



Mary Taylor, CPA
Auditor of State

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

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 Munroe Falls, Summit 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 reasonably assure 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Munroe Falls, Summit County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General, Fire Department Special Levy Fund, and EMS Special Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4, during the year ended December 31, 2006 the City corrected the value of land resulting in the restatement of capital assets and net assets of the Governmental Activities as of December 31, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

September 28, 2007

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The management's discussion and analysis of the City of Munroe Falls' (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 to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are:

- City income tax revenue totaled \$1,085,971 in governmental activities, a decrease of 9.79 percent from the prior year.
- Total assets increased by \$500,063 over 2005, or 3.37 percent.
- Total net assets increased by \$606,765 over 2005, or 5.31 percent.
- Total capital assets decreased by \$196,134 over 2005, or 2.23 percent.
- Total outstanding debt decreased by \$291,713 over 2005, or 11.52 percent.

Using This Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are prepared and organized so the reader can understand the City of Munroe Falls as a financial whole or as an entire operating entity. The statements proceed to provide an increasingly detailed look at our specific financial condition.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major 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 dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

Reporting the City of Munroe Falls as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially during 2006?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting method used by the private sector. The basis of this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

These two statements report the City's net assets and the changes in those assets. The changes in net assets are important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of the City's capital assets will also need to be evaluated.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The *Statement of Net Assets* and the *Statement of Activities* are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Revenue and Expenses
- General Revenues
- Net Assets Beginning of Year and Year's End

Reporting the City of Munroe Falls' Most Significant Funds

Fund Financial Statements

The analysis of the City's major funds begins on page 8. Fund financial reports provide detailed information about the City's major funds based on the restrictions on the use of monies. The City has established many funds which account for the multitude of services, facilities and infrastructure provided to our residents. However, these fund financial statements focus on the City's most significant funds. In the case of the City of Munroe Falls, the major funds are the general, fire department special levy, EMS special levy, general obligation bond retirement, capital improvement and water.

Governmental Funds

Most of the City's activities are reported in the governmental funds which focus on how money flows into and out of those funds and the balances left at year end available for spending in future periods. Governmental funds are reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that are expected to be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the *Statement of Net Assets* and the *Statement of Activities*) and governmental funds is reconciled in the financial statements.

Proprietary Funds

The City's only proprietary fund (the water fund) is an enterprise fund which uses the same basis of accounting as business-type activities; therefore, these statements will essentially match the information provided in the statements for the City as a whole.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The City as a Whole

The *Statement of Net Assets* looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 - Restated	2006	2005 - Restated	2006	2005 - Restated
Assets						
Current and Other Assets	\$4,455,662	\$4,105,434	\$2,258,771	\$1,912,802	\$6,714,433	\$6,018,236
Capital Assets, Net	6,147,217	6,263,924	2,468,576	2,548,003	8,615,793	8,811,927
<i>Total Assets</i>	10,602,879	10,369,358	4,727,347	4,460,805	15,330,226	14,830,163
Liabilities						
Current and Other Liabilities	862,830	732,782	71,731	11,287	934,561	744,069
Long-Term Liabilities:						
Due Within One Year	289,032	292,309	72,857	72,857	361,889	365,166
Due in More than One Year	1,405,654	1,626,714	595,006	667,863	2,000,660	2,294,577
<i>Total Liabilities</i>	2,557,516	2,651,805	739,594	752,007	3,297,110	3,403,812
Net Assets						
Invested in Capital Assets,						
Net of Related Debt	4,696,130	4,563,354	1,871,773	1,887,226	6,567,903	6,450,580
Restricted:						
Capital Projects	718,005	612,342	0	0	718,005	612,342
Debt Service	58,133	135,674	0	0	58,133	135,674
Street Maintenance and Repair	544,617	501,157	0	0	544,617	501,157
Fire Department	164,730	163,795	0	0	164,730	163,795
EMS	404,394	367,554	0	0	404,394	367,554
Other Purposes	145,779	143,554	0	0	145,779	143,554
Unrestricted	1,313,575	1,230,123	2,115,980	1,821,572	3,429,555	3,051,695
<i>Total Net Assets</i>	\$8,045,363	\$7,717,553	\$3,987,753	\$3,708,798	\$12,033,116	\$11,426,351

Total assets increased by \$500,063 from 2005 to 2006 mainly from increases in cash and cash equivalents.

Total liabilities had a net decrease of \$106,702. This decrease is primarily due to the reduction of the City's long-term liabilities in 2006.

Total net assets increased \$606,765 with governmental net assets comprising \$327,810 and business-type activities comprising \$278,955 of that amount. The water fund increase in net assets is due to a reduction in long-term liabilities and an increase in current assets.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Table 2 shows the changes in net assets for the years ended December 31, 2006 and December 31, 2005.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 - Restated	2006	2005 - Restated	2006	2005 - Restated
Revenues						
<i>Program Revenues:</i>						
Charges for Services and Sales	\$244,236	\$197,214	\$904,678	\$930,407	\$1,148,914	\$1,127,621
Operating Grants and Contributions	354,780	528,782	0	0	354,780	528,782
Capital Grants	269,450	0	0	0	269,450	0
<i>Total Program Revenues</i>	<u>868,466</u>	<u>725,996</u>	<u>904,678</u>	<u>930,407</u>	<u>1,773,144</u>	<u>1,656,403</u>
<i>General Revenues:</i>						
Property Taxes	651,947	874,029	0	0	651,947	874,029
Income Tax	1,085,971	1,203,879	0	0	1,085,971	1,203,879
Grants and Entitlements not Restricted to Specific Programs	294,690	355,159	0	0	294,690	355,159
Interest	205,069	149,260	0	0	205,069	149,260
Other	87,248	75,693	4,584	7,927	91,832	83,620
<i>Total General Revenues</i>	<u>2,324,925</u>	<u>2,658,020</u>	<u>4,584</u>	<u>7,927</u>	<u>2,329,509</u>	<u>2,665,947</u>
<i>Total Revenues</i>	<u>3,193,391</u>	<u>3,384,016</u>	<u>909,262</u>	<u>938,334</u>	<u>4,102,653</u>	<u>4,322,350</u>
<i>Program Expenses:</i>						
General Government	712,259	626,696	0	0	712,259	626,696
Security of Persons and Property	1,634,187	1,263,340	0	0	1,634,187	1,263,340
Transportation	360,038	319,660	0	0	360,038	319,660
Public Health and Welfare	38,099	37,551	0	0	38,099	37,551
Leisure Time Activities	30,197	21,037	0	0	30,197	21,037
Water Operations	0	0	630,307	690,878	630,307	690,878
Interest and Fiscal Charges	90,801	88,491	0	0	90,801	88,491
<i>Total Program Expenses</i>	<u>2,865,581</u>	<u>2,356,775</u>	<u>630,307</u>	<u>690,878</u>	<u>3,495,888</u>	<u>3,047,653</u>
Excess Revenues over Expenses	327,810	1,027,241	278,955	247,456	606,765	1,274,697
Transfers	0	1,750	0	(1,750)	0	0
Increase in Net Assets	327,810	1,028,991	278,955	245,706	606,765	1,274,697
Net Assets Beginning of Year Restated (See Note 4)	<u>7,717,553</u>	<u>6,688,562</u>	<u>3,708,798</u>	<u>3,463,092</u>	<u>11,426,351</u>	<u>10,151,654</u>
Net Assets End of Year	<u>\$8,045,363</u>	<u>\$7,717,553</u>	<u>\$3,987,753</u>	<u>\$3,708,798</u>	<u>\$12,033,116</u>	<u>\$11,426,351</u>

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Governmental Activities

Several revenue sources fund the City's governmental activities with City income tax being the largest. An income tax of 2 percent is levied on substantially all income earned within the City. In addition, income of residents earned outside of the City is subject to income tax; however, credit is allowed for income taxes paid to other municipalities and to the Joint Economic Development District up to 100 percent of the City's current tax rate. The income tax revenue amount for 2006 was \$1,085,971, a decrease of \$117,908 from 2005. This decrease is due to lower gross earnings being reported in 2006.

