

City of Milford
Clermont County, Ohio

Regular Audit

January 1, 2006, through December 31, 2006
Fiscal Years Audited Under GAGAS: 2006



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Members of Council
City of Milford
745 Center Street
Suite 200
Milford, Ohio 45150

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 18, 2008

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City of Milford
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Independent Auditor's Report

City of Milford
Clermont County
745 Center Street, Suite 200
Milford, Ohio 45150

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

In our opinion, the 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, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

The Management's Discussion and Analysis on pages 3 through 11 and budgetary comparison schedules for the General, Fire Levy, and EMS Levy Funds on pages 59 through 66 are not required parts of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

City of Milford
Clermont County
Independent Auditor's Report
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As described in Note 19 to the basic financial statements, the City implemented Governmental Accounting Standards Board Statement Number 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement Number 47, *Accounting for Termination Benefits*.



Balestra, Harr & Scherer, CPAs, Inc.
July 30, 2008

CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Financial Highlights

Key highlights for 2006 are as follows:

- The assets of the City exceeded its liabilities at the close of the year ended December 31, 2006, by \$23,501,100 (net assets). Of this amount, \$3,377,086 (governmental unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors, and \$4,982,740 is classified as unrestricted in the Water, Wastewater and Stormwater activities.
- The City's total net assets increased by \$1,078,003, which represents a 4.81% increase from 2005.
- At the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$4,775,947. Of this amount \$4,303,798 is available for spending (unreserved fund balance) on behalf of its citizens.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,833,735 or 70.58% of total general fund expenditures and other financing uses.
- The other governmental major funds: Fire Levy, EMS Levy, and Land Purchase have ending fund balances of \$300,769; \$293,784; and (\$524,188), respectively. The deficit in the Land Purchase Fund was due to the short term note outstanding.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Milford as a complete operating entity.

The Statement of Net Assets and Statement of Activities present both an aggregate view of the City's finances and 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.

**CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Reporting City of Milford as a Whole

Statement of Net Assets and the 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 we 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 used by private sector companies. This basis of accounting considers 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 change in those assets. This change in net assets is 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, nonfinancial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental Activities – Most of the City's services are reported here including police, social services programs, administration, and all departments with the exception of our Water, Wastewater and Stormwater Management functions.
- Business-Type Activities – These services have a charge based upon the amount of usage. The City charges fees to recoup the cost of the entire operation of our Water, Wastewater and Stormwater Management systems as well as all capital expenses associated with these facilities.
- Component units are legally separate entities that the City has voting control over or fiscal responsibility for. The City has no component units.

Reporting the City of Milford's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. Fund financial reports provide detailed information about the City's major funds. Based on restrictions on the use of monies, the City has established many funds which account for the multitude of services provided to our residents.

CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

However, these fund financial statements focus on the City's most significant funds. In the case of Milford, our major funds are the General, Fire Levy, EMS Levy, Land Purchase, Water, Wastewater and Stormwater Management funds.

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

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

The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation.

Proprietary Funds: The City maintains only one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water, Wastewater and Stormwater Management operations.

Fiduciary Funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City only maintains two agency funds which have no measurement focus and use the accrual basis of accounting.

Notes to the Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements.

Required Supplementary Information: The City is required to report the budgetary schedules for the General Fund and two major special revenue funds along with the applicable accounting policies to develop those statements.

CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$23,501,100 (\$8,915,584 in governmental activities and \$14,585,516 in business type activities) as of December 31, 2006. By far, the largest portion of the City's net assets (53.29%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Table 1 provides a summary of the City's statement of net assets for 2006 compared to 2005.

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$8,624,971	\$8,234,834	\$5,865,204	\$5,376,186	\$14,490,175	\$13,611,020
Capital Assets	7,202,047	7,306,322	11,778,964	9,079,594	18,981,011	16,385,916
Total Assets	15,827,018	15,541,156	17,644,168	14,455,780	33,471,186	29,996,936
Long-term liabilities	3,921,210	4,040,724	2,223,819	604,910	6,145,029	4,645,634
Other liabilities	2,990,224	2,783,599	834,833	144,606	3,825,057	2,928,205
Total Liabilities	6,911,434	6,824,323	3,058,652	749,516	9,970,086	7,573,839
Nets Assets:						
Invested in capital assets, net of related debt	2,922,047	2,911,322	9,602,776	8,521,813	12,524,823	11,433,135
Restricted	2,616,451	2,548,153	0	0	2,616,451	2,548,153
Unrestricted	3,377,086	3,257,358	4,982,740	5,184,451	8,359,826	8,441,809
Total Net Assets	\$8,915,584	\$8,716,833	\$14,585,516	\$13,706,264	\$23,501,100	\$22,423,097

An additional portion of the City's net assets represents resources that are subject to external restrictions on how they may be used. In the current fiscal year, this represented \$2,616,451 or 11.13% of net assets. The remaining unrestricted \$8,359,826 or 35.58% of net assets may be used to meet the City's ongoing obligations to its citizens and creditors and for business-type activities.

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

The City saw capital assets increase as the City increased construction on the wastewater treatment plant and additional work on the water wellfields. The City also saw the long term liabilities increased by 32.28% from 2005 as significant construction on those projects was underway. The overall unrestricted net assets slightly increased from the prior year mainly from the positive overall cash flow of the City.

CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Statement of Activities

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program Revenues:						
Charges for Services	\$321,213	\$454,445	\$2,537,579	\$2,364,111	\$2,858,792	\$2,818,556
Operating Grants and Contributions	441,285	377,114	0	1,845	441,285	378,959
Capital Grants and Contributions	168,401	0	120,870	0	289,271	0
General Revenues						
Income Taxes	2,669,817	2,535,974	0	0	2,669,817	2,535,974
Property Taxes	1,963,452	2,016,994	0	0	1,963,452	2,016,994
Other Taxes	689,008	215,215	0	0	689,008	215,215
Unrestricted Grants	530,126	746,188	0	0	530,126	746,188
Investment earnings	257,612	136,612	276,072	118,525	533,684	255,137
Other Revenues	43,721	44,541	0	0	43,721	44,541
Total Revenues	7,084,635	6,527,083	2,934,521	2,484,481	10,019,156	9,011,564
Expenses:						
Security of Persons and Property	3,835,074	3,430,327	0	0	3,835,074	3,430,327
Public Health and Welfare	556,183	498,923	0	0	556,183	498,923
Leisure Time Activities	128,298	84,597	0	0	128,298	84,597
Community Environment	0	643	0	0	0	643
Basic Utility Services	303,431	498,665	0	0	303,431	498,665
Transportation	354,913	278,776	0	0	354,913	278,776
General Government	1,494,076	1,073,021	0	0	1,494,076	1,073,021
Intergovernmental	0	3,500	0	0	0	3,500
Interest and Fiscal Charges	213,909	233,694	0	0	213,909	233,694
Water	0	0	893,406	1,020,317	893,406	1,020,317
Wastewater	0	0	1,040,816	943,061	1,040,816	943,061
Stormwater Management	0	0	121,047	150,193	121,047	150,193
Total Expenses	6,885,884	6,102,146	2,055,269	2,113,571	8,941,153	8,215,717
Change in Net Assets	198,751	424,937	879,252	370,910	1,078,003	795,847
Beginning Net Assets	8,716,833	8,291,896	13,706,264	13,335,354	22,423,097	21,627,250
Ending Net Assets	\$8,915,584	\$8,716,833	\$14,585,516	\$13,706,264	\$23,501,100	\$22,423,097

Governmental Activities

The primary focus of governmental activities is in the area of security of persons and property, which represents the police, fire and EMS services of the City. For 2006, total security of persons and property expenses were \$3.84 Million representing 55.69% of governmental activity spending yielding a reliance on general revenues to fund the program of approximately \$3.73 Million after direct support to their programs.

Continuing escalation in health insurance costs has affected all programs of the government. A primary goal of all programs is to continually review and monitor methods to seek self-sufficiency as public safety continues to increase expenditures. The security of persons and property (11.80%) and general government (39.24%) saw the largest increases from 2005. The additional personnel costs are partly the reason for the increase and noncapitalized costs assigned to the general government function.

**CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Business-Type Activities

The City's business-type activities include the Water, Wastewater and Stormwater Management systems. The Water, Wastewater and Stormwater Management systems were able to boast positive changes in net assets figures of \$283,225, \$232,712 and \$363,315, respectively with the two funds receiving over \$0.12 Million in capital grants.

Financial Analysis of the City's Funds

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

Governmental Funds: The focus of these City funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements as well as its ability to meet the needs of its citizens. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

As of the end of 2006, the City's governmental funds reported combined ending fund balances of \$4.78 Million. Approximately \$4.30 Million constitutes unreserved fund balance available for spending for citizens. The remainder of the balance is reserved to indicate that it has been earmarked for specific purposes and not available to be spent for some purposes, most notably to liquidate contracts and purchase orders from the prior year (\$0.47 Million).

The General Fund is the chief operating fund of the City. As of December 31, 2006, the unreserved general fund balance was \$2.83 Million with a total fund balance of \$3.04 Million. As a measure of liquidity, it is often useful to compare these numbers to total general fund expenditures and other financing uses. Unreserved fund balance represents approximately 70.58% of the total expenditures and other financing uses, while total fund balance represents 75.86% of that same amount.

During 2006, the City's general fund increased by \$0.01 Million as the City transferred \$0.26 Million to the debt service fund to cover the City's portion of the debt service requirements for the year and capital improvement fund for road improvements.

While the Fire Levy major special revenue fund realized a decrease in fund balance of \$0.06 Million during the year, the EMS Levy major special fund actually saw an increase of \$0.03 Million. The Fire and EMS levy funds reflected higher expenditures as the cost to provide services to the citizens increased over the prior year. The land purchase fund received enough revenue through leases that it finished with a positive change in net assets for 2006.

**CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and the Charter of the City. The budget is based on accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2006, the City amended its total and general fund budget three times, the most significant noted below. All recommendations for the budget came from the City Manager after consultation with individual directors and the Finance Department before submission to City Council. The City Council also ministerially approves small interdepartmental budget changes that modify line items within departments within the same fund. With the General fund supporting a majority of our major activities such as public safety programs, as well as most legislative and executive activities, the General Fund is monitored closely with particular attention to possible revenue shortfalls or over spending by individual departments.

