

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2007**

Prepared by:
William R. Taphorn
Director of Finance



Mary Taylor, CPA
Auditor of State

City Council
City of Loveland
120 West Loveland Avenue
Loveland, Ohio 45140

We have reviewed the *Independent Auditors' Report* of the City of Loveland, Hamilton County, prepared by Bastin & Company, LLC, for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 2, 2008

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Loveland, Ohio

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 Loveland, Ohio as of and for the year ended December 31, 2007, which collectively comprise the City of Loveland, Ohio's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Loveland, Ohio'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 of Loveland, Ohio, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the General Fund, Income Tax Fund, Paramedic Fund, Fire and EMS Fund and Fire Protection Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2008, on our consideration of the City of Loveland, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Bastin & Company, L L C". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
July 31, 2008

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2007***

Unaudited

The discussion and analysis of the City of Loveland's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2007. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2007 are as follows:

- ❑ In total, net assets increased \$260,941. Net assets of governmental activities decreased \$424,356, which represents a 2.3% decrease from 2006. Net assets of business-type activities increased \$685,297 from 2006.
- ❑ General revenues accounted for \$7,801,869 in revenue or 50.2% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,731,920 or 49.8% of all revenues.
- ❑ The City had \$10,474,208 in expenses related to governmental activities; only \$2,602,241 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$7,447,611 and net assets were adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – *management's discussion and analysis*, the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2007*

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including police protection, parks and recreation, planning, zoning, street maintenance and other governmental services.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's refuse collection, water, water treatment, and stormwater services are reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2007**

Unaudited

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 statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net assets at December 31, 2007 and 2006:

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2007	2006	2007	2006	2007	2006
Current and other assets	\$7,745,242	\$7,228,750	\$3,722,494	\$3,725,253	\$11,467,736	\$10,954,003
Capital assets, Net	22,266,785	21,849,654	15,320,977	14,500,400	37,587,762	36,350,054
Total assets	30,012,027	29,078,404	19,043,471	18,225,653	49,055,498	47,304,057
Long-term debt outstanding	8,408,529	7,365,360	3,227,144	3,108,105	11,630,673	10,473,465
Other liabilities	3,284,659	2,964,849	132,850	119,368	3,417,509	3,084,217
Total liabilities	11,688,188	10,330,209	3,359,994	3,227,473	15,048,182	13,557,682
Net assets						
Invested in capital assets, net of related debt	14,830,399	15,395,203	12,277,363	11,557,627	27,107,762	26,952,830
Restricted	4,200,529	3,969,165	0	0	4,200,529	3,969,165
Unrestricted	(707,089)	(616,173)	3,406,114	3,440,553	2,699,025	2,824,380
Total net assets	\$18,323,839	\$18,748,195	\$15,683,477	\$14,998,180	\$34,007,316	\$33,746,375

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CITY OF LOVELAND, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2007

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal year 2007 and 2006:

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for Services and Sales	\$801,376	\$815,331	\$4,897,518	\$5,106,576	\$5,698,894	5,921,907
Operating Grants and Contributions	668,860	594,683	26,839	0	695,699	594,683
Capital Grants and Contributions	1,132,005	1,260,667	205,322	0	1,337,327	1,260,667
General revenues:						
Income Taxes	3,097,973	2,730,911	0	0	3,097,973	2,730,911
Property Taxes	2,985,089	2,438,196	0	0	2,985,089	2,438,196
Grants and Entitlements not Restricted to Specific Programs	882,095	838,121	0	0	882,095	838,121
Investment Earnings	407,997	343,815	59,977	0	467,974	343,815
Miscellaneous	368,738	364,924	0	0	368,738	364,924
Total revenues	<u>10,344,133</u>	<u>9,386,648</u>	<u>5,189,656</u>	<u>5,106,576</u>	<u>15,533,789</u>	<u>14,493,224</u>
Program Expenses						
Security of Persons and Property	4,612,689	4,346,319	0	0	4,612,689	4,346,319
Leisure Time Activities	767,098	450,602	0	0	767,098	450,602
Community Environment	202,433	190,075	0	0	202,433	190,075
Transportation	822,605	955,852	0	0	822,605	955,852
General Government	3,852,615	2,931,216	0	0	3,852,615	2,931,216
Interest and Fiscal Charges	216,768	404,929	0	0	216,768	404,929
Water	0	0	1,217,657	1,473,226	1,217,657	1,473,226
Sewer	0	0	2,048,683	2,047,054	2,048,683	2,047,054
Stormwater	0	0	410,702	433,421	410,702	433,421
Sanitation	0	0	1,121,598	852,792	1,121,598	852,792
Total expenses	<u>10,474,208</u>	<u>9,278,993</u>	<u>4,798,640</u>	<u>4,806,493</u>	<u>15,272,848</u>	<u>14,085,486</u>
Excess (deficiency) before Transfers	(130,075)	107,655	391,016	300,083	260,941	407,738
Transfers	(294,281)	276,360	294,281	(276,360)	0	0
Total Change in Net Assets	(424,356)	384,015	685,297	23,723	260,941	407,738
Beginning Net Assets	<u>18,748,195</u>	<u>18,364,180</u>	<u>14,998,180</u>	<u>14,974,457</u>	<u>33,746,375</u>	<u>33,338,637</u>
Ending Net Assets	<u>\$18,323,839</u>	<u>\$18,748,195</u>	<u>\$15,683,477</u>	<u>\$14,998,180</u>	<u>\$34,007,316</u>	<u>\$33,746,375</u>

Governmental Activities

The net assets of the City's governmental activities decreased by \$424,356, mainly due to the increased salary and other personnel costs.

CITY OF LOVELAND, OHIO

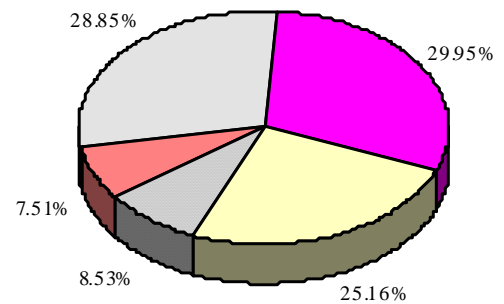
**Management's Discussion and Analysis
For the Year Ended December 31, 2007**

Unaudited

The City receives an income tax, which is based on 1.00% of all salaries, wages, commissions and other compensation and on net profits earned from businesses and residents living within the City.

Property taxes and income taxes made up 28.86% and 29.95% respectively of revenues for governmental activities for the City in fiscal year 2007. The City's reliance upon tax revenues is demonstrated by the following graph indicating 58.81% of total revenues from general tax revenues:

Revenue Sources	2007	Percent of Total
Property Taxes	\$2,985,089	28.85%
Income Taxes	3,097,973	29.95%
Program Revenues	2,602,241	25.16%
Grants and Entitlements not Restricted to Specific Programs	882,095	8.53%
General Other	776,735	7.51%
Total Revenue	<u>\$10,344,133</u>	<u>100.00%</u>



Business-Type Activities

Net assets of the business-type activities increased by 4.6% or \$685,297. The City was able to maintain net assets due to its efforts to control expenditures during the 2007 fiscal year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$3,697,168, which is an increase from last year's balance of \$3,496,516. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2007 and 2006:

	Fund Balance (Deficit) December 31, 2007	Fund Balance (Deficit) December 31, 2006	Increase (Decrease)
General	(\$84,511)	(\$74,787)	(\$9,724)
Income Tax	2,193,963	2,354,665	(160,702)
Paramedic	90,455	18,319	72,136
Fire and EMS	60,534	7,472	53,062
Fire Protection	97,234	3,500	93,734
General Bond	2,000	17,860	(15,860)
Issue Two Projects	6,270	0	6,270
Other Governmental	1,331,223	1,169,487	161,736
Total	<u>\$3,697,168</u>	<u>\$3,496,516</u>	<u>\$200,652</u>

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2007***

Unaudited

General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2007 <u>Revenues</u>	2006 <u>Revenues</u>	Increase <u>(Decrease)</u>
Property Taxes	\$893,588	\$876,704	\$16,884
Intergovernmental Revenues	702,523	767,460	(64,937)
Charges for Services	489,787	436,762	53,025
Licenses and Permits	100,258	108,819	(8,561)
Fines and Forfeitures	127,055	151,337	(24,282)
All Other Revenue	24,612	70,544	(45,932)
Total	<u>\$2,337,823</u>	<u>\$2,411,626</u>	<u>(\$73,803)</u>

General Fund revenues in 2007 decreased 3.1% compared to revenues in fiscal year 2006. The most significant factor contributing to this decrease was the decrease in intergovernmental revenues, mainly due to the lower estate tax collections.