General revenues from property taxes and local government funds are also significant revenue generators. Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January of that preceding year, the lien date. Assessed values are established by the County Fiscal Officer at 35 percent of the appraised market value. All property is required to be revalued every six years with triennial updates.

Tangible personal property taxes (for tangible property other than public utility property) attach as a lien and are levied on January 1 of the current calendar year. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent in 2007, 6.25 percent for 2008, and zero for 2009.

The County Fiscal Officer collects property taxes on behalf of all taxing districts within the County. The Fiscal Officer periodically remits to the City its portion of the taxes collected with final settlement for taxes payable in the first and second halves of the year, respectively.

The operating grants and contributions program revenues decreased by \$174,002 from \$528,782 in 2005 to \$354,780 in 2006. This was due mainly to the decrease of grant revenue in 2006 for the police department.

The City has made aggressive efforts at reducing costs and continues to do so. This will provide an assurance to the residents of our community that the City will continue to maintain the highest level of public safety, recreation and street and sewer infrastructures. The City monitors its sources of revenue very closely for any changes or fluctuations.

The City is embarking on an aggressive economic development effort for the limited land that is available. Primary emphasis is in the Town Center, where there is opportunity to capitalize on the natural beauty of the Cuyahoga River. The City has retained city-planning consultants to help develop plans for this area.

Total governmental activities revenues for 2006 were \$3,193,391. Income tax made up 34.01 percent of total revenues for governmental activities for the City. Charges for services accounted for 7.65 percent, operating grants and contributions accounted for 11.11 percent, capital grants accounted for 8.44 percent, property taxes accounted for 20.41 percent, and the remaining 18.38 percent consisted of grants and entitlements, investments, and miscellaneous revenues. Charges for services revenue represents receipts from such items as building and zoning permits, emergency rescue fees, and rental fees.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
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Total governmental activities expenses for 2006 were \$2,865,581. Security of persons and property represents the highest program expense at \$1,634,187 or 57.03 percent, followed by general government expenses at \$712,259 or 24.86 percent and transportation expenses at \$360,038 or 12.56 percent. These three, being the major City expense categories, cover the City's police and fire departments, general administration and street repair and maintenance operations. Public health and welfare, leisure time activities, and interest and fiscal charges make up the remaining 5.55 percent of expenses.

The police department continues to operate very efficiently utilizing full and part time personnel. The police department is funded primarily from revenues generated through the general fund. The fire department is primarily a volunteer force and works from two fire stations. Operations are funded primarily through fire and EMS special levies and rescue billing collections. Capital needs for police and fire come from the City's Capital Improvement Fund.

General government costs of \$712,259 or 24.86 percent of the 2006 program expenses include such services as planning, zoning, administration, finance, legal, legislature, lands and buildings, engineering and state auditing. General government expenses increased by \$85,563 from 2005 due to general pay rate increases for government personnel. Security of persons and property expenses increased by \$370,847, mainly due to related depreciation expenses and increased operational costs. Approximately \$100,000 was from increased operational costs for emergency medical services and police operations which included the addition of a full-time police officer. Transportation expenses increased by \$40,378.

Table 3 presents a summary for governmental activities, the total cost of services and the net cost of providing these services.

Table 3
Cost of Services

	Governmental Activities			
	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2006	Net Cost of Services 2005
	General Government	\$712,259	\$626,696	(\$645,443)
Security of Persons and Property	1,634,187	1,263,340	(1,365,671)	(891,581)
Transportation	360,038	319,660	168,559	(64,597)
Public Health and Welfare	38,099	37,551	(35,162)	(34,936)
Leisure Time Activities	30,197	21,037	(28,597)	(20,265)
Interest and Fiscal Charges	90,801	88,491	(90,801)	(88,491)
Total	\$2,865,581	\$2,356,775	(\$1,997,115)	(\$1,630,779)

Departments rely mainly on the general revenues of the City to cover their yearly expenses. Some revenues from property taxes are available to cover general debt obligations.

The City's Funds

The City of Munroe Falls uses fund accounting as mandated by governmental legal requirements. The intent of accounting and reporting using this method is to demonstrate compliance with these finance related requirements.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Governmental Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$3,201,453 and expenditures of \$2,973,705. The most significant fund is the general fund with a year-end balance of \$1,308,299, which included an unreserved fund balance of \$1,285,625, compared to annual expenditures of \$1,691,487. The City focuses on its governmental funds to provide a financial picture on activities as they provide information on how the City did over a period of one year as well as where the City's funds stood at December 31, 2006. The information provided is useful to determine the City's available balances. One balance in particular that the City has focused on maintaining is the unreserved fund balances that demonstrate the City's solid cash reserves. At December 31, 2006 the City's combined ending cash and cash equivalents balance was \$2,935,698. Along those same lines, the City's 2006 ending combined governmental fund balance is \$3,204,018. Of this balance, \$3,172,532 is classified as unreserved fund balances whose use is not limited as to how they may be spent. The reserved portions are not spendable because they are committed to satisfy carry-forward purchase order encumbrances of \$31,486.

The general obligation bond retirement fund had a fund balance of \$35,386, all of which was unreserved, and an ending cash and cash equivalents balance of \$35,386. Revenues for the year were \$142,962 with expenditures of \$230,212.

The capital improvement fund had a fund balance of \$420,509, of which \$417,544 was unreserved, leaving \$2,965 reserved for encumbrances. The cash and cash equivalents balance was \$400,604. Revenues for the year were \$222,259 with expenditures of \$338,206.

Business-Type Fund

As mentioned earlier, the City's lone business-type activity is the water fund. Total assets increased by \$266,542, or 5.98 percent, from 2005 to 2006, while total liabilities decreased by \$12,413, or 1.65 percent, from 2005 to 2006. Ending net assets increased 7.52 percent from \$3,708,798 in 2005 to \$3,987,753 in 2006.