The following table summarizes the major revenue sources and expenditures from original to final budget for 2006:

<u>Description</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Change</u>
Revenues:			
Property and Other Taxes	\$492,574	\$521,605	\$29,031
Income Taxes	2,150,000	2,295,840	145,840
Intergovernmental Revenue	650,000	687,075	37,075
Other Revenues	436,371	451,895	15,524
Total Revenues	<u>3,728,945</u>	<u>3,956,415</u>	<u>227,470</u>
Expenditures:			
Security of Persons/Property	1,910,001	1,911,001	1,000
General Government	1,368,258	1,368,258	0
Other Expenditures	596,634	596,634	0
Total Expenditures	<u>3,874,893</u>	<u>3,875,893</u>	<u>1,000</u>

The City's original revenue budget was increased by 6.10% to the final budget as the original budget was created with the City's tax budget. The final budget was completed when the City had a better understanding of the state local government funding issues and more information related to total income tax collections.

The City only made one minor change for final budgeted appropriations compared to what was presented in the original budget. The City evaluated updating the appropriation budget towards the end of the year; however, the final appropriations could not exceed final budgeted revenues resulting in the appropriations remaining relatively unchanged.

CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

The following table summarizes the major revenue sources and expenditures from final budget to actual results for 2006:

Description	Final Budget	Actual	Change
Revenues:			
Property and Other Taxes	\$521,605	\$532,774	\$11,169
Income Taxes	2,295,840	2,267,241	(28,599)
Intergovernmental Revenue	687,075	757,101	70,026
Other Revenues	451,895	490,950	39,055
Total Revenues	3,956,415	4,048,066	91,651
Expenditures:			
Security of Persons/Property	1,911,001	1,919,881	(8,880)
General Government	1,368,258	1,388,412	(20,154)
Other Expenditures	596,634	674,547	(77,913)
Total Expenditures	3,875,893	3,982,840	(106,947)

The City's largest variance in final revenues was in intergovernmental revenue. The City was conservative in the expected revenue increase as the state has been cutting various local government funding sources. The City also only estimates estate tax revenue at a base amount of \$100,000 as this revenue source is very unpredictable. The City received significantly more in estate tax for 2006 than was budgeted.

With City not increasing final appropriations, the three categories were all under appropriated. In the other expenditures category, basic utility services were the most significant function over the final budget as some additional costs occurred in the winter that were not anticipated and not accounted for in the final budgeted figure.

Capital Assets and Debt Administration

Capital Assets: The City's investment in capital assets for its governmental and business type activities as of December 31, 2006, totaled \$12.52 Million (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings and systems, improvements, equipment and machinery.

Note 8 (Capital Assets) provides capital asset activity during 2006. The City spent most of the capital asset money on construction projects for the new wastewater facility and water wellfields which are recorded as construction in progress. For more information on the governmental and business-type capital assets see Note 8 in the notes to the financial statements.

CITY OF MILFORD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

Long-term Debt: At the end of 2006, the City had general obligation bonds outstanding of \$3.74 Million in governmental activities. The City retired \$208,543 in principal related to all debt during the year. See Note 13 for further information on the City's long-term debt.

Economic Factors affecting the City

Surrounded by hills and woods, with a population of just over 6,000, Milford is Clermont County's only city, and a focal point of new business development in the Greater Cincinnati Area. Milford has preserved the charms of its natural setting and historic downtown while creating a modern infrastructure that makes it a great place to live, work, play and grow.

Milford provides an excellent location for light industrial and retail businesses. The Milford commerce park offers a unique blend of industrial and recreational development. With a scenic location on the East Fork of the Little Miami River and a direct connection to I-275, the Park promises to be the "best business address" in Greater Cincinnati.

With the opening of River's Edge development in the past several years, the City now hosts a multitude of restaurants, a top line cinema and two top class hotel accommodations. The area still has several parcels available. The opening of the Wal-Mart in 2006 required moving part of Chamber drive which opened up additional development potential on the opposite side of the road from the store. Milford continues to provide more and more opportunities for its residents to find everything they need right at home.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, creditors, investors and elected officials with a general overview of the City's finances and to show accountability for the money it receives. If you have any questions about this report or need additional information, contact the City of Milford Finance Director, 745 Center Street, Suite 200, Milford, Ohio 45150, (513) 831-4192 or visit the City website at www.milfordohio.org.

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CITY OF MILFORD, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>Governmental</u> <u>Type</u>	<u>Business</u> <u>Type</u>	<u>Total</u>
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 5,173,557	\$ 5,313,119	\$ 10,486,676
Receivables (net of allowance for doubtful accounts):			
Taxes-Real & Personal Property	2,254,220	-	2,254,220
Taxes-Municipal Income	612,458	-	612,458
Accounts	39,114	406,930	446,044
Interest	29,799	29,800	59,599
Internal Balances	(967)	967	-
Due from Other Governments	446,362	-	446,362
Inventory of Supplies at Cost	41,074	90,381	131,455
Prepaid Items	29,354	24,007	53,361
Nondepreciable Capital Assets:			
Land	2,612,991	140,260	2,753,251
Construction In Progress	61,364	3,002,504	3,063,868
Depreciable Capital Assets:			
Plant	-	6,182,808	6,182,808
Water/Sewer Lines	-	6,448,470	6,448,470
Buildings and Improvements	4,014,348	-	4,014,348
Improvements other than Buildings	1,279,418	2,203,804	3,483,222
Furniture, Equipment and Vehicles	2,070,702	914,492	2,985,194
Less: Accumulated Depreciation	(2,836,776)	(7,113,374)	(9,950,150)
Total Assets	15,827,018	17,644,168	33,471,186
Liabilities:			
Accounts Payable	58,488	27,002	85,490
Contracts Payable	10,017	741,554	751,571
Accrued Wages and Benefits	73,683	18,320	92,003
Due to Other Governments	154,754	47,957	202,711
General Obligation Notes Payable	540,000	-	540,000
Accrued Interest Payable	34,823	-	34,823
Unearned Revenue	2,118,459	-	2,118,459
Long Term Liabilities due within 1 year	274,933	175,388	450,321
Long Term Liabilities due over 1 year	3,646,277	2,048,431	5,694,708
Total Liabilities	6,911,434	3,058,652	9,970,086
NET ASSETS			
Investment in Capital Assets, net related debt	2,922,047	9,602,776	12,524,823
Restricted:			
Transportation	630,239	-	630,239
Culture and Recreation	386,415	-	386,415
Protection of Citizens	790,510	-	790,510
Capital Improvements	809,287	-	809,287
Unrestricted	3,377,086	4,982,740	8,359,826
Total Net Assets	8,915,584	14,585,516	23,501,100
Total Net Assets and Liabilities	\$ 15,827,018	\$ 17,644,168	\$ 33,471,186

See accompanying notes to the basic financial statements

**CITY OF MILFORD, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Governmental Activities:							
Security of Persons and Property	\$ (3,835,074)	\$ 72,042	\$ 34,753	\$ -	\$ (3,728,279)	\$ -	\$ (3,728,279)
Public Health and Welfare	(556,183)	96,697	-	-	(459,486)	-	(459,486)
Leisure Time Activities	(128,298)	4,500	-	16,500	(107,298)	-	(107,298)
Basic Utility Services	(303,431)	3,921	-	151,901	(147,609)	-	(147,609)
Transportation	(354,913)	-	406,532	-	51,619	-	51,619
General Government	(1,494,076)	144,053	-	-	(1,350,023)	-	(1,350,023)
Interest and Fiscal Charges	(213,909)	-	-	-	(213,909)	-	(213,909)
Total Governmental Activities	<u>(6,885,884)</u>	<u>321,213</u>	<u>441,285</u>	<u>168,401</u>	<u>(5,954,985)</u>	<u>-</u>	<u>(5,954,985)</u>
Business-Type Activities:							
Water	(893,406)	953,422	-	120,870	-	180,886	180,886
Wastewater	(1,040,816)	1,139,435	-	-	-	98,619	98,619
Stormwater Management	(121,047)	444,722	-	-	-	323,675	323,675
Total Business-Type Activities	<u>(2,055,269)</u>	<u>2,537,579</u>	<u>-</u>	<u>120,870</u>	<u>-</u>	<u>603,180</u>	<u>603,180</u>
Total	<u>\$ (8,941,153)</u>	<u>\$ 2,858,792</u>	<u>\$ 441,285</u>	<u>\$ 289,271</u>	<u>(5,954,985)</u>	<u>603,180</u>	<u>(5,351,805)</u>
General Revenues:							
Income Taxes					2,669,817	-	2,669,817
Property Taxes					1,963,452	-	1,963,452
Estate Taxes					243,022	-	243,022
Franchise Fee Taxes					77,560	-	77,560
Cinema Admissions Taxes					164,460	-	164,460
Hotel Taxes					83,157	-	83,157
Payment in Lieu of Taxes					27,487	-	27,487
Permissive Sale Taxes					93,322	-	93,322
Grants and Contributions not restricted to specific programs					530,126	-	530,126
Unrestricted investment earnings					257,612	276,072	533,684
Miscellaneous					43,721	-	43,721
Total General Revenues					<u>6,153,736</u>	<u>276,072</u>	<u>6,429,808</u>
Changes in Net Assets					198,751	879,252	1,078,003
Net Assets-Beginning					8,716,833	13,706,264	22,423,097
Net Assets-Ending					<u>\$ 8,915,584</u>	<u>\$ 14,585,516</u>	<u>\$ 23,501,100</u>

See accompanying notes to the basic financial statements

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**CITY OF MILFORD, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006**

	General	Fire Levy	EMS Levy	Land Purchase
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 2,630,121	\$ 275,425	\$ 267,889	\$ 21,556
Receivables (net of allowance for doubtful accounts):				
Taxes-Real & Personal Property	565,776	823,537	864,907	-
Taxes-Municipal Income	521,401	-	-	-
Accounts	25,084	-	-	-
Interest	29,799	-	-	-
Interfund Receivable	360,178	-	-	-
Due from Other Governments	178,699	5,443	4,982	-
Prepaid Items	23,968	568	568	-
Materials and Supplies Inventory	13,326	-	-	-
Total Assets	<u>4,348,352</u>	<u>1,104,973</u>	<u>1,138,346</u>	<u>21,556</u>
Liabilities:				
Accounts Payable	45,985	-	-	-
Contracts Payable	-	-	-	-
Accrued Wages and Benefits	71,080	-	-	-
Due to Other Funds	197	-	-	-
Due to Other Governments	142,225	322	1,302	-
Interfund Payable	-	-	-	-
Accrued Interest Payable	-	-	-	5,744
Deferred Revenue	1,022,839	803,882	843,260	-
General Obligation Notes Payable	-	-	-	540,000
Matured Leave Payable	20,219	-	-	-
Total Liabilities	<u>1,302,545</u>	<u>804,204</u>	<u>844,562</u>	<u>545,744</u>
Fund Balances:				
Reserved for Encumbrances	198,746	-	-	-
Reserved for Inventory	13,326	-	-	-
Unreserved, reported in:				
General	2,833,735	-	-	-
Special Revenue	-	300,769	293,784	-
Debt Service (Deficit)	-	-	-	-
Capital Projects (Deficit)	-	-	-	(524,188)
Total Fund Balances (Deficit)	<u>3,045,807</u>	<u>300,769</u>	<u>293,784</u>	<u>(524,188)</u>
Total Liabilities and Fund Balances	<u>\$ 4,348,352</u>	<u>\$ 1,104,973</u>	<u>\$ 1,138,346</u>	<u>\$ 21,556</u>