	2007 <u>Expenditures</u>	2006 <u>Expenditures</u>	Increase <u>(Decrease)</u>
Security of Persons and Property	\$2,455,262	\$2,401,269	\$53,993
Community Environment	202,433	190,075	12,358
General Government	1,603,369	1,507,631	95,738
Principal Retirement	45,900	44,200	1,700
Interest and Fiscal Charges	22,404	26,221	(3,817)
Total	<u>\$4,329,368</u>	<u>\$4,169,396</u>	<u>\$159,972</u>

General Fund expenditures increased by \$159,972 over the prior year mostly due to increases in salary, insurance and fuel costs.

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

During the course of fiscal year 2007 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$2.4 million did not significantly change over the original budget estimates of \$2.3 million. The General Fund had an adequate fund balance to cover expenditures.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2007*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2007 the City had \$37,587,762 net of accumulated depreciation invested in land, buildings, infrastructure, equipment and vehicles. Of this total, \$22,266,785 was related to governmental activities and \$15,320,977 to the business-type activities. The following table shows fiscal year 2007 and 2006 balances:

	Governmental Activities		Increase (Decrease)
	2007	2006	
Land	\$3,869,234	\$3,069,252	\$799,982
Construction In Progress	378,051	147,192	230,859
Buildings	6,517,209	6,475,317	41,892
Improvements Other than Buildings	1,257,908	1,257,908	0
Machinery and Equipment	4,092,971	4,175,737	(82,766)
Infrastructure	19,449,517	19,449,517	0
Less: Accumulated Depreciation	(13,298,105)	(12,725,269)	(572,836)
Totals	\$22,266,785	\$21,849,654	\$417,131

	Business-Type Activities		Increase (Decrease)
	2007	2006	
Land	\$250,168	\$250,168	\$0
Construction in Progress	58,334	509,816	(\$451,482)
Buildings & Improvements	2,610,596	2,610,596	0
Utility Structures in Service	15,395,283	14,472,453	922,830
Infrastructure	4,162,956	3,420,740	742,216
Machinery and Equipment	328,559	290,298	38,261
Less: Accumulated Depreciation	(7,484,919)	(7,053,671)	(431,248)
Totals	\$15,320,977	\$14,500,400	\$820,577

The primary increase occurred in land. These increases resulted from the acquisition of land for parks. For additional information on the City's capital assets see Note 6.

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2007**

Unaudited

Debt

At December 31, 2007, the City had \$7,700,000 in bonds outstanding, \$570,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Governmental Activities:		
General Obligation Bonds	\$4,685,000	\$3,920,000
Deferred Loss on Refundings	(55,192)	(60,711)
Ohio Public Works Commission Loans	2,763,737	2,495,394
Capital Leases Payable	42,841	99,768
Compensated Absences	932,406	875,523
Police Pension Accrued Liability	34,737	35,386
Total Governmental Activities	<u>\$8,403,529</u>	<u>\$7,365,360</u>
Business-Type Activities:		
General Obligation Bonds	\$3,015,000	\$2,895,000
Capital Leases Payable	42,890	79,658
Compensated Absences	169,254	133,447
Total Business-Type Activities	<u>3,227,144</u>	<u>3,108,105</u>
Totals	<u>\$11,630,673</u>	<u>\$10,473,465</u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. At December 31, 2007, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 10.

ECONOMIC FACTORS

During 2007, City Council expressed a need for an enhanced economic development focus to better assure the City's long-term financial outlook. The Administration has partnered with the Greater Cincinnati Chamber of Commerce in a more regional approach to economic development and growth, yet continues to work on relationships with local businesses and industries.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bill Taphorn, Director of Finance, City of Loveland, 120 West Loveland Ave., Loveland, Ohio 45140.