The City continues with the process of identifying the long-term maintenance and replacement needs of its water line infrastructure and other capital assets requirements. A water model study was completed in 2004 which identified all waterline capacities throughout the entire City. This has enabled the Service Department to better estimate replacement and repair costs

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. At the direction of Council, all capital projects and requests for capital purchases must be reviewed and approved individually by Council. Recommendations and requests for budget changes are referred to the Finance Committee of City Council for review, after which they are sent to the formal Council meeting for ordinance enactment on the change. The City's legal level of control is at the fund and department level. The City's policy allows the finance director to authorize object level appropriation changes. The objects within the function level categories are personal services, contractual services, material and supplies, and capital outlay.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
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Unaudited

The most significant budgeted fund is the general fund. The general fund supports many major activities such as the police, building and planning departments as well as the legislative and most executive activities. Some major capital projects are funded with general fund dollars. By Ordinance, these funds are transferred from the general fund to capital projects funds where the revenue and expenditures for the capital improvement are tracked and monitored. For the general fund, the original budgeted revenues were \$1,672,122 and the final budgeted amount was \$1,703,763. The majority of this \$31,641 difference is due to an increase in estimated income tax revenue. Although the original appropriations were slightly increased during the year, the City continued to maintain a respectable level of liquidity in the general fund by reducing final expenditures and thus, maintaining unrestricted cash at year-end. The variance from final budget to actual expenditures in general government was due to a concerted effort by the City to reduce expenditures.

Capital Assets and Debt Administration

Capital Assets

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005 - Restated	2006	2005 - Restated	2006	2005 - Restated
Land	\$1,653,686	\$1,653,686	\$31,689	\$31,689	\$1,685,375	\$1,685,375
Land Improvements	165,383	175,208	0	0	165,383	175,208
Buildings and Improvements	3,072,833	3,149,701	628,219	598,698	3,701,052	3,748,399
Equipment	757,492	837,583	245,156	299,643	1,002,648	1,137,226
Infrastructure	497,823	447,746	0	0	497,823	447,746
Waterlines	0	0	1,563,512	1,617,973	1,563,512	1,617,973
Totals	<u>\$6,147,217</u>	<u>\$6,263,924</u>	<u>\$2,468,576</u>	<u>\$2,548,003</u>	<u>\$8,615,793</u>	<u>\$8,811,927</u>

Total governmental capital assets for the City of Munroe Falls as of December 31, 2006 were \$6,147,217. The most significant decrease in capital assets came from the depreciation of existing equipment. Very few additions were made to capital assets during the year. For additional information see Note 8 to the basic financial statements.

Debt

On December 31, 2006, the City of Munroe Falls had \$2,240,269 in outstanding debt from general obligation bonds, a capital appreciation bond, a capital lease, and a capital improvement loan. This represents obligations backed by the full faith and credit of the government. Table 5 summarizes bonds and loans outstanding as of December 31, 2006.

City of Munroe Falls, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Table 5
Outstanding Debt at Year End

	Governmental Activities		Business-Type Activity		Total	
	2006	2005	2006	2005	2006	2005
Refunding Bond - Series A						
General Obligation Bond	\$940,000	\$1,110,000	\$0	\$0	\$940,000	\$1,110,000
Capital Appreciation Bond	130,000	130,000	0	0	130,000	130,000
Accretion on Capital Appreciation Bond	121,319	90,692	0	0	121,319	90,692
Refunding Bond - Series B						
General Obligation Bond	112,137	124,280	667,863	740,720	780,000	865,000
Fire Truck Capital Lease	218,950	236,290	0	0	218,950	236,290
Capital Improvement Loan	50,000	100,000	0	0	50,000	100,000
Totals	<u>\$1,572,406</u>	<u>\$1,791,262</u>	<u>\$667,863</u>	<u>\$740,720</u>	<u>\$2,240,269</u>	<u>\$2,531,982</u>

The general obligation bonds and capital appreciation bond were for the City Hall, Safety Building Expansion and Water Improvements and are paid from property tax levies and the Water Fund.

The capital lease was for the lease-purchase of a new fire truck. Payments began in 2005.

The capital improvement loan was for the purchase of land.

For additional information see Note 13 to the basic financial statements.

Current Financial Related Activities

The City of Munroe Falls is challenged with limited areas for development of industrial, commercial, and residential properties. The City Council endeavors to keep debt obligations low. Our finances are planned so that we can pay cash for as many of the facility improvements and acquisitions as possible without jeopardizing liquidity and reserve balance needs. Our leadership is committed to reducing the cost of government operations while still providing the services the citizens need. Efforts are continually made to enhance revenue opportunities.

Our commitment to our residents is full disclosure of the financial position of the City.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and show the City's accountability for all money it receives, spends or invests. If you have any questions about this report or need financial information contact the Director of Finance, David P. Bailey, CPA, 43 Munroe Falls Avenue, Munroe Falls, Ohio 44262, telephone (330) 688-7491, or the website at www.munroefalls.com.

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City of Munroe Falls, Ohio

Statement of Net Assets

December 31, 2006

	Governmental Activities	Business-Type Activity	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,935,698	\$1,959,548	\$4,895,246
Materials and Supplies Inventory	9,117	931	10,048
Accrued Interest Receivable	48,189	0	48,189
Accounts Receivable	94,245	212,568	306,813
Intergovernmental Receivable	353,963	0	353,963
Prepaid Items	24,663	14,664	39,327
Income Taxes Receivable	212,747	0	212,747
Property Taxes Receivable	759,042	0	759,042
Permissive Motor Vehicle License Tax Receivable	17,998	0	17,998
Deferred Charges	0	71,060	71,060
Nondepreciable Capital Assets	1,653,686	31,689	1,685,375
Depreciable Capital Assets, Net	4,493,531	2,436,887	6,930,418
<i>Total Assets</i>	<u>10,602,879</u>	<u>4,727,347</u>	<u>15,330,226</u>
Liabilities			
Accounts Payable	17,484	66,403	83,887
Accrued Wages	23,123	1,657	24,780
Intergovernmental Payable	78,631	1,475	80,106
Accrued Interest Payable	3,336	2,196	5,532
Deferred Revenue	740,256	0	740,256
Long-Term Liabilities:			
Due Within One Year	289,032	72,857	361,889
Due In More Than One Year	1,405,654	595,006	2,000,660
<i>Total Liabilities</i>	<u>2,557,516</u>	<u>739,594</u>	<u>3,297,110</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,696,130	1,871,773	6,567,903
Restricted for:			
Capital Projects	718,005	0	718,005
Debt Service	58,133	0	58,133
Street Maintenance and Repair	544,617	0	544,617
Fire Department	164,730	0	164,730
EMS	404,394	0	404,394
Other Purposes	145,779	0	145,779
Unrestricted	1,313,575	2,115,980	3,429,555
<i>Total Net Assets</i>	<u>\$8,045,363</u>	<u>\$3,987,753</u>	<u>\$12,033,116</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Activities
For the Year Ended December 31, 2006

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities:				
General Government	\$712,259	\$38,510	\$28,306	\$0
Security of Persons and Property	1,634,187	197,171	71,345	0
Transportation	360,038	5,727	253,420	269,450
Public Health and Welfare	38,099	1,831	1,106	0
Leisure Time Activities	30,197	997	603	0
Interest and Fiscal Charges	90,801	0	0	0
<i>Total Governmental Activities</i>	2,865,581	244,236	354,780	269,450
Business-Type Activity:				
Water	630,307	904,678	0	0
<i>Total - Primary Government</i>	<u>\$3,495,888</u>	<u>\$1,148,914</u>	<u>\$354,780</u>	<u>\$269,450</u>