See accompanying notes to the basic financial statements

CITY OF MILFORD, OHIO

RECONCILIATION OF THE TOTAL GOVERNMENTAL
FUND BALANCES TO NET ASSETS
OF GOVERNMENTAL ACTIVITIES

DECEMBER 31, 2006

Other Governmental Funds	Total Governmental Funds		
\$ 1,978,566	\$ 5,173,557	Fund Balances - Governmental Funds	\$ 4,775,947
		Amounts reported for governmental activities in the statement of net assets are different because:	
-	2,254,220		
91,057	612,458		
14,030	39,114	Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	7,202,047
-	29,799		
-	360,178		
257,238	446,362	Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	867,660
4,250	29,354		
27,748	41,074		
<u>2,372,889</u>	<u>8,986,116</u>	Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,930,070)</u>
		Net Assets of governmental activities	<u>\$ 8,915,584</u>
12,503	58,488		
10,017	10,017		
2,603	73,683		
770	967		
10,905	154,754		
360,178	360,178		
-	5,744		
316,138	2,986,119		
-	540,000		
-	20,219		
<u>713,114</u>	<u>4,210,169</u>		
232,329	431,075		
27,748	41,074		
-	2,833,735		
887,579	1,482,132		
(132,971)	(132,971)		
645,090	120,902		
<u>1,659,775</u>	<u>4,775,947</u>		
<u>\$ 2,372,889</u>	<u>\$ 8,986,116</u>		

CITY OF MILFORD, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Fire Levy	EMS Levy	Land Purchase
Revenues:				
Income Taxes	\$ 2,169,266	\$ -	\$ -	\$ -
Property and Other Taxes	589,264	847,106	774,699	-
Intergovernmental	756,637	54,430	49,327	-
Charges for Services	111,240	-	-	30,211
Licenses and Permits	76,529	-	-	-
Investment Earnings	217,506	11,690	6,901	659
Change in Fair Value of Investments	10,707	-	-	-
Fines and Forfeitures	62,487	-	-	-
Payment in Lieu of Taxes	-	-	-	-
All Other Revenues	27,530	-	-	-
Total Revenues	4,021,166	913,226	830,927	30,870
Expenditures:				
Current:				
Security of Persons and Property	1,868,699	943,224	780,554	-
Public Health and Welfare	319,107	-	-	-
Leisure Time Activities	-	-	-	-
Basic Utility Services	256,850	-	-	-
Transportation	-	-	-	-
General Government	1,313,003	-	-	-
Intergovernmental	-	-	-	-
Capital Outlay	-	-	-	8,012
Debt Service:				
Principal Retirement	-	12,500	12,500	-
Interest and Fiscal Charges	-	12,840	12,840	17,232
Total Expenditures	3,757,659	968,564	805,894	25,244
Excess (Deficiency) of Revenues Over (Under) Expenditures	263,507	(55,338)	25,033	5,626
Other Financing Sources (Uses):				
Sale of Capital Assets	5,710	-	-	-
Transfers - In	-	-	-	17,232
Transfers - Out	(257,392)	-	-	(17,280)
Total Other Financing Sources (Uses)	(251,682)	-	-	(48)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	11,825	(55,338)	25,033	5,578
Fund Balances (Deficit) at Beginning of Year	3,033,982	356,107	268,751	(529,766)
Fund Balances (Deficit) at End of Year	\$ 3,045,807	\$ 300,769	\$ 293,784	\$ (524,188)

See accompanying notes to the basic financial statements

CITY OF MILFORD, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES 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		
\$ 506,074	\$ 2,675,340	Amounts reported in governmental activities in the statement of activities are different because:	
-	2,211,069	Net Change in Fund Balances - total governmental funds	\$ 172,910
620,375	1,480,769	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 and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(104,275)
96,697	238,148		
7,983	84,512		
14,649	251,405	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(10,083)
-	10,707		
13,673	76,160	The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however, has any affect of net assets. Also, governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	115,466
27,487	27,487	Some items reported in the statement of activities do not require the use of current financial current financial resources and, therefore, are not reported as expenditures in governmental funds.	24,733
11,591	39,121	Change in net assets of governmental activities	<u>\$ 198,751</u>
<u>1,298,529</u>	<u>7,094,718</u>		
3,593	3,596,070		
280,172	599,279		
130,928	130,928		
-	256,850		
354,913	354,913		
966	1,313,969		
-	-		
348,122	356,134		
90,000	115,000		
171,463	214,375		
<u>1,380,157</u>	<u>6,937,518</u>		
(81,628)	157,200		
10,000	15,710		
274,672	291,904		
(17,232)	(291,904)		
<u>267,440</u>	<u>15,710</u>		
185,812	172,910		
1,473,963	4,603,037		
<u>\$ 1,659,775</u>	<u>\$ 4,775,947</u>		

**CITY OF MILFORD, OHIO
STATEMENT OF NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2006**

BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS

	Water	Wastewater	Stormwater Management	Totals
Assets:				
<u>Current Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,942,249	\$ 2,882,897	\$ 487,973	\$ 5,313,119
Receivables (net of allowances for doubtful accounts)				
Accounts	144,067	193,291	69,572	406,930
Interest	11,920	11,920	5,960	29,800
Due from Other Funds	2,589	588	-	3,177
Inventory of Supplies at Cost	76,287	13,540	554	90,381
Prepaid Items	11,363	12,330	314	24,007
Total Current Assets	<u>2,188,475</u>	<u>3,114,566</u>	<u>564,373</u>	<u>5,867,414</u>
<u>Nondepreciable Capital Assets:</u>				
Land	101,488	38,772	-	140,260
Construction in Progress	288,443	2,714,061	-	3,002,504
<u>Depreciable Capital Assets:</u>				
Improvements Other than Buildings	947,207	861,489	395,108	2,203,804
Furniture, Fixtures, Equipment	461,937	451,555	1,000	914,492
Water and Sewer Line	2,364,532	4,083,938	-	6,448,470
Plant	2,051,892	4,130,916	-	6,182,808
Less: Accumulated Depreciation	(2,911,443)	(4,201,931)	-	(7,113,374)
Total Capital Assets (net of accumulated depreciation)	<u>3,304,056</u>	<u>8,078,800</u>	<u>396,108</u>	<u>11,778,964</u>
Total Assets	<u><u>5,492,531</u></u>	<u><u>11,193,366</u></u>	<u><u>960,481</u></u>	<u><u>17,646,378</u></u>
Liabilities				
<u>Current Liabilities:</u>				
Accounts Payable	14,858	11,196	948	27,002
Contracts Payable	16,178	714,138	11,238	741,554
Accrued Wages and Benefits	10,440	7,401	479	18,320
Due to Other Funds	104	2,106	-	2,210
Due to Other Governments	25,119	21,105	1,733	47,957
Compensated Absences Payable - Current	13,436	10,767	1,319	25,522
Ohio Water Development Authority Loans Payable - Current	-	124,939	-	124,939
OPWC Loan Payable - Current	5,172	19,755	-	24,927
Total Current Liabilities	<u>85,307</u>	<u>911,407</u>	<u>15,717</u>	<u>1,012,431</u>
<u>Noncurrent Liabilities:</u>				
Compensated Absences Payable	10,965	10,114	1,030	22,109
Ohio Water Development Authority Loans Payable	-	1,369,266	-	1,369,266
OPWC Loans Payable	41,387	615,669	-	657,056
Total Noncurrent Liabilities	<u>52,352</u>	<u>1,995,049</u>	<u>1,030</u>	<u>2,048,431</u>
Total Liabilities	<u><u>137,659</u></u>	<u><u>2,906,456</u></u>	<u><u>16,747</u></u>	<u><u>3,060,862</u></u>
Net Assets				
Invested in capital assets, net of related debt	3,257,497	5,949,171	396,108	9,602,776
Unrestricted	2,097,375	2,337,739	547,626	4,982,740
Total Net Assets	<u>5,354,872</u>	<u>8,286,910</u>	<u>943,734</u>	<u>14,585,516</u>
Total Net Assets and Liabilities	<u><u>\$ 5,492,531</u></u>	<u><u>\$ 11,193,366</u></u>	<u><u>\$ 960,481</u></u>	<u><u>\$ 17,646,378</u></u>

See accompanying notes to the basic financial statements

CITY OF MILFORD, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS			
	Water	Wastewater	Stormwater Management	Totals
<u>Operating Revenues:</u>				
Charges for Services	\$ 943,574	\$ 1,135,841	\$ 444,536	\$ 2,523,951
Other Operating Revenues	9,848	3,594	186	13,628
Total Operating Revenues	953,422	1,139,435	444,722	2,537,579
<u>Operating Expenses:</u>				
Personal Services	423,867	343,020	43,345	810,232
Materials and Supplies	70,374	165,766	41,417	277,557
Contractual Services	185,254	248,575	35,140	468,969
Other Operating Expenses	2,586	1,949	1,145	5,680
Depreciation	211,325	270,161	-	481,486
Total Operating Expenses	893,406	1,029,471	121,047	2,043,924
Operating Income	60,016	109,964	323,675	493,655
<u>Non-Operating Revenues (Expenses):</u>				
Investment Earnings	102,339	134,093	39,640	276,072
Interest and Fiscal Charges	-	(11,345)	-	(11,345)
Grants	120,870	-	-	120,870
Total Non-Operating Revenues (Expenses)	223,209	122,748	39,640	385,597
Change in Net Assets	283,225	232,712	363,315	879,252
Total net assets - Beginning	5,071,647	8,054,198	580,419	13,706,264
Total net assets - Ending	\$ 5,354,872	\$ 8,286,910	\$ 943,734	\$ 14,585,516

