annual debt service and interest requirements for enterprise fund obligations:

Year Ending December 31,	OWDA Loan			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 78,042	\$ 13,581	\$ 91,623	\$ 75,488	\$ 10,993	\$ 86,481
2008	81,993	9,630	91,623	76,895	9,586	86,481
2009	86,143	5,479	91,622	78,372	8,108	86,480
2010	44,712	1,100	45,812	79,926	6,555	86,481
2011	-	-	-	81,558	4,923	86,481
2012 - 2016	-	-	-	288,928	4,616	293,544
2017 - 2018	-	-	-	64,038	-	64,038
	<u>\$ 290,890</u>	<u>\$ 29,790</u>	<u>\$ 320,680</u>	<u>\$ 745,205</u>	<u>\$ 44,781</u>	<u>\$ 789,986</u>

**C. 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 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, 2006, the City's total debt margin was \$10,398,964 and the unvoted debt margin was \$4,953,082.

**NOTE 14 - RISK MANAGEMENT**

**A. Liability Insurance**

The City is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City obtains commercial insurance for coverage of potential losses through Employers Mutual Casualty Company.

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 14 - RISK MANAGEMENT - (Continued)**

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**B. Employee Health Insurance**

During 2006, the City provided employees health, dental and life insurance through United Health Care. The premiums for dental and life insurance are paid monthly with the City paying one hundred percent of the cost.

The premiums for health insurance are paid monthly with the City paying ninety percent of the cost.

**C. Workers' Compensation**

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate of \$100 of payroll plus administrative costs. The rate is determined based on accident history of the City. The City also pays unemployment claims to the State of Ohio as incurred.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

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

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$157,647, \$170,024, and \$144,709, respectively; 100% has been contributed for 2006, 2005 and 2004.

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to the OP&F for the years ended December 31, 2006, 2005, and 2004 were \$133,106, \$123,541, and \$103,167, respectively. The full amount has been contributed for 2005 and 2004. 74.93% for police and fire has been contributed for 2006 with the remainder of \$33,369 being reported as a liability in the respective funds.

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

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

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

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

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

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$51,782. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

**B. Ohio Police and Fire Pension Fund**

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

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

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$46,916 for police and \$4,863 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

**NOTE 17 - 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 Street Construction, Maintenance and Repair special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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 all governmental funds for which a budgetary basis statement is presented.

**Net Change in Fund Balance**

	<u>General</u>	Street Construction, <u>Maintenance and Repair</u>
Budget basis	\$ (159,573)	\$ (15,762)
Net adjustment for revenue accruals	93,560	(4,566)
Net adjustment for expenditure accruals	(3,032)	1,677
Net adjustment for other sources/uses	16,700	-
Adjustment for encumbrances	<u>2,998</u>	<u>3,275</u>
GAAP basis	<u>\$ (49,347)</u>	<u>\$ (15,376)</u>

**CITY OF BROOKVILLE, OHIO**

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

**NOTE 18 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

The City is currently not involved in pending litigation at year-end.

**NOTE 19 - CONTRACTUAL COMMITMENTS**

At December 31, 2006, uncompleted construction contracts are as follows:

<u>Description</u>	<u>Remaining Commitment</u>
Salem St. Reconstruction Project	\$ 228,623



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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 Brookville  
301 Sycamore Street  
Brookville, Ohio 45309

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 Brookville, as of and for the year ended December 31, 2006, which collectively comprise the City of Brookville's basic financial statements and have issued our report thereon dated May 11, 2007.

Internal Control Over Financial Reporting

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

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 Brookville'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 Brookville's financial statements that is more than inconsequential will not be prevented or detected by the City of Brookville's internal control.

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 Brookville's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of Council and Mayor  
City of Brookville

Compliance and Other Matters

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

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

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

Julian & Grube, Inc.  
May 11, 2007



**Mary Taylor, CPA**  
Auditor of State

**CITY OF BROOKVILLE**  
**MONTGOMERY 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**  
**JUNE 21, 2007**