General Revenues

Property and Other Local Taxes Levied for
General Purposes
Fire Department
EMS
General Obligation Bond Retirement
Income Tax Levied for:
General Purposes
Capital Outlay
Grants and Entitlements not Restricted to Specific Programs
Interest
Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Restated (See Note 4)

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activity	Total
(\$645,443)	\$0	(\$645,443)
(1,365,671)	0	(1,365,671)
168,559	0	168,559
(35,162)	0	(35,162)
(28,597)	0	(28,597)
(90,801)	0	(90,801)
(1,997,115)	0	(1,997,115)
0	274,371	274,371
(1,997,115)	274,371	(1,722,744)
258,155	0	258,155
126,348	0	126,348
142,861	0	142,861
124,583	0	124,583
897,632	0	897,632
188,339	0	188,339
294,690	0	294,690
205,069	0	205,069
87,248	4,584	91,832
2,324,925	4,584	2,329,509
327,810	278,955	606,765
7,717,553	3,708,798	11,426,351
\$8,045,363	\$3,987,753	\$12,033,116

City of Munroe Falls, Ohio

Balance Sheet

Governmental Funds

December 31, 2006

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,144,681	\$162,366	\$322,780	\$35,386	\$400,604
Materials and Supplies Inventory	9,117	0	0	0	0
Accrued Interest Receivable	48,189	0	0	0	0
Accounts Receivable	8,608	23	84,614	0	0
Intergovernmental Receivable	187,040	20,682	23,440	20,682	0
Prepaid Items	14,971	470	620	0	6,725
Income Taxes Receivable	187,218	0	0	0	25,529
Property Taxes Receivable	255,963	159,978	181,308	161,793	0
Permissive Motor Vehicle License Tax Receivable	0	0	0	0	0
<i>Total Assets</i>	<u>\$1,855,787</u>	<u>\$343,519</u>	<u>\$612,762</u>	<u>\$217,861</u>	<u>\$432,858</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$14,803	\$43	\$1,404	\$0	\$800
Accrued Wages	16,857	2,631	2,954	0	0
Intergovernmental Payable	52,985	6,264	13,306	0	0
Deferred Revenue	462,843	180,660	216,786	182,475	11,549
<i>Total Liabilities</i>	<u>547,488</u>	<u>189,598</u>	<u>234,450</u>	<u>182,475</u>	<u>12,349</u>
Fund Balances					
Reserved for Encumbrances	22,674	37	5,254	0	2,965
Unreserved, Undesignated, Reported in:					
General Fund	1,285,625	0	0	0	0
Special Revenue Funds	0	153,884	373,058	0	0
Debt Service Fund	0	0	0	35,386	0
Capital Projects Funds	0	0	0	0	417,544
<i>Total Fund Balances</i>	<u>1,308,299</u>	<u>153,921</u>	<u>378,312</u>	<u>35,386</u>	<u>420,509</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$1,855,787</u>	<u>\$343,519</u>	<u>\$612,762</u>	<u>\$217,861</u>	<u>\$432,858</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Fund Balances	\$3,204,018
		<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.	6,147,217
		Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
		Property Taxes	18,786
		Income Taxes	96,244
		Permissive Motor Vehicle License Taxes	12,284
		Grants	252,798
		Charges for Services	12,038
		Total	392,150
		Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.	(3,336)
		Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
		General Obligation Bonds	(1,052,137)
		Capital Appreciaton Bonds	(251,319)
		Capital Leases	(218,950)
		Capital Improvement Loan	(50,000)
		Compensated Absences	(122,280)
		Total	(1,694,686)
		<i>Net Assets of Governmental Activities</i>	\$8,045,363
\$869,881	\$2,935,698		
0	9,117		
0	48,189		
1,000	94,245		
102,119	353,963		
1,877	24,663		
0	212,747		
0	759,042		
17,998	17,998		
\$992,875	\$4,455,662		
\$434	\$17,484		
681	23,123		
6,076	78,631		
78,093	1,132,406		
85,284	1,251,644		
556	31,486		
0	1,285,625		
621,088	1,148,030		
0	35,386		
285,947	703,491		
907,591	3,204,018		
\$992,875	\$4,455,662		

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Fire Department Special Levy	EMS Special Levy	General Obligation Bond Retirement	Capital Improvement
Revenues					
Property Taxes	\$257,073	\$125,671	\$142,094	\$123,564	\$0
Income Taxes	881,578	0	0	0	186,150
Permissive Motor Vehicle License Tax	0	0	0	0	0
Special Assessments	0	0	0	0	0
Intergovernmental	363,663	19,398	21,985	19,398	19,450
Interest	187,183	0	0	0	0
Fines, Licenses and Permits	77,617	0	0	0	0
Charges for Services	7,796	0	145,177	0	0
Contributions and Donations	130	0	0	0	0
Other	37,879	312	288	0	16,659
<i>Total Revenues</i>	<u>1,812,919</u>	<u>145,381</u>	<u>309,544</u>	<u>142,962</u>	<u>222,259</u>
Expenditures					
Current:					
General Government	597,698	2,115	2,397	2,115	0
Security of Persons and Property	920,393	147,290	279,342	0	0
Transportation	114,547	0	0	0	0
Public Health and Welfare	38,099	0	0	0	0
Leisure Time Activities	20,750	0	0	0	0
Capital Outlay	0	0	0	0	256,152
Debt Service:					
Principal Retirement	0	0	0	182,143	67,340
Interest and Fiscal Charges	0	0	0	45,954	14,714
<i>Total Expenditures</i>	<u>1,691,487</u>	<u>149,405</u>	<u>281,739</u>	<u>230,212</u>	<u>338,206</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>121,432</u>	<u>(4,024)</u>	<u>27,805</u>	<u>(87,250)</u>	<u>(115,947)</u>
Other Financing Sources (Uses)					
Transfers In	0	0	0	16,962	0
Transfers Out	0	0	0	0	(16,962)
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,962</u>	<u>(16,962)</u>
<i>Net Change in Fund Balances</i>	121,432	(4,024)	27,805	(70,288)	(132,909)
<i>Fund Balances Beginning of Year</i>	<u>1,186,867</u>	<u>157,945</u>	<u>350,507</u>	<u>105,674</u>	<u>553,418</u>
<i>Fund Balances End of Year</i>	<u>\$1,308,299</u>	<u>\$153,921</u>	<u>\$378,312</u>	<u>\$35,386</u>	<u>\$420,509</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, 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*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$227,748
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
		Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	
\$0	\$648,402	Capital Asset Additions	128,603
0	1,067,728	Current Year Depreciation	<u>(195,432)</u>
38,331	38,331	Total	(66,829)
9,404	9,404		
469,299	913,193	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.	(49,878)
17,886	205,069		
408	78,025	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
0	152,973	Property Taxes	3,545
950	1,080	Income Taxes	18,243
32,110	87,248	Permissive Motor Vehicle License Tax	(1,167)
		Grants	(32,517)
568,388	3,201,453	Charges for Services	<u>3,834</u>
		Total	(8,062)
0	604,325	Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	249,483
3,139	1,350,164		
224,522	339,069	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	
0	38,099	Accrued Interest	494
0	20,750	Bond Accretion	<u>(30,627)</u>
54,995	311,147	Total	(30,133)
0	249,483	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
0	60,668	Compensated Absences	<u>5,481</u>
282,656	2,973,705	<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$327,810</u></u>
285,732	227,748		
0	16,962		
0	(16,962)		
0	0		
285,732	227,748		
621,859	2,976,270		
<u>\$907,591</u>	<u>\$3,204,018</u>		