See accompanying notes to the basic financial statements

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

BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS

	Water	Wastewater	Stormwater Management	Totals
Increase (Decrease) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities:</u>				
Cash Received from Customers	\$ 920,074	\$ 1,122,134	\$ 453,304	\$ 2,495,512
Cash Paid for Employee Services and Benefits	(420,461)	(343,443)	(43,260)	(807,164)
Cash Paid to Suppliers for Goods and Services	(311,449)	297,447	(64,479)	(78,481)
Other Operating Revenues	12,540	3,802	186	16,528
Other Operating Expenses	(3,466)	(1,949)	(1,145)	(6,560)
Net Cash Provided by Operating Activities	<u>197,238</u>	<u>1,077,991</u>	<u>344,606</u>	<u>1,619,835</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Capital Grant Contributions	120,870	-	-	120,870
Face Value from the Sale of Debt	-	1,696,950	-	1,696,950
Acquisition and Construction of Assets	(183,428)	(2,604,931)	(396,108)	(3,184,467)
Principal Paid on Loans Payable	(1,724)	(76,819)	-	(78,543)
Interest Paid on All Debt	-	(7,734)	-	(7,734)
Net Cash Used for Capital and Related Financing Activities	<u>(64,282)</u>	<u>(992,534)</u>	<u>(396,108)</u>	<u>(1,452,924)</u>
<u>Cash Flows from Investing Activities:</u>				
Interest	90,419	122,173	33,680	246,272
Net Cash Provided By Investing Activities	<u>90,419</u>	<u>122,173</u>	<u>33,680</u>	<u>246,272</u>
Net Increase (Decrease) in Cash and Cash Equivalents	223,375	207,630	(17,822)	413,183
Cash and Cash Equivalents at Beginning of Year	<u>1,718,874</u>	<u>2,675,267</u>	<u>505,795</u>	<u>4,899,936</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,942,249</u>	<u>\$ 2,882,897</u>	<u>\$ 487,973</u>	<u>\$ 5,313,119</u>

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

	<u>BUSINESS-TYPE ACTIVITIES--ENTERPRISE FUNDS</u>			
	<u>Water</u>	<u>Wastewater</u>	<u>Stormwater Management</u>	<u>Totals</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:				
Operating Income	\$ 60,016	\$ 109,964	\$ 323,675	\$ 493,655
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	211,325	270,161	-	481,486
Change in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	(21,069)	(12,911)	8,768	(25,212)
(Increase) Decrease in Due From Other Funds	(2,589)	(588)	-	(3,177)
Decrease in Due From Other Governments	2,850	-	-	2,850
(Increase) in Materials and Supplies Inventories	(17,860)	(598)	(147)	(18,605)
(Increase) Decrease in Prepaid Items	673	(4,813)	39	(4,101)
Increase (Decrease) in Due to Other Governments	(3,054)	1,165	86	(1,803)
Increase in Accounts Payables	10,526	254	948	11,728
Increase (Decrease) in Contracts Payables	(43,727)	714,138	11,238	681,649
(Decrease) in Accrued Wages and Benefits	(340)	(915)	(92)	(1,347)
Increase in Compensated Absences Payable	383	28	91	502
Increase in Due to Other Funds	104	2,106	-	2,210
Total Adjustments	<u>137,222</u>	<u>968,027</u>	<u>20,931</u>	<u>1,126,180</u>
Net Cash Provided by Operating Activities	<u>\$ 197,238</u>	<u>\$ 1,077,991</u>	<u>\$ 344,606</u>	<u>\$ 1,619,835</u>

See accompanying notes to the basic financial statements

CITY OF MILFORD, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Totals</u>
Assets:	
Cash and Cash Equivalents in Segregated Accounts	\$ 29,892
Total Assets	<u>29,892</u>
Liabilities:	
Due to Other Governments	22,099
Due to Others	<u>7,793</u>
Total Liabilities	<u>\$ 29,892</u>

See accompanying notes to the basic financial statements

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1-REPORTING ENTITY AND BASIS OF ACCOUNTING

A. Reporting Entity

The City of Milford (“The City”) is a charter City operating under the laws of the State of Ohio. The City was originally incorporated as the Village of Milford in 1836. Milford’s name is attributed to the principal industry of that time period, milling. Milford became a City after the 1980 census.

The City operates under a Council-Manager form of government. All legislative power of the Municipality is vested in a seven member elected Council and the administrative power of the Municipal Government is vested in a Manager appointed by the Council. The Manager is the chief executive and administrative officer of the City. The Council selects, from its own members, a Mayor and a Vice Mayor. The Mayor is the ceremonial and representative head of the Municipality, but exercises no administrative authority. The Finance Director is appointed by the Manager and confirmed by a majority vote of the Council.

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. To provide necessary services to its citizens, the City of Milford is divided into departments and financial management and control systems. Departments providing services include a police force, a street maintenance and repair force, a parks and recreation system, a sewer department, a water system, a stormwater system, an income tax department and a staff to provide essential support to these service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the administration of the City Manager. All are responsible to the citizens of Milford and are included as part of the reporting entity.

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; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; (4) or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the organization’s budget, the issuance of its debt or the levying of its taxes. The City has no component units.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1-REPORTING ENTITY AND BASIS OF ACCOUNTING (CONTINUED)

The Milford Exempted Village School District and Milford Community Fire Department have been excluded from the City's financial statements because the City is not financially accountable for these organizations nor are the entities fiscally dependent on the City.

The City is associated with the Ohio Municipal League that provides one related service: a risk sharing pool. The organization's service is presented in Note 12 to the basic financial statements. The City is also associated with two jointly governed organizations: The Center for Local Government and the Ohio-Kentucky-Indiana Regional Council of Governments, which are presented in Note 16 to the basic financial statements.

B. Basis of Presentation – Fund Accounting

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. The effect of inter-fund activity has been removed from these statements. Taxes and intergovernmental revenues normally support governmental activities. *Business type activities* are supported by charges for services.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, enterprise funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's accounting policies are described as follows.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the enterprise fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within thirty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is expected to be liquidated with expendable, available resources. However, debt service expenditures, as well as compensated absences, are recorded only when payment is due.

Property taxes, income taxes, licenses, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the City receives cash.

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 employs the use of three categories of funds: governmental, enterprise, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose of 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.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental funds:

General Fund

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Levy Special Revenue Fund

The fire levy fund accounts for collection of the City's fire levy. The proceeds are collected by the City and the City contracts with the Milford Community Fire Department for safety services.

EMS Levy Special Revenue Fund

The EMS levy fund accounts for collection of the City's EMS levy. The proceeds are collected by the City and the City contracts with the Milford Community Fire Department for safety services.

Land Purchase Capital Projects Fund

The land purchase fund accounted for the purchase of 151 acres. The City sold 69 acres to the Valleyview Foundation in August 2005. The City anticipates the Foundation will make a final purchase of 32 acres during 2007. The City anticipates using the remaining acreage for future expansion of the wastewater treatment plant.

The City reports the following major enterprise funds:

Water Fund

To account for activities of the City's water system.

Wastewater Fund

To account for the activities of the City's wastewater system.

Stormwater Management Fund

To account for the activities of the City's stormwater management system.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Additionally, the City reports the following fund types:

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: private purpose trust funds, pension trust funds, investment trust funds and agency funds. The City maintains a Mayor's Court agency fund, which accounts for funds that flow through the municipal court office. The other agency fund is Special Deposit fund that is similar to unclaimed funds. The City's agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary and Other Governmental Entities that Use Enterprise Fund Accounting*, the City has elected to follow FASB Statements and Interpretations issued prior to December 1, 1989 to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

The City also has the option of following subsequent FASB guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply those FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

Enterprise funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

B. Cash and Cash Equivalents

To improve cash management, cash received by the City, except Cash in Segregated Accounts, is pooled. Monies for all funds, including enterprise funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements. The City's Municipal Court has its own checking account for collection and distribution of court fines and forfeitures which are presented on the fiduciary statement of net assets as "Cash and Cash Equivalents in Segregated Accounts."

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During 2006, investments were limited to U. S. Governmental Agency Obligations, U.S. Treasury Notes, and STAR Ohio. Investments are reported at fair value which is based on quoted market prices. The fair value of open-end mutual funds is based on the current share price.

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

For purposes of the statement of cash flows, investments with original maturities of three months or less, and funds within the cash management pool, are considered to be cash and cash equivalents.

Interest income is distributed to the funds according to ordinance as directed by the City's charter. Interest revenue credited to the general fund during 2006 amounted to \$217,506, which includes \$47,965 assigned from other funds. The fire levy special revenue, EMS levy special revenue, land purchase capital projects, cemetery special revenue, debt service, capital improvement and Beechwood Road Connector capital projects, water enterprise, wastewater enterprise, and stormwater enterprise funds also received interest of \$11,690; \$6,901; \$659; \$6,932; \$1,903; \$4,500; \$1,314; \$102,339; \$134,093; and \$39,640 respectively.

C. Inventories of Supplies

Inventories of governmental funds are stated at cost while inventories of enterprise funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the enterprise funds when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

D. Prepaid Assets

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

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as “Interfund Receivable” or “Interfund Payable” on the fund balance sheet. These amounts are eliminated from the consolidated columns on the statement of net assets.

Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

F. Capital Assets and Depreciation

The accounting and reporting treatment applied to capital assets is determined by the ultimate use:

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date of donation.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives (Years)</u>
Improvement other than Buildings	15 - 50
Machinery, Equipment, Furniture and Fixtures	4 – 15
Plant (Water and Wastewater)	40
Sewer and Water Lines	40

The City has elected to not report major general infrastructure assets retroactively which is allowed by GASB Statement No. 34 paragraph 148. The City felt with limited staff time to research the infrastructure maintained by the City the retroactive reporting would not be cost beneficial.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capitalization of Interest

Interest is capitalized on enterprise fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until the completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2006, no net interest expense was incurred on enterprise fund construction projects.

H. Compensated Absences

Vacation benefits and personal leave benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated, unused vacation time when earned for all employees.

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 for employees after ten years of current service.

For governmental funds, the current portion of unpaid compensated absences is the amount normally due for payment during the current year. Matured leave payable in the fund financial statements represents the entire current portion. These amounts are reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The entire liability is reported on the government-wide statements. In enterprise funds, the entire amount of unpaid compensated absences is reported as a fund liability.

I. Accrued Liabilities and Other Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, compensated absences, tax abatements, contractually required pension contributions and general obligation bonds payable that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be expected to be liquidated with expendable, available financial resources. In general, payments made within thirty-one days after year-end are considered to have been made with current available financial resources. Long-term debt and other obligations financed by enterprise funds are reported as liabilities in the appropriate enterprise fund.

J. Reservations of Fund Balance

Reserves of fund equity indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for encumbrances and inventory.

K. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

Transfers are reported as “Other Financing Sources and Uses” in the governmental funds, as “Transfers In” by the recipient fund and “Transfers Out” by the disbursing fund on the fund financial statements. These transfers are consolidated within the governmental and business-type activities columns, and also from the “total” column on the statement of activities.

Transactions that would be treated as revenues and expenditures if the transactions involved organizations external to the City are similarly treated when involving other funds of the City.

L. Net Assets

Net assets represent the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are calculated, net of accumulated depreciation and 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. None of the City’s \$2,616,451 restricted net assets are restricted by enabling legislation.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. *Deferred Revenues/Unearned Revenues*

Deferred or unearned 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 fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

N. *Exchange/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.

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 tax is recognized in the year the income was earned; property taxes are recognized in the year for which the taxes are levied (See Note 5). 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 specified 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.

O. *Estimates*

The preparation of 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 MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$3,930,070) difference are as follows:

General Obligation Bonds	(\$3,740,000)
Tax Abatement	(15,000)
Accrued Interest Payable	(29,079)
Compensated Absences	(145,991)
Net Adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	(\$3,930,070)

Another element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of \$7,202,047 difference are as follows:

Capital Assets	\$10,038,823
Accumulated Depreciation	(2,836,776)
Net Adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$7,202,047

Another element of that reconciliation states that “Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. Governmental funds report proceeds from sale of capital assets as revenue, but in the statement of activities a gain or loss is reported in the governmental funds.” The details of this (\$104,275) are as follows:

Current capital additions	\$259,810
Loss on disposal of capital assets	(61,161)
Depreciation Expense	(302,924)
Net Adjustment - capital assets to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	(\$104,275)

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An element of that reconciliation states that “The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction however, has any affect of net assets. Also, governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.” The details of this \$115,466 are as follows:

Principal paid on Long Term Debt	\$115,000
Change in Interest Payable	466
Net Adjustment - current financial resources focus to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	\$115,466

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY

A. Statutory Compliance

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2006:

Fund Type/Fund	Excess
Nonmajor Funds:	
Special Revenue Fund:	
Drug Enforcement	\$7,978
State Highway	91,535

Contrary to Ohio Revised Code Section 5705.41 (D), the City did not always obtain prior certification of the fiscal officer prior to obligation funds.

B. Accountability

The Debt Service Fund and Land Purchase Capital Projects Fund had deficit fund balances of \$132,971 and \$524,189 at December 31, 2006. The deficits resulted from the issuance of bond anticipation notes which are used to finance projects until bonds are issued. The deficits will be eliminated when long-term bonds are issued.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that 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 pass book accounts.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of tax exempt notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City's deposits may not be returned to it. 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. At fiscal year-end, the carrying value of the City's deposits was \$3,462,281 and the bank balance was \$3,569,518. \$100,000 of the City's deposits was insured by federal depository insurance. \$3,469,518 of the City's \$3,569,518 was collateralized by the financial institution in the manner described above.

Investments

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

	<u>Carrying and Fair Value</u>	<u>Average Maturity (in years)</u>
Federal National Mortgage Association Bonds	\$946,417	2.94
Federal Home Loan Bank Bonds	4,887,900	3.00
Federal Mortgage Corporation Bonds	248,933	2.09
Salomon Brothers National Tax Free Bond Fund	381,115	0.00
Smith Barney Money Funds Cash Portfolio Fund	441,273	0.00
STAR Ohio	148,649	N/A
Total Investments	<u>\$7,054,287</u>	

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.

Credit Risk - The Federal National Mortgage Association Bonds and Federal Home Loan Bank Bonds carry a rating of A-1+ and Aaa/AAA and P-1/A-1 respectively. The City has no investment policy that would further limit its investment choices.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal National Mortgage Association Bonds and the Federal Home Loan Bank Bonds are held 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 - The City places no limit on the amount it may invest in any one issuer. The City's investment in Federal Home Loan Bank Bonds represents 69.29% of the City's total investments. The City's investment in Federal National Mortgage Association Bonds represents 13.42% of the City's total investments. The City's investment in Smith Barney Money Funds Cash Portfolio Fund represents 6.26% of the City's total investments. The City's investment in Salomon Brothers National Tax Free Bond Fund represents 5.40% of the City's total investments.

A reconciliation between classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Cash and Cash Equivalents – Financial Statements	\$10,516,568	\$0
Investments:		
Federal National Mortgage Association Bonds	(946,417)	946,417
Federal Home Loan Bank Bonds	(4,887,900)	4,887,900
Federal Mortgage Corporation Bonds	(248,933)	248,933
Salomon Brothers National Tax Free Bond Fund	(381,115)	381,115
Smith Barney Money Funds Cash Portfolio Fund	(441,273)	441,273
STAR Ohio	(148,649)	148,649
GASB Statement No. 3	<u>\$3,462,281</u>	<u>\$7,054,287</u>

NOTE 5 - 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.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 5 - PROPERTY TAXES (CONTINUED)

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 became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with 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 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2006, was \$3.00 per \$1,000 of assessed value for inside millage. Additionally, voted levies were \$10.50 per \$1,000 of assessed value for fire and emergency medical service. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Category (Clermont County Only)	Assessed Value
Real Property	\$154,151,610
Tangible Personal Property	10,911,388
Public Utility Tangible Personal Property	6,182,640
Total Property Tax	\$171,245,638

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.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay 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 at September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Milford. The County Auditor periodically remits to the City its portion of the taxes. 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. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2006 operations. The receivable is offset by deferred revenue.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - INCOME TAX

The City levies a municipal income tax of 1.0% on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used to pay the cost of administering the tax. After these costs are recovered the proceeds are allocated to the General Fund, the Parks and Recreation Special Revenue Fund, the Debt Service Fund and the Capital Improvement Capital Projects Fund. Income tax revenue (net of refunds) for 2006 was \$2,675,340.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2006, consisted primarily of property taxes, income taxes, accounts, interfund, interest on investments, and intergovernmental receivables arising from grants, entitlements and shared revenues. All receivables are considered fully collectible.

A summary of intergovernmental receivables follows:

<u>Fund/Description</u>	<u>Amount</u>
<u>MAJOR FUNDS</u>	
<i>General Fund:</i>	
Local Government	\$175,687
Senate Bill 3 Reimbursements	2,781
Sharonville DUI Reimbursements	231
Total General Fund	<u>178,699</u>
<i>Fire Levy</i>	
Personal Property Exemptions	<u>5,443</u>
<i>EMS Levy</i>	
Personal Property Exemptions	<u>4,982</u>
<u>NONMAJOR FUNDS</u>	
<i>Drug Law Enforcement</i>	
DUI Reimbursement	<u>53</u>

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 7 – RECEIVABLES (CONTINUED)

<i>Street Fund</i>	
Gasoline Excise Tax	\$116,265
Motor Vehicle License Tax	65,996
Total Street Fund	182,261
<i>State Highway Fund</i>	
Gasoline Excise Tax	20,226
Motor Vehicle License Tax	7,286
Total State Highway Fund	27,512
<i>Permissive Motor Vehicle License Fund</i>	
Permissive Tax	47,412
Total All Funds	\$446,362

NOTE 8 – CAPITAL ASSETS

	Balance 12/31/05	Increases	Decreases	Balance 12/31/06
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$2,612,991	\$0	\$0	\$2,612,991
Construction in Progress	0	61,364	0	61,364
Total capital assets, not being depreciated	2,612,991	61,364	0	2,674,355
Capital Assets, being depreciated:				
Buildings	3,990,903	23,445	0	4,014,348
Improvements other than Buildings	1,261,598	17,820	0	1,279,418
Vehicles, Furniture and Equipment	1,974,682	157,181	61,161	2,070,702
Total capital assets being depreciated	7,227,183	198,446	61,161	7,364,468
Less Accumulated Depreciation For:				
Buildings	(1,158,752)	(124,639)	0	(1,283,391)
Improvements other than Buildings	(127,969)	(31,338)	0	(159,307)
Vehicles, Furniture and Equipment	(1,247,131)	(146,947)	0	(1,394,078)
Total Accumulated Depreciation	(2,533,852)	(302,924)	0	(2,836,776)
Total capital assets, being depreciated, net	4,693,331	(104,478)	61,161	4,527,692
Governmental Activities - Capital Assets, Net	\$7,306,322	(\$43,114)	\$61,161	\$7,202,047

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – CAPITAL ASSETS (CONTINUED)

	Balance 12/31/05	Increases	Decreases	Balance 12/31/06
Business Type Activities				
Capital Assets, not being depreciated				
Land	\$140,260	\$0	\$0	\$140,260
Construction in Progress	319,382	2,683,122	0	3,002,504
Total capital assets, not being depreciated	<u>459,642</u>	<u>2,683,122</u>	<u>0</u>	<u>3,142,764</u>
Capital Assets, being depreciated				
Improvements other than Buildings	1,808,696	395,108	0	2,203,804
Plant	6,182,808	0	0	6,182,808
Machinery and Equipment	834,276	102,626	22,410	914,492
Sewer and Water Lines	6,448,470	0	0	6,448,470
Total capital assets, being depreciated	<u>15,274,250</u>	<u>497,734</u>	<u>22,410</u>	<u>15,749,574</u>
Less Accumulated Depreciation For:				
Improvements other than Buildings	(959,150)	(78,079)	0	(1,037,229)
Plant	(2,202,419)	(222,977)	0	(2,425,396)
Machinery and Equipment	(596,863)	(45,136)	22,410	(619,589)
Sewer and Water Lines	(2,895,866)	(135,294)	0	(3,031,160)
Total Accumulated Depreciation	<u>(6,654,298)</u>	<u>(481,486)</u>	<u>22,410</u>	<u>(7,113,374)</u>
Total capital assets, being depreciated, net	<u>8,619,952</u>	<u>16,248</u>	<u>0</u>	<u>8,636,200</u>
Business Type Activities - Capital Assets, Net	<u>\$9,079,594</u>	<u>\$2,699,370</u>	<u>\$0</u>	<u>\$11,778,964</u>

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to governmental and business-type functions as follows:

Governmental Activities:	
Security of Persons and Property	\$111,636
Public Health and Welfare	7,147
Leisure Time Activities	15,289
Transportation	51,084
General Government	117,768
Total Depreciation Expense - governmental activities	<u>302,924</u>
Business Type Activities:	
Water	211,325
Wastewater	270,161
Total Depreciation Expense – business-type activities	<u>\$481,486</u>

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-8025 or 1-800-222- PERS (7377).

In 2003, PERS expanded the retirement options for covered employees. PERS administers three separate pension plans as described below:

- The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan
- The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 9- DEFINED BENEFIT PENSION PLANS (CONTINUED)

- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Plan members are required to contribute 9.0 percent of their annual covered salary to fund pension obligations. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's required contributions to PERS for the years ended December 31, 2006, 2005, and 2004, were \$168,602, \$168,727, and \$170,580, respectively. The full amount has been contributed for 2005 and 2004. 97 percent has been contributed for 2006 with the remainder being reported as a liability within the respective funds.