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$243,829	\$246,557	\$257,073	\$10,516
Income Taxes	800,674	822,563	865,476	42,913
Intergovernmental	353,652	357,609	372,863	15,254
Interest	156,738	158,492	165,252	6,760
Fines, Licenses and Permits	74,246	75,077	78,279	3,202
Charges for Services	7,394	7,477	7,796	319
Contributions and Donations	123	125	130	5
Other	35,466	35,863	37,099	1,236
<i>Total Revenues</i>	<u>1,672,122</u>	<u>1,703,763</u>	<u>1,783,968</u>	<u>80,205</u>
Expenditures				
Current:				
General Government	613,535	626,561	601,337	25,224
Security of Persons and Property	964,155	957,363	915,883	41,480
Transportation	141,279	147,127	137,161	9,966
Public Health and Welfare	40,332	38,100	38,099	1
Leisure Time Activities	22,064	25,290	20,842	4,448
<i>Total Expenditures</i>	<u>1,781,365</u>	<u>1,794,441</u>	<u>1,713,322</u>	<u>81,119</u>
<i>Net Change in Fund Balance</i>	(109,243)	(90,678)	70,646	161,324
<i>Fund Balance Beginning of Year</i>	979,501	979,501	979,501	0
Prior Year Encumbrances Appropriated	<u>38,296</u>	<u>38,296</u>	<u>38,296</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$908,554</u>	<u>\$927,119</u>	<u>\$1,088,443</u>	<u>\$161,324</u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire Department Special Levy Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$149,460	\$161,089	\$160,671	(\$418)
Intergovernmental	18,044	19,448	19,398	(50)
Other	269	290	289	(1)
<i>Total Revenues</i>	167,773	180,827	180,358	(469)
Expenditures				
Current:				
General Government	2,290	2,600	2,115	485
Security of Persons and Property	158,455	158,145	146,402	11,743
<i>Total Expenditures</i>	160,745	160,745	148,517	12,228
<i>Net Change in Fund Balance</i>	7,028	20,082	31,841	11,759
<i>Fund Balance Beginning of Year</i>	130,018	130,018	130,018	0
Prior Year Encumbrances Appropriated	471	471	471	0
<i>Fund Balance End of Year</i>	\$137,517	\$150,571	\$162,330	\$11,759

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
EMS Special Levy Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$150,182	\$158,565	\$182,094	\$23,529
Intergovernmental	18,132	19,144	21,985	2,841
Charges for Services	96,491	101,878	116,995	15,117
Other	238	251	288	37
<i>Total Revenues</i>	265,043	279,838	321,362	41,524
Expenditures				
Current:				
General Government	2,619	2,600	2,397	203
Security of Persons and Property	297,283	300,081	278,633	21,448
<i>Total Expenditures</i>	299,902	302,681	281,030	21,651
<i>Net Change in Fund Balance</i>	(34,859)	(22,843)	40,332	63,175
<i>Fund Balance Beginning of Year</i>	250,495	250,495	250,495	0
Prior Year Encumbrances Appropriated	25,360	25,360	25,360	0
<i>Fund Balance End of Year</i>	\$240,996	\$253,012	\$316,187	\$63,175

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio

Statement of Fund Net Assets

Proprietary Fund

December 31, 2006

	<u>Water</u>
Assets	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$1,959,548
Accounts Receivable	212,568
Materials and Supplies Inventory	931
Prepaid Items	<u>14,664</u>
<i>Total Current Assets</i>	<u>2,187,711</u>
<i>Non-Current Assets:</i>	
Deferred Charges	71,060
Land	31,689
Depreciable Capital Assets, Net	<u>2,436,887</u>
<i>Total Non-Current Assets</i>	<u>2,539,636</u>
<i>Total Assets</i>	<u>4,727,347</u>
Liabilities	
<i>Current Liabilities:</i>	
Accounts Payable	66,403
Accrued Wages	1,657
Intergovernmental Payable	1,475
Accrued Interest Payable	2,196
General Obligation Bonds Payable	<u>72,857</u>
<i>Total Current Liabilities</i>	<u>144,588</u>
<i>Long-Term Liabilities:</i>	
General Obligation Bonds Payable (net of current portion)	<u>595,006</u>
<i>Total Liabilities</i>	<u>739,594</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,871,773
Unrestricted	<u>2,115,980</u>
<i>Total Net Assets</i>	<u><u>\$3,987,753</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2006*

	Water
Operating Revenues	
Charges for Services	\$904,678
Other	4,584
	909,262
 Operating Expenses	
Personal Services	172,440
Contractual Services	264,436
Materials and Supplies	26,271
Depreciation	129,754
	592,901
 <i>Operating Income</i>	 316,361
 Non-Operating Expenses	
Interest and Fiscal Charges	(37,406)
	278,955
 <i>Change in Net Assets</i>	 278,955
 <i>Net Assets Beginning of Year - Restated (See Note 4)</i>	 3,708,798
	\$3,987,753
	\$3,987,753

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Cash Flows
Proprietary Fund
For the Year Ended December 31, 2006

	Water
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	\$895,827
Other Cash Receipts	4,419
Cash Payments to Employees for Services	(177,100)
Cash Payments for Goods and Services	(222,270)
<i>Net Cash Provided by Operating Activities</i>	500,876
Cash Flows from Capital and Related Financing Activities	
Principal Paid on General Obligation Bonds	(72,857)
Interest Paid on General Obligation Bonds	(28,721)
Payments for Capital Acquisitions	(50,327)
<i>Net Cash Used in Capital and Related Financing Activities</i>	(151,905)
<i>Net Increase in Cash and Cash Equivalents</i>	348,971
<i>Cash and Cash Equivalents Beginning of Year</i>	1,610,577
<i>Cash and Cash Equivalents End of Year</i>	\$1,959,548
	(continued)

City of Munroe Falls, Ohio
Statement of Cash Flows
Proprietary Fund (continued)
For the Year Ended December 31, 2006

	<u>Water</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$316,361
Adjustments:	
Depreciation	129,754
(Increase) Decrease in Assets:	
Accounts Receivable	(9,016)
Prepaid Items	3,526
Materials and Supplies Inventory	(391)
Increase (Decrease) in Liabilities:	
Accounts Payable	65,302
Accrued Wages	(422)
Intergovernmental Payable	<u>(4,238)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$500,876</u></u>

See accompanying notes to the basic financial statements

City of Munroe Falls, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2006

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$128,993</u>
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Liabilities

Undistributed Monies	<u>\$128,993</u>
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See accompanying notes to the basic financial statements

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City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 1 – Description of the City and Reporting Entity

The City of Munroe Falls, Ohio, (the City) is incorporated as a municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides the following services: security of persons and property (police and fire), public health and welfare, leisure time activities, transportation (highways and streets), public improvements, community development, water utility system and general government services.

The Mayor and City Council members are elected officials serving four-year terms. The department heads for police, fire, service, law and finance are appointed by the Mayor with approval from Council.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Munroe Falls this includes police, fire, emergency service, street construction, parks, water utility, general administrative services and a City council.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting 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 enterprise fund unless these pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activity and enterprise fund. The more significant of the City's accounting policies are described below.

A. Basis of Presentation

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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 single business-type activity 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 program is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental 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.

B. 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. The City's funds are classified as either governmental, proprietary or fiduciary.

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

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

Fire Department Special Levy Fund The fire department special levy special revenue fund accounts for 50 percent of full-time fire department salaries and fringe benefits.

EMS Special Levy Fund The EMS special levy special revenue fund accounts for supplies, training and other major items to support EMS services in the City and 50 percent of full-time fire department salaries and fringe benefits.

General Obligation Bond Retirement Fund The general obligation bond retirement debt service fund accounts for general obligation long-term debt principal and interest payments.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Capital Improvement Fund The capital improvements capital projects fund accounts for various capital projects financed by City income tax revenue.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City's only proprietary fund is an enterprise fund:

Enterprise Fund Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City has one major enterprise fund.

Water Fund This fund accounts for the treatment and provision of water to the residents and commercial users of 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 purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's only fiduciary funds are agency funds. The agency funds are used to account for the return of deposits made by builders engaged in construction projects within the City.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total 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 statements for governmental funds.

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

D. 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; proprietary and fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Non-exchange 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. 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 non-exchange 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 and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

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. 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.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

E. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary fund, are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2006, investments were limited to STAROhio, certificates of deposit, repurchase agreements, and Federal Home Loan Bank Securities.

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 and repurchase agreements are reported at cost.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$187,183, which includes \$79,960 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

F. Prepaid Items

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

G. Inventory

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

H. 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 enterprise fund are reported both in the business-type activity column of the government-wide statement of net assets and in the respective fund.

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 \$1,000. 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.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

Description	Governmental Activities Estimated Lives	Business-Type Activity Estimated Lives
Land Improvements	25 years	25 years
Buildings and Improvements	25 years	20-50 years
Equipment	5-25 years	2-25 years
Infrastructure	40-50 years	40 years

The City's infrastructure consists of streets, sidewalks, curbs and culverts. The City reported infrastructure used in governmental activities for the first time in 2003. The City only reports the amounts acquired after 2002.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave time when earned for all full-time employees.

J. 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 funds financial statements.

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

K. Fund Balance Reserve

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditures. As a result, encumbrances are recorded as a reservation of fund balance.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

L. 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 government-wide statement of net assets reports \$2,035,658 of restricted net assets, of which none is restricted by enabling legislation. Net assets restricted for other purposes includes funds for federal emergency grant programs, drug law enforcement, police law enforcement, enforcement and education programs, and fire prevention and awareness programs.

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

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the City, these revenues are only charges for services for water services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the funds. All revenues and expenses not meeting these definitions are reported as non-operating.

N. Interfund Activity

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

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

P. Estimates

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Q. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund and department level for all funds.

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

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

Note 3 - 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 transactions on a basis of cash receipts, disbursements and encumbrances. The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund, the fire department special levy and the EMS special levy major special revenue funds 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 the GAAP basis are:

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

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general and special levy major special revenue funds.

	Net Change in Fund Balance General and Major Special Revenue Funds		
	General	Fire Department	EMS
			Special Levy
GAAP Basis	\$121,432	(\$4,024)	\$27,805
Adjustment for Revenue Accruals	(12,944)	34,977	11,818
Beginning Fair Value Adjustment for Investments	(41,648)	0	0
Ending Fair Value Adjustment for Investments	25,641	0	0
Adjustment for Expenditure Accruals	8,762	924	7,302
Adjustment for Encumbrances	(30,597)	(36)	(6,593)
Budget Basis	<u>\$70,646</u>	<u>\$31,841</u>	<u>\$40,332</u>

Note 4 – Change in Accounting Principle and Restatement of Prior Year Net Assets

A. Change in Accounting Principle

For fiscal year 2006, the City has implemented GASB Statement No. 47, “Accounting for Termination Benefits.”

The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the City.

B. Restatement of Prior Year Net Assets

A portion of compensated absences payable, in the amount of \$7,254, had been incorrectly reported in the business-type activity in the prior year, thus understating its net assets. Due to this error, governmental activities net assets had been overstated. Also, adjustments had to be made to both governmental and business-type activities/water fund in order to reflect the true value of land that falls under both activities.

The following table summarizes the restatement adjustments:

	Governmental Activities	Business-Type Activities/Water Fund
Net Assets at December 31, 2005	\$6,455,612	\$3,686,855
Adjustment for Compensated Absences Payable	(7,254)	7,254
Adjustment for Capital Asset Values	1,269,195	14,689
Restated Net Assets at December 31, 2005	<u>\$7,717,553</u>	<u>\$3,708,798</u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 5 - Deposits and Investments

Monies held by the City are classified by State statute into three categories.

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

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

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper and banker's acceptances if training requirements have been met.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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. Investments may only be made through specified dealers and institutions.

At year end, the City had \$2,000 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents”.

Deposits

Custodial Credit Risk. Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,165,606 of the City’s bank balance of \$2,650,210 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions’ trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

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

Investment Type	Fair Value	Investment Maturities (in Years) Less than 1
Repurchase Agreement Sweep Account:		
Federal Home Loan Bank Bonds	\$850,000	\$850,000
Federal Home Loan Bank Bonds	300,919	300,919
STAROhio	1,225,545	1,225,545
Total Investments	\$2,376,464	\$2,376,464

Interest Rate Risk. The City has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and that an investment must be purchased with the expectation that it will be held to maturity. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

City of Munroe Falls, Ohio
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For the Year Ended December 31, 2006

Credit Risk. The repurchase agreements were backed by Federal Home Loan Bank Securities which carry a rating of Aaa by Moody's. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy dealing with investment credit risk beyond the requirement in State statute which limits investment choices.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Securities are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk. With the exception of U.S. Treasury securities, federal government agency securities, and authorized pools, no more than 50 percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution.

The following is the City's allocation as of December 31, 2006:

Investment Issuer	Percentage of Investments
Repurchase Agreement Sweep Account:	
Federal Home Loan Bank Bonds	35.77 %
Federal Home Loan Bank Bonds	12.66
STAROhio	51.57
Total	100.00 %

Note 6 - Receivables

Receivables at December 31, 2006, consisted primarily of municipal income taxes, property and other taxes, accounts, interest, and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are deemed collectible in full and are expected to be received within one year.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes which became a lien December 31, 2005, are levied after October 1, 2006, and collected in 2007 real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005 on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may be annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable September 20.