Police and Firemen's Disability and Pension Fund

The City contributes to the Ohio Police and Firemen's Disability and Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan. The Fund 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 by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 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 and the City is required to contribute 19.5 for police officers. Contributions are authorized by State statute. The City's required contributions to the Fund for the years ended December 31, 2006, 2005, and 2004, were \$110,768, \$119,767, and \$117,573 respectively. The full amount has been contributed for 2005 and 2004. 99 percent has been contributed for 2006 with the remainder being reported as a liability within the respective funds.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10- POST EMPLOYMENT BENEFITS

Public Employees Retirement System (PERS)

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 employer contribution rate was 13.70 percent of covered payroll; 4.50 percent was the portion that was used to fund health care for 2006.

For 2006, benefits are advanced-funded on an actuarially determined basis. The Ohio Revised Code provides the statutory authority requiring public employees to fund postretirement health care through their contributions to PERS. OPEB are financed through employer contributions and investment earnings. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely. As of December 31, 2005 (the latest information available), the estimated net assets available for future OPEB payments were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively. At December 31, 2006, the total number of benefit recipients eligible for OPEB through PERS was 369,214. The City's actual contributions for 2006 that were used to fund OPEB were \$67,221.

Police and Firemen's Disability and Pension Fund

The Police and Firemen's Disability and Pension Fund (Fund) provides postretirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such a 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 full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an OPEB as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Police and Firemen's Disability and the Fund's Board of Trustees to provide health care coverage and states that health care cost paid from the Police and Firemen's Disability and Pension Fund 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 is 19.5 percent of covered payroll, of which 7.5 percent of covered payroll is applied to the postemployment health care program. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10- POST EMPLOYMENT BENEFITS (CONTINUED)

The number of state wide participants eligible to receive health care benefits as of December 31, 2005 (the latest information available) was 13,922 for police. The City's actual contributions for 2006 that were used to fund postemployment benefits were \$73,065 for police. The Fund's total health care expenses for the year ended December 31, 2005, were \$108,039,449 which was net of member contributions of \$55,271,881.

NOTE 11- EMPLOYEE BENEFITS

Compensated Absences

Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. Upon departure from City employment, an employee (or his estate) will be paid for unused vacation leave. For the City as a whole, the total obligation for vacation accrual amounted to \$108,340.

Accumulated Unpaid Sick Leave

City employees earn sick leave at the rate of 3.69 hours per eighty hours of service. Sick leave is cumulative without limit. In the case of retirement, employees will be paid one-fourth of up to 960 hours for a maximum payment of up to 240 hours. For the City as a whole, the total obligation for sick leave accrual amounted to \$96,642.

Accumulated Unpaid Personal Leave

All City employees receive two personal days in January, except police union employees who receive the days on July 1. Employees can earn additional personal days for each 120 consecutive days worked without using sick leave. Employees can accumulate a maximum of 48 hours at any time. The personal leave can be carried over from year to year. Patrol officers and police clerks receive 24 hours and 16 hours, respectively, on July 1 of each year. All patrol officers in the police department may accumulate up to 60 hours of personal leave. For the City as a whole, the total obligation for personal leave accrual amounted to \$8,859.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 11- EMPLOYEE BENEFITS (CONTINUED)

Insurance Benefits

Full time employees are provided health, dental and life insurance. The City has elected to provide employee medical and hospitalization benefits through United Health Care. All employees share the cost of the monthly premium with the City. The City provides life insurance and accidental death and dismemberment insurance through the Standard Life Insurance Company. Dental and vision insurance is provided by the City through Dental Care Plus.

NOTE 12 - RISK MANAGEMENT

The City is a participant in the Ohio Municipal Joint Self-Insurance Pool, a risk sharing pool (the "Pool"). The Pool was established in 1987 and is administered under contract by the JWF Specialty Company to provide a program of property and casualty insurance for its member organizations throughout the State of Ohio.

The Pool's general objectives are to formulate, develop, and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool, as well as current members, are subject to a supplemental assessment or a refund at the discretion of the board of trustees, depending on the ultimate loss experience of all the entities it insures for each coverage year. To date, there have been no assessments or refunds due to the nature of the coverage that is afforded to the participants.

Each participant makes an annual "contribution" to the Pool for the coverage they are provided, based on rates established by the Pool, using anticipated and actual results of operation for the various coverages provided. Participants are also charged for a "surplus contribution" that is used to fund the activities of the pool. During 2006, the City of Milford paid premiums of \$84,657 to the pool.

In the ordinary course of business, the Pool cedes a portion of its exposure to other insurers. These arrangements limit the Pool's maximum net loss on individual risks.

Treaty basis casualty excess of loss contracts in force at December 31, 2006 generally protects the Pool against individual losses over \$75,000 and \$100,000 on property.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - RISK MANAGEMENT (CONTINUED)

The Pool is, and ultimately the participants are, contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

Coverage by the Pool in 2006 includes: General Liability, Police Professional Liability, Public Officials Liability, Property and Fire, Vehicles, Radios, Computers, Contractors Equipment and other coverage. Vehicle deductibles are \$250, while liability insurance deductibles (other than vehicle) are \$5,000. Radios, Computers and Contractor's Equipment have a \$250 deductible.

The City also has coverage under the Pool for the boiler and machinery with a \$1,000 deductible.

Settled claims have not exceeded the City's coverage in any of the past three years. There was no significant decline in the level of coverage from the prior year.

Performance bonds for employees are protected by the Ohio Casualty Insurance Company and range from \$10,000 to \$100,000 with specific bonds for the Finance Director, Tax Commissioner and City Manager.

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 cost. The rate for 2006 paid in 2007 was .041339.

NOTE 13 - LONG-TERM OBLIGATIONS

Issue Date	Interest Rate	Description	December 31, 2005	Additions	Reductions	December 31, 2006	Due Within One Year
Governmental activities:							
Bonds payable:							
General Obligation Bonds:							
2004	2.80% - 4.30%	Beechwood Connector	\$910,000	\$0	\$0	\$910,000	\$50,000
2000	4.40% - 5.75%	Capital Facility	1,855,000	0	55,000	1,800,000	55,000
1997	4.90% - 6.25%	Milford Parkway	565,000	0	35,000	530,000	35,000
1999	4.50% - 5.20%	Firehouse/Trailer Park	525,000	0	25,000	500,000	30,000
Total Bonds Payable			3,855,000	0	115,000	3,740,000	170,000
Tax Abatement			30,000	0	15,000	15,000	15,000
Compensated absences			155,724	224,712	214,226	166,210	89,933
Total Governmental Activities			4,040,724	224,712	344,226	3,921,210	274,933
Business – Type Activities:							
1994	2.00%	OWDA Loans	404,144	0	70,234	333,910	71,646
2006	0.90%	OWDA Loans	0	1,160,295	0	1,160,295	53,293
2003	0.00%	OPWC Loans	105,354	0	6,585	98,769	19,755
2004	0.00%	OPWC Loans	48,283	0	1,724	46,559	5,172
2006	0.00%	OPWC Loans	0	536,655	0	536,655	0
Compensated absences			47,129	55,838	55,336	47,631	25,522
Total Business – Type Activities			604,910	1,752,788	133,879	2,223,819	175,388
All FUNDS			\$4,645,634	\$1,977,500	\$478,105	\$6,145,029	\$450,321

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS (CONTINUED)

The unvoted general obligation bond issues will be paid through the Special Revenue Funds and Debt Service Fund from property taxes and income taxes.

Compensated absences obligation will be paid from the funds from which the employees' salaries are paid. The tax abatement liability will be paid from the General Fund.

In April 1997, \$775,000 general obligation bonds were issued for the City's share of construction of the Milford Parkway Development project. The debt will mature on December 1, 2017, and will be paid from income taxes. The City will credit the Debt Service Fund enough income tax revenue to satisfy the debt each year.

In April of 1999, general obligation bonds for improvements to the firehouse and purchase of a trailer park were issued in the amount of \$870,000. \$670,000 was issued for the firehouse and will be paid from the Fire and EMS levy special revenue funds over the next 20 years. \$200,000 was issued for the trailer park purchase and was paid off in 2001.

In September 2000, \$2,100,000 of general obligation bonds were issued for the Five Points Building project. The bonds were issued with varying interest rates from 4.40% to 5.75% and will mature on December 1, 2025. The bonds will be paid from the General Fund.

In August 2004, the City issued \$910,000 for the Beechwood Road Connector. The bonds were issued with varying interest rates from 2.80% to 4.30% and will mature on August 1, 2014. The bonds will be retired from TIF funds and paid from the Debt Service fund.

The Ohio Water Development Authority loans are for the expansion of the City's Wastewater Treatment Plant. The loans will be repaid from the sewer fund's operating revenues. The 1994 bonds will mature on July 1, 2011 and the 2006 bonds will mature on July 1, 2027. The City has only drawn \$1,160,295 of the \$2,329,879 2006 bond authorization as of December 31, 2006.

In 2002, the City was approved for a \$131,694 loan from the Ohio Public Works Commission for the Miami Woods Lift Station replacement. The loan will be retired in January 2014 from the wastewater fund's operating revenues. During 2004, the City was approved for another loan from the Ohio Public Works Commission for the Edgecombe Tank Rehabilitation for \$51,732. The loan will be retired in December 2019 from the water fund's operating revenues. During 2006, the City was approved for another loan from the Ohio Public Works Commission for the wastewater treatment plant replacement and improvement for \$1,213,000, although only \$536,655 was drawn in 2006. The loan will be retired in January 2028 from the wastewater fund's operating revenues.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 - LONG-TERM OBLIGATIONS (CONTINUED)

During 1998, the City entered into a municipal income tax revenue sharing agreement with Milford Exempted Village School District. The City is allowed to grant an exemption from taxation for real or tangible personal property improvements. Pursuant to Section 5709.82 of the Ohio Revised Code, the City may negotiate and enter into an agreement with the School to compensate the School for tax revenue the School would have received had the property comprising a project not been exempted from taxation by the City. During 1996, the City granted New Creative Enterprise, Inc. a tax exemption. The City paid the School \$15,000 annually over ten years under this agreement.

As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$14,240,792, and the unvoted legal debt margin was \$5,678,510.

A summary of the City's long-term debt funding requirements as of December 31, 2006 is represented in the following schedules. Principal, interest and total debt service is provided for General Obligation Bonds, Ohio Water Development Authority Loans, and Ohio Public Works Commission Loans.