The tax rate for all City operations for the year ended December 31, 2006, was \$7.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$114,819,500
Tangible Personal Property	3,045,510
Public Utility	<u>1,281,840</u>
Total Valuation	<u><u>\$119,146,850</u></u>

The County Fiscal Officer collects property taxes on behalf of all taxing districts in the county, including the City of Munroe Falls. The County Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the general, fire department special levy, EMS special levy and general obligation bond retirement funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. Municipal Income Taxes

The City levies a municipal income tax of two percent on all income earned within the City as well as on income of residents earned outside of the City. In the latter case, the City allows a credit of up to 100 percent on the income earned outside of the City and paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are required to pay their estimated tax at least quarterly and file a final return annually.

Additional increases in the City's income tax rate would require voter approval. The income tax, by ordinance, is allocated, after expenditures for collections, with a minimum of 12 percent to the Capital Improvement Fund and the remainder to the General Fund. Amounts above the 12 percent may be allocated depending on the capital improvement projections.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

C. Intergovernmental Receivable

A summary of the governmental activities' principal item of intergovernmental receivables follows:

Governmental Activities	
Local Government Tax Distribution	\$153,277
Gas Tax Distribution	102,119
Homestead and Rollback	97,896
Miscellaneous	671
	<hr/>
Total	<u>\$353,963</u>

Note 7 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2006, the City contracted with Select Insurance Group for its property and liability insurance. Wichert Insurance Services, Inc. serves as the City's agent.

The City carries insurance for general liability, auto liability and law enforcement liability with limits of \$5,000,000 per occurrence. The City also carries \$1,000,000 of public officials' liability coverage. Public officials have a deductible of \$10,000. The law enforcement deductible is \$5,000, the equipment and crime deductibles are \$500, and the inland marine deduction is \$250. Auto liability has a \$1,000,000 combined single limit of liability with a \$500 collision deductible. There has not been a significant reduction in coverage from the prior year. Claims have not exceeded this commercial coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 8 – Capital Assets

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

	Restated Balance 12/31/2005	Additions	Deductions	Balance 12/31/2006
Governmental Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$1,653,686	\$0	\$0	\$1,653,686
<i>Capital Assets, being depreciated</i>				
Land Improvements	245,599	0	0	245,599
Buildings and Improvements	3,930,863	4,317	(324)	3,934,856
Equipment	2,181,639	62,553	(49,554)	2,194,638
Infrastructure	466,283	61,733	0	528,016
<i>Total Capital Assets, being depreciated</i>	<u>6,824,384</u>	<u>128,603</u>	<u>(49,878)</u>	<u>6,903,109</u>
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(70,391)	(9,825)	0	(80,216)
Buildings and Improvements	(781,162)	(80,861)	0	(862,023)
Equipment	(1,344,056)	(140,090)	47,000	(1,437,146)
Infrastructure	(18,537)	(11,656)	0	(30,193)
<i>Total Accumulated Depreciation</i>	<u>(2,214,146)</u>	<u>(242,432) *</u>	<u>47,000</u>	<u>(2,409,578)</u>
<i>Total Capital Assets being depreciated, Net</i>	<u>4,610,238</u>	<u>(113,829)</u>	<u>(2,878)</u>	<u>4,493,531</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$6,263,924</u>	<u>(\$113,829)</u>	<u>(\$2,878)</u>	<u>\$6,147,217</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$33,286
Security of Persons and Property	155,108
Transportation	45,650
Leisure Time Activities	8,388
Total Depreciation Expense	<u>\$242,432</u>

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Capital asset activity for business-type activities for the year ended December 31, 2006, was as follows:

	Restated Balance 12/31/2005	Additions	Deductions	Balance 12/31/2006
Buiness-Type Activities				
<i>Capital Assets, not being depreciated</i>				
Land	\$31,689	\$0	\$0	\$31,689
<i>Capital Assets, being depreciated</i>				
Buildings	879,388	55,352	0	\$934,740
Equipment	627,679	6,358	(38,617)	\$595,420
Waterlines	2,528,645	27,234	0	\$2,555,879
<i>Total Capital Assets, being depreciated</i>	4,035,712	88,944	(38,617)	4,086,039
<i>Less Accumulated Depreciation:</i>				
Buildings	(280,690)	(25,831)	0	(\$306,521)
Equipment	(328,036)	(22,228)	0	(\$350,264)
Waterlines	(910,672)	(81,695)	0	(\$992,367)
<i>Total Accumulated Depreciation</i>	(1,519,398)	(129,754)	0	(1,649,152)
<i>Total Capital Assets being depreciated, Net</i>	2,516,314	(40,810)	(38,617)	2,436,887
<i>Business-Type Activities Capital Assets, Net</i>	\$2,548,003	(\$40,810)	(\$38,617)	\$2,468,576

Note 9 – 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 percent 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 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.7 percent,

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent 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 \$63,111, \$60,668 and \$64,292 respectively; 98.76 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$11,990 made by the City and \$7,877 made by the plan members.

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 information 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 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the Fund for police and firefighters were \$45,315 and \$21,185 for the year ended December 31, 2006, \$42,748 and \$20,454 for the year ended December 31, 2005 and \$47,855 and \$22,368 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 97.31 percent and 95.22 percent, respectively, has been contributed for 2006.

Note 10 - Postemployment Benefits

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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual 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 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$26,434. 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. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created 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 funds to be allocated to the health care plan.

B. Police and Firemen's Disability and 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 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 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors 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.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$29,888 for police and \$10,104 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 11 – Other Employee Benefits

A. Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service. Current policy credits vacation leave on the hiring date anniversary of each year for all full time employees. Unused vacation for all full time employees, except full time patrolmen and police sergeants, is cumulative and may not exceed 200 hours. Full time patrolmen and the police sergeants have no limit of unused vacation which may be accumulated due to their contracted positions. In the event of a termination of employment, death, or retirement, employees (or their estates) are paid for unused vacation leave.

Sick leave is earned for all full time employees at the rate of one and one-quarter days each month. Unused sick leave may be accumulated up to 2,080 hours. Upon retirement, the first 960 hours accumulated is compensated at 50 percent and the remaining hours at 25 percent.

B. Insurance

The City provides health and life insurance to its employees through Aetna. Employees have the option to opt out of the health program and receive a 25 percent premium payout, saving the City 75 percent of premium costs.

Note 12 – Contingencies

A. Grants

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experiences, management believes such refunds, if any, would not be material.

B. Litigation

Several claims and lawsuits are pending against the City. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the City at December 31, 2006.