Annual debt service requirements to maturity for general obligation bonds are as follows:

GOVERNMENTAL ACTIVITIES			
<u>General Obligation Bonds</u>			
<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$170,000	\$188,845	\$358,845
2008	210,000	181,482	391,482
2009	250,000	172,527	422,527
2010	265,000	161,682	426,682
2011	280,000	149,750	429,750
2012-2016	1,275,000	542,671	1,817,671
2017-2021	750,000	264,997	1,014,997
2022-2025	540,000	79,638	619,638
Totals	<u>\$3,740,000</u>	<u>\$1,741,592</u>	<u>\$5,481,592</u>

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS (CONTINUED)

Annual debt service requirements to maturity for Ohio Water Development Authority Loans are as follows:

BUSINESS – TYPE ACTIVITIES
Ohio Water Development
Authority Loans – 1994

Years	Principal	Interest	Total
2007	\$71,646	\$6,322	\$77,968
2008	73,086	4,882	77,968
2009	74,555	3,413	77,968
2010	76,053	1,914	77,967
2011	38,570	411	38,981
Totals	<u>\$333,910</u>	<u>\$16,942</u>	<u>\$350,852</u>

Ohio Water Development
Authority Loans – 2006*

Years	Principal	Interest	Total
2007	\$0	\$0	\$0
2008	106,825	20,729	127,554
2009	107,788	19,766	127,554
2010	108,760	18,794	127,554
2011	109,742	17,812	127,554
2012-2016	563,836	74,031	637,867
2017-2021	163,344	11,737	175,081
Totals	<u>\$1,160,295</u>	<u>\$162,869</u>	<u>\$1,323,164</u>

* Amortization schedule will be modified once all available funding is disbursed related to the loan agreement.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS (CONTINUED)

Annual debt service requirements to maturity for Ohio Public Works Commission Loans are as follows:

BUSINESS-TYPE ACTIVITIES

Ohio Public Works

Commission Loans 2003/2004

Years	Principal	Interest	Total
2007	\$24,927	\$0	\$24,927
2008	16,618	0	16,618
2009	16,618	0	16,618
2010	16,618	0	16,618
2011	16,618	0	16,618
2012-2016	43,581	0	43,581
2017-2019	10,348	0	10,348
Totals	<u>\$145,328</u>	<u>\$0</u>	<u>\$145,328</u>

Ohio Public Works

Commission Loans 2006*

Years	Principal	Interest	Total
2007	\$0	\$0	\$0
2008	30,325	0	30,325
2009	60,650	0	60,650
2010	60,650	0	60,650
2011	60,650	0	60,650
2012-2016	303,250	0	303,250
2017-2021	21,130	0	21,130
Totals	<u>\$536,655</u>	<u>\$0</u>	<u>\$536,655</u>

* Amortization schedule will be modified once all available funding is disbursed related to the loan agreement.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 14 - NOTE OBLIGATIONS

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

<u>Fund</u>	<u>Balance December 31, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2006</u>
Capital Projects	\$540,000	\$540,000	\$540,000	\$540,000

The note is issued in anticipation of long-term bond financing and will be refinanced until such bonds are issued. They are backed by the full faith and credit of the City and mature within one year. The notes were issued on August 29, 2006 at a 3.2 percent interest rate.

NOTE 15 – INTERFUND TRANSACTIONS

Following is a summary of transfers in and out for all funds for 2006:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
MAJOR FUNDS		
General	\$0	\$257,392
Land Purchase Capital Projects Fund	17,232	17,280
Non-Major Governmental Funds	274,672	17,232
Total All Funds	\$291,904	\$291,904

The transfers out in the land purchase capital projects fund and nonmajor governmental funds relate to debt service on the related obligations that were paid during 2006. The other transfers are considered cash payments for various services.

The composition of interfund balances as of December 31, 2006, is as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$360,178	\$0
Non-Major Governmental Funds	0	360,178
Total All Funds	\$360,178	\$360,178

The interfund balances at December 31, 2006, related the City's general fund portion of the debt service related to the short term bond anticipation notes for the land purchase. The City expects to use that land in later years but the payment was made from the debt service fund and the general fund advances their portion of the debt service payment during 2006.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 16 – JOINTLY GOVERNED ORGANIZATIONS

The Center for Local Government, a jointly governed organization, was established to improve public service delivery by the cities, townships and villages in the Greater Cincinnati metropolitan area, especially among its member jurisdictions, through improved information exchange, cost reductions, shared resources, interjurisdictional collaboration, and new approaches to capital equipment and skills acquisition. The Board of Trustees consists of five members made up of elected representatives from the participating governments. The City does not have any financial interest in or responsibility for the Center. The City made no financial contribution during 2006. Information can be obtained from the Center by writing to Director of the Center for Local Government, 10979 Reed Hartman Highway, Suite 239, Cincinnati, Ohio 45242.

The Ohio-Kentucky-Indiana Regional Council of Governments (OKI), a jointly governed organization, was established to provide coordinated planning services to the appropriate federal, state and local governments, their political subdivisions, agencies, departments, instrumentalities, and special districts, in connection with the preparation and development of comprehensive and continuing regional transportation and development plans within the OKI Region. OKI members include Butler, Clermont and Warren Counties in Ohio, Boone, Campbell and Kenton Counties in Kentucky and Dearborn and Ohio Counties in Indiana. OKI also serves as an area wide review agency in conjunction with comprehensive planning within the OKI Region.

OKI contracts periodically for local funds and other support with the governing board of each of the governments who are members of OKI or with such other persons as may be appropriate to provide such funds and support. The support is based on the population of the area represented. A Board of Trustees was created for conducting the activities of the OKI. This Board consists of one elected official of each City and municipal corporation, one individual selected by each City planning agency or commission and one person selected by each planning agency or commission of each municipal corporation located in each member City. This Board of Trustees then selects not more than ten residents of the OKI Region. The total membership of the Board of Trustees shall not exceed 100. Any member of OKI may withdraw its membership upon written notice to OKI to be effective two years after receipt of the notice by OKI. The City made no financial contribution during 2006. To obtain financial information, write to Director of Finance and Administration of the Ohio-Kentucky-Indiana Regional Council of Governments at 920 Pete Rose Way Suite 420, Cincinnati, Ohio, 45202.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 17 - CONTINGENT LIABILITIES

LITIGATION

The City is of the opinion that the ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the City. The City had no pending litigation as of December 31, 2006.

STATE GRANTS

For the period January 1, 2006, to December 31, 2006, the City received State grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 18 – CONTRACTUAL COMMITMENTS

As of December 31, 2006, the City had contractual commitments related to property, plant and equipment improvements and additions, as well as various other contracts and agreements to provide or receive services related to the operations of the City. The list below reflects the major contracts that comprise commitments at December 31, 2006:

<u>Description</u>	<u>Amount</u>
Capital Electric Temporary Signal	\$24,225
CSO Elimination 27" main replacement	16,680
Quest Engineers – Design 27" and 54" mains	30,452
Lake Erie Electric – Wastewater Plant	443,472
Building Crafts – Wastewater Plant	1,252,969
Necamp Construction – Stormwater	30,750
CDP Engineers - Stormwater	33,500
ICS Electrical Services – Wellfield Development	26,654
	<u>\$1,858,702</u>

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2006, the City implemented GASB Statements Nos. 46 and 47.

CITY OF MILFORD, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 19 – CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation”, establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. This Statement also requires government to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation (See Note 2).

GASB Statement No. 47, “Accounting for Termination Benefits”, establishes accounting standards for termination benefits. The implementation of this statement had no effect on net assets/fund balances.

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

GENERAL FUND

	Budget		Actual	Variance Positive (Negative)
	Initial	Final		
<u>Revenues:</u>				
Property and Other Local Taxes	\$ 492,574	\$ 521,605	\$ 532,774	\$ 11,169
Income Taxes	2,150,000	2,295,840	2,267,241	(28,599)
Intergovernmental	650,000	687,075	757,101	70,026
Charges for Services	111,371	115,650	111,853	(3,797)
Licenses and Permits	70,000	72,950	76,529	3,579
Investment Earnings	150,000	150,000	195,267	45,267
Fines and Forfeitures	100,000	108,450	78,873	(29,577)
Other All Revenue	5,000	4,845	28,428	23,583
Total Revenue	<u>3,728,945</u>	<u>3,956,415</u>	<u>4,048,066</u>	<u>91,651</u>
<u>Expenditures:</u>				
Current:				
Security of Persons and Property:				
Police				
Personal Services	1,496,764	1,496,764	1,622,324	(125,560)
Other	360,437	360,437	247,160	113,277
Total Police	<u>1,857,201</u>	<u>1,857,201</u>	<u>1,869,484</u>	<u>(12,283)</u>
Fire				
Other	-	1,000	1,323	(323)
Total Fire	<u>-</u>	<u>1,000</u>	<u>1,323</u>	<u>(323)</u>
Building Inspection				
Other	52,800	52,800	49,074	3,726
Total Building Inspection	<u>52,800</u>	<u>52,800</u>	<u>49,074</u>	<u>3,726</u>
Total Security of Persons and Property	<u>1,910,001</u>	<u>1,911,001</u>	<u>1,919,881</u>	<u>(8,880)</u>
Public Health and Welfare Services:				
Health				
Other	25,966	25,966	25,136	830
Total Health	<u>25,966</u>	<u>25,966</u>	<u>25,136</u>	<u>830</u>
Grounds and Facilities				
Personal Services	234,510	234,510	249,097	(14,587)
Other	72,807	72,807	62,476	10,331
Total Grounds and Facilities	<u>307,317</u>	<u>307,317</u>	<u>311,573</u>	<u>(4,256)</u>
Total Public Health and Welfare	<u>333,283</u>	<u>333,283</u>	<u>336,709</u>	<u>(3,426)</u>
Basic Utility Services				
Public Works - Administration				
Other	263,351	263,351	337,838	(74,487)
Total Basic Utility Services	<u>263,351</u>	<u>263,351</u>	<u>337,838</u>	<u>(74,487)</u>
General Government				
Mayor's Court				
Personal Services	58,804	58,804	68,012	(9,208)
Other	22,053	22,053	18,285	3,768
Total Mayor's Court	<u>80,857</u>	<u>80,857</u>	<u>86,297</u>	<u>(5,440)</u>

(continued)