C. Environmental Issues

In prior years, the City received donated property that required environmental remediation. Exxon has now accepted responsibility for this remediation.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 13 - Long-Term Obligations

The changes in long-term obligations during the year were as follows:

	Balance 12/31/2005	Issued	Retired	Balance 12/31/2006	Amounts Due In One Year
Governmental Activities					
Refunding Bond - Series A					
General Obligation Bond	\$1,110,000	\$0	(\$170,000)	\$940,000	\$175,000
Capital Appreciation Bond	130,000	0	0	130,000	0
Accretion on Capital Appreciation Bond	90,692	30,627	0	121,319	0
Refunding Bond - Series B					
General Obligation Bond	124,280	0	(12,143)	112,137	12,143
Fire Truck Capital Lease	236,290	0	(17,340)	218,950	18,068
Capital Improvement Loan	100,000	0	(50,000)	50,000	50,000
Compensated Absences	127,761	37,345	(42,826)	122,280	33,821
Total Governmental Activities	<u>\$1,919,023</u>	<u>\$67,972</u>	<u>(\$292,309)</u>	<u>\$1,694,686</u>	<u>\$289,032</u>
Business-Type Activity					
Refunding Bond - Series B					
General Obligation Bond	\$740,720	\$0	(\$72,857)	\$667,863	\$72,857

On November 1, 2001 the City issued \$1,820,000 Series A and \$1,250,000 Series B (which includes a governmental activities portion and a business-type activity portion) General Obligation Bonds with an average interest rate of 4.34 percent and a \$130,000 Series A Capital Appreciation Bond with an average interest rate of 13.43 percent to advance refund \$1,950,000 of 1994 Series A bonds with an average interest rate of 6.30 percent and \$1,105,000 of 1994 Series B bonds with an average interest rate 6.49 percent. The 2001 Series A General Obligation Bonds mature in 2011, and the 2001 Series A Capital Appreciation Bonds and Series B General Obligation Bonds mature in 2014. The net proceeds of \$3,055,000 (after deduction of \$145,000 in underwriting fees, insurance and other issuance costs) were used to advance refund the 1994 A and B Series Bonds. As a result, the 1994A and 1994B Series bonds are considered defeased and the liability has been removed from the City's financial statements.

For the Capital Appreciation Bond, the additions for 2006 were \$30,627 which represents the annual accretion of discounted interest. The final amount of the Capital Appreciation Bond will be \$620,000.

Payment of the principal and interest on the refunding bonds is insured by a municipal bond insurance policy issued by Financial Guaranty Insurance Company. Payments are made from the bond retirement fund for the governmental portion which includes all of the Series A and part of Series B. The remaining part of Series B, which is the business-type activity portion, is paid from the water fund.

In June 2004, the City entered into a capital lease to purchase a fire truck through the Ohio Department of Administrative Services Ohio Cooperative Purchasing Program. The cost of the fire truck and the amount of the lease is in the amount of \$252,931 with an interest rate of 4.12 percent. Annual payments of principal an interest are to be made through June 2016. Payments are to be paid out of the City's Capital Improvement Fund.

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

In October 2005, the City entered into a loan to obtain property in its Town Center for the purpose of future economic development. The amount of the loan is \$100,000 with an interest rate of 4.79 percent. Annual payments of principal and interest are to be made through October 2007. Payments are to be paid out of the City's Capital Improvement Fund.

The compensated absences liability will be paid out of the City's Compensated Absence Reserve Fund.

As of December 31, 2006, the City's overall legal debt margin was \$11,363,668 and the unvoted legal debt margin was \$4,868,463. Principal and interest requirements to retire the outstanding debt at December 31, 2006, are as follows:

	Governmental Activities					
	General Obligation		Capital Appreciation		General Obligation	
	Refunding Bond - Series A		Bond - Series A		Refunding Bond - Series B	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$175,000	\$35,610	\$0	\$0	\$12,143	\$4,425
2008	180,000	29,485	0	0	11,333	4,000
2009	190,000	22,825	0	0	11,250	3,584
2010	195,000	15,605	0	0	16,667	3,162
2011	200,000	8,000	0	0	15,789	2,507
2012-2014	0	0	130,000	490,000	44,955	3,719
Totals	\$940,000	\$111,525	\$130,000	\$490,000	\$112,137	\$21,397

	Governmental Activities (continued)				Business-Type Activities	
	Capital Improvement				General Obligation	
	Loan				Refunding Bond - Series B	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$50,000	\$2,395	\$72,857	\$26,353		
2008	0	0	73,667	23,802		
2009	0	0	78,750	21,074		
2010	0	0	83,333	18,076		
2011	0	0	84,211	14,830		
2012-2014	0	0	275,045	23,431		
Totals	\$50,000	\$2,395	\$667,863	\$127,566		

City of Munroe Falls, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Note 14 - Capital Leases

The City entered into a capital lease for a fire truck in 2004. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases." Capital assets were capitalized at the present value of the minimum lease payments at the time the leases were entered into.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Equipment	\$252,931
Less: Accumulated depreciation	10,117
Total	\$242,814

Such agreements provide for minimum, annual lease payments as follows:

	Governmental Activities
2007	\$27,264
2008	27,264
2009	27,264
2010	27,264
2011	27,264
2012 - 2016	136,320
Total Minimum Lease Payment	272,640
Less: Amount Representing Interest	(53,690)
Present Value of Minimum Lease Payments	\$218,950

Note 15 – Interfund Transfers

During 2006 the Capital Improvement capital projects fund transferred \$16,962 to the General Obligation Bond Retirement debt service fund to provide additional resources for debt service.

Note 16 - Subsequent Event

In March 2007, the City ordered a new ambulance valued at \$136,892 which will be paid for over a three year period through a lease-purchase agreement with First Merit Bank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Munroe Falls
Summit County
43 Munroe Falls Avenue
Munroe Falls, Ohio 44262

To the City Council:

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 Munroe Falls, Summit County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 28, 2007, in which we noted the City restated capital assets and net assets of the Governmental Activities as of December 31, 2005. 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, the significant deficiency described above, we believe is also a material weakness.

We also noted certain matters that we reported to the City's management in a separate letter dated September 28, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2006-002.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated September 28, 2007.

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

We intend this report solely for the information and use of the audit committee, management, and City Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 28, 2007

**CITY OF MUNROE FALLS
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006**

FINDING NUMBER 2006-001

Material Weakness

As a result of audit procedures performed and with subsequent assistance from the City's Finance Director, it was determined numerous parcels of land owned by the City had been omitted from their capital asset listing. A material adjustment relating to the omitted parcels was identified which required restating the prior year capital asset land values and net assets of the Governmental Activities in the amount of \$1,269,195.

Sound financial reporting is the responsibility of the Finance Director and the governing board and is essential to ensure the information provided to the readers of the financials statements is complete and accurate.

To help ensure the City's financial statements and notes to the financial statements are complete and accurate, the City should adopt policies and procedures to verify the capital assets listings include all assets owned by the City meeting their established criteria for capitalization.

Officials Response: We did not receive a response from officials to this finding.

FINDING NUMBER 2006-002

Finding for Recovery/Material Noncompliance

Finding for Recovery Repaid Under Audit

A previously outstanding EMS service charge was collected by the City's Law Director and the check forwarded to the Finance Director for depositing in the City's bank account and recording within the City's records. A copy of the check, written in the amount of \$329.38, was made and kept to update EMS billing/collection records. There is no evidence this check was deposited in the City's bank account or included in the City's records. Ohio Rev. Code Section 9.39 states "all public officials are liable for all public money received or collected by them or by their subordinates under the color of office."

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery for public money collected but unaccounted for is hereby issued against David Bailey, Finance Director, in the amount of \$329.38, in favor of the City of Munroe Falls EMS Fund.

The Finance Director, David Bailey, repaid \$329.38 on September 27, 2007.

Officials Response: The City is in the process of obtaining a reissued check from the payee.



Mary Taylor, CPA
Auditor of State

CITY OF MONROE FALLS

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2007**