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

GENERAL FUND

	Budget		Actual	Variance Positive (Negative)
	Initial	Final		
City Council				
Personal Services	\$ 45,008	\$ 45,008	\$ 52,028	\$ (7,020)
Other	54,155	54,155	52,565	1,590
Total City Council	99,163	99,163	104,593	(5,430)
Five Points Building				
Other	110,647	110,647	100,881	9,766
Total City Clerk	110,647	110,647	100,881	9,766
Civil Defense				
Other	200	200	289	(89)
Total Team Hamilton	200	200	289	(89)
City Manager				
Personal Services	260,451	260,451	203,433	57,018
Other	29,699	29,699	92,284	(62,585)
Total City Manager	290,150	290,150	295,717	(5,567)
Law Director				
Personal Services	68,763	68,763	72,084	(3,321)
Other	5,900	5,900	6,062	(162)
Total Department of Law	74,663	74,663	78,146	(3,483)
Department of Civil Service				
Personal Services	245	245	518	(273)
Other	2,800	2,800	4,746	(1,946)
Total Department of Civil Service	3,045	3,045	5,264	(2,219)
Finance and Accounting				
Personal Services	98,648	98,648	101,835	(3,187)
Other	39,732	39,732	36,767	2,965
Total Finance - Administration	138,380	138,380	138,602	(222)
Administration				
Other	80,075	80,075	79,038	1,037
Total Finance - Administration	80,075	80,075	79,038	1,037
Engineering				
Other	50,200	50,200	33,787	16,413
Total Finance - Purchasing	50,200	50,200	33,787	16,413
Development				
Personal Services	50,730	50,730	43,550	7,180
Other	55,037	55,037	58,815	(3,778)
Total Finance - Building Services	105,767	105,767	102,365	3,402
Income Tax				
Personal Services	224,490	224,490	233,392	(8,902)
Other	110,621	110,621	130,041	(19,420)
Total Finance - Income Tax	335,111	335,111	363,433	(28,322)
Total General Government	1,368,258	1,368,258	1,388,412	(20,154)
Total Expenditures	3,874,893	3,875,893	3,982,840	(106,947)

(continued)

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

GENERAL FUND

	Budget		Actual	Variance Positive (Negative)
	Initial	Final		
Excess of Revenues Over (Under) Expenditures	\$ (145,948)	\$ 80,522	\$ 65,226	\$ (15,296)
<u>Other Financing Sources (Uses):</u>				
Sale of Capital Assets	-	-	5,710	5,710
Transfers - Out	(257,391)	(257,392)	(257,392)	-
Total Other Financing Sources (Uses)	(257,391)	(257,392)	(251,682)	5,710
Deficiency of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses	(403,339)	(176,870)	(186,456)	(9,586)
Fund Balances at Beginning of Year	2,366,155	2,366,155	2,366,155	-
Prior Year Encumbrances	158,060	158,060	158,060	-
Fund Balances at End of Year	<u>\$ 2,120,876</u>	<u>\$ 2,347,345</u>	<u>\$ 2,337,759</u>	<u>\$ (9,586)</u>

See accompanying notes to the required supplementary information

THE CITY OF MILFORD, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

FIRE LEVY FUND

	Budget		Actual	Variance Positive (Negative)
	Initial	Final		
<u>Revenues:</u>				
Property and Other Local Taxes	\$ 812,547	\$ 812,547	\$ 879,757	\$ 67,210
Intergovernmental	53,000	53,000	10,168	(42,832)
Investment Earnings	8,009	34,509	11,690	(22,819)
Total Revenue	<u>873,556</u>	<u>900,056</u>	<u>901,615</u>	<u>1,559</u>
<u>Expenditures:</u>				
Current:				
Security of Persons and Property:				
Fire Department				
Other	949,129	949,409	944,363	5,046
Total Fire Department	<u>949,129</u>	<u>949,409</u>	<u>944,363</u>	<u>5,046</u>
Debt Service:				
Principal Retirement	12,500	12,500	12,500	-
Interest and Fiscal Charges	12,840	12,840	12,840	-
Total Debt Service	<u>25,340</u>	<u>25,340</u>	<u>25,340</u>	<u>-</u>
Total Expenditures	<u>974,469</u>	<u>974,749</u>	<u>969,703</u>	<u>5,046</u>
Deficiency of Revenues Under Expenditures	(100,913)	(74,693)	(68,088)	6,605
Fund Balances at Beginning of Year	342,473	342,473	342,473	-
Prior Year Encumbrances Appropriated	<u>754</u>	<u>754</u>	<u>754</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 242,314</u>	<u>\$ 268,534</u>	<u>\$ 275,139</u>	<u>\$ 6,605</u>

See accompanying notes to the required supplementary information

THE CITY OF MILFORD, OHIO
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

EMS LEVY FUND

	Budget		Actual	Variance Positive (Negative)
	Initial	Final		
<u>Revenues:</u>				
Property and Other Local Taxes	\$ 736,599	\$ 780,599	\$ 800,018	\$ 19,419
Intergovernmental	50,000	26,314	9,654	(16,660)
Investment Earnings	7,014	6,000	6,901	901
Total Revenue	793,613	812,913	816,573	3,660
<u>Expenditures:</u>				
Current:				
Security of Persons and Property:				
Fire Department				
Other	794,091	795,351	786,493	8,858
Total Fire Department	794,091	795,351	786,493	8,858
Debt Service:				
Principal Retirement	12,500	12,500	12,500	-
Interest and Fiscal Charges	12,840	12,840	12,840	-
Total Debt Service	25,340	25,340	25,340	-
Total Expenditures	819,431	820,691	811,833	8,858
Excess (Deficiency) of Revenues Over (Under) Expenditures	(25,818)	(7,778)	4,740	12,518
Fund Balances at Beginning of Year	259,526	259,526	259,526	-
Prior Year Encumbrances Appropriated	2,516	2,516	2,516	-
Fund Balances at End of Year	\$ 236,224	\$ 254,264	\$ 266,782	\$ 12,518

See accompanying notes to the required supplementary information

CITY OF MILFORD, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2006

NOTE 1 – BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year, with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated.

Advances-in and Advances-out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

Tax Budget

A tax budget of estimated revenues and expenditures for all budgeted funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January to December 31 of the following year. The expressed purpose of the tax budget is to reflect the need for existing (or increasing) tax rates.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the fiscal officer determines that the revenue to be collected is greater or less than the current estimates.

CITY OF MILFORD, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2006

NOTE 1 – BUDGETARY PROCESS (CONTINUED)

Appropriations

An appropriation ordinance (the appropriation budget) to control the level of expenditures for all funds, except agency funds, must be legally enacted on or before January 1. Appropriations may not exceed estimated resources as established in the official amended certificate of estimated resources. Supplemental appropriations may be adopted by Council action. Several supplemental appropriations were legally enacted during 2006 by Council.

The budgetary figures which appear in the “Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Non-GAAP Budgetary Basis) – General fund and major special revenue funds are provided on the budgetary basis to provide a comparison of actual results with the final budget, including all amendments and modifications. Budget figures appearing in the statement of budgetary comparisons are based upon the following:

Initial Budget is the legally adopted amount of appropriation originally passed by City Council through the original appropriation ordinance.

Final Budget represents the final appropriation amounts, including all amendments and modifications.

Budgeted Level of Expenditures

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made at fund and personal services and other within each department. The appropriations set by Council remain fixed unless amended by Council ordinance.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds on the basic financial statements.

CITY OF MILFORD, OHIO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2006

NOTE 1 – BUDGETARY PROCESS (CONTINUED)

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances outstanding at year-end are carried forward to the subsequent year and are not reappropriated.

NOTE 2 - BUDGET TO GAAP RECONCILIATION

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, appropriations and encumbrances.

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Budget Basis) – General Fund and 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 that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

	General Fund	Fire Levy Fund	EMS Levy Fund
GAAP Basis	\$11,825	(\$55,338)	\$25,033
Adjustments:			
Revenue Accruals	26,901	(11,611)	(14,354)
Expenditure Accruals	69,906	(855)	(4,831)
Encumbrances	(295,088)	(284)	(1,108)
Budget Basis	(\$186,456)	(\$68,088)	\$4,740

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

City of Milford
Clermont County
745 Center Street, Suite 200
Milford, Ohio 45150

We have audited the financial statements of the City of Milford, Ohio (the City), as of and for the year ended December 31, 2006 and have issued our report thereon dated July 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental 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 the purpose of 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City'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 deficiencies described in the accompanying schedule of findings as items 2006-001 and 2006-002 to be significant deficiencies in internal control over financial reporting.

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, of the significant deficiencies described above we consider both findings number 2006-001 and 2006-002 to be material weaknesses.

City of Milford

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

Page 2

We also noted a certain internal control matter that we reported to the City's management in a separate letter dated July 30, 2008.

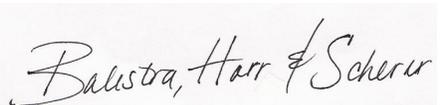
Compliance and Other Matters

As part of obtaining reasonable 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 that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-003.

We noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated July 30, 2008.

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



Balestra, Harr & Scherer, CPAs, Inc.
July 30, 2008

**CITY OF MILFORD
CLERMONT COUNTY**

***SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006***

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

Finding Number 2006-001

Material Weakness – Bank Reconciliations

The City did not prepare bank reconciliations for the payroll accounts during 2006. Also, the general account had immaterial unreconciled differences that were unexplained.

The City should reconcile all accounts on a monthly basis and timely investigate and resolve all unreconciled.

Client Response:

We have settled the issue of the immaterial difference in the general account as of July, 2008 and have made the appropriate adjustment. The payroll account is in the process of being reconciled as of this writing.

Finding Number 2006-002

Material Weakness – Internal Control Over Financial Reporting

During the course of the audit, the following misstatements were identified that should have been prevented or detected by the City's internal controls over financial reporting:

- Debt proceeds were incorrectly recorded as intergovernmental revenue. Consequently, the corresponding liabilities were not booked.
- Intergovernmental receivables were incorrectly recorded
- Unrecorded capital assets and overstated expenses in the stormwater management fund
- Several revenue reclassifications were necessary.

The accompanying financial statements were adjusted to reflect material misstatements identified. The City should implement additional application and monitoring controls over financial reporting to ensure that all financial statement transactions and funds are accurately and completely reported.

Client Response:

The City has been working closely with the outside accountant to ensure appropriate reporting of transactions. All questionable items are now being communicated to the outside accountant for comment prior to implementation. Additionally, the City will be meeting with the outside accountant to review the internally generated financial statements to ensure all transactions and funds are accurately and completely reported.

**CITY OF MILFORD
CLERMONT COUNTY**

***SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Continued)***

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

Finding Number 2006-003

Noncompliance – Ohio Revised Code 5705.41B

Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The following exception applies:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority. [Section 5705.41(D)].

The City needs to ensure prior certification occurs or a then and now certificate is properly completed.

Client Response:

The City is in the process of reviewing the purchasing procedure to ensure compliance with ORC Section 5705.41(D).



Mary Taylor, CPA
Auditor of State

CITY OF MILFORD

CLERMONT 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
SEPTEMBER 30, 2008**