CITY OF LOVELAND, OHIO

Statement of Net Assets
December 31, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 1,609,281	\$ 1,016,401	\$ 2,625,682
Investments	1,949,065	1,606,250	3,555,315
Receivables:			
Taxes	3,159,197	0	3,159,197
Accounts	13,379	829,519	842,898
Intergovernmental	688,027	0	688,027
Interest	68,118	0	68,118
Special Assessments	72,650	0	72,650
Inventory of Supplies at Cost	56,677	25,643	82,320
Prepays	29,050	9,045	38,095
Restricted Assets:			
Cash and Cash Equivalents	81,121	235,636	316,757
Cash and Cash Equivalents with Fiscal Agent	18,677	0	18,677
Capital Assets:			
Capital Assets Not Being Depreciated	4,247,285	308,502	4,555,787
Capital Assets Being Depreciated	18,019,500	15,012,475	33,031,975
Total Assets	30,012,027	19,043,471	49,055,498
Liabilities:			
Accounts Payable	179,652	84,104	263,756
Accrued Wages and Benefits	240,568	37,282	277,850
Matured Bonds & Interest Payable	18,677	0	18,677
Deferred Revenue	2,559,627	0	2,559,627
Accrued Interest Payable	36,135	11,464	47,599
General Obligation Notes Payable	250,000	0	250,000
Long Term Liabilities:			
Due Within One Year	779,627	248,576	1,028,203
Due in More Than One Year	7,623,902	2,978,568	10,602,470
Total Liabilities	11,688,188	3,359,994	15,048,182
Net Assets:			
Invested in Capital Assets, Net of Related Debt	14,830,399	12,277,363	27,107,762
Restricted For:			
Capital Projects	807,640	0	807,640
Other Purposes	3,392,889	0	3,392,889
Unrestricted (Deficit)	(707,089)	3,406,114	2,699,025
Total Net Assets	\$ 18,323,839	\$ 15,683,477	\$ 34,007,316

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Activities
For the Year Ended December 31, 2007

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 4,612,689	\$ 187,830	\$ 2,045	\$ 0
Leisure Time Activities	767,098	11,500	0	0
Community Environment	202,433	100,258	0	0
Transportation	822,605	12,001	666,815	1,132,005
General Government	3,852,615	489,787	0	0
Interest and Fiscal Charges	216,768	0	0	0
Total Governmental Activities	10,474,208	801,376	668,860	1,132,005
Business-Type Activities:				
Water	1,217,657	1,574,064	0	0
Sewer	2,048,683	2,143,691	0	0
Stormwater	410,702	384,368	0	205,322
Sanitation	1,121,598	795,395	26,839	0
Total Business-Type Activities	4,798,640	4,897,518	26,839	205,322
Totals	\$ 15,272,848	\$ 5,698,894	\$ 695,699	\$ 1,337,327

General Revenues

- Property Taxes
- Municipal Income Taxes
- Grants and Entitlements not Restricted to Specific Programs
- Investment Earnings
- Miscellaneous
- Transfers
- Total General Revenues and Transfers
- Change in Net Assets
- Net Assets Beginning of Year
- Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,422,814)	\$ 0	\$ (4,422,814)
(755,598)	0	(755,598)
(102,175)	0	(102,175)
988,216	0	988,216
(3,362,828)	0	(3,362,828)
<u>(216,768)</u>	<u>0</u>	<u>(216,768)</u>
<u>(7,871,967)</u>	<u>0</u>	<u>(7,871,967)</u>
0	356,407	356,407
0	95,008	95,008
0	178,988	178,988
<u>0</u>	<u>(299,364)</u>	<u>(299,364)</u>
<u>0</u>	<u>331,039</u>	<u>331,039</u>
<u>(7,871,967)</u>	<u>331,039</u>	<u>(7,540,928)</u>
2,985,089	0	2,985,089
3,097,973	0	3,097,973
882,095	0	882,095
407,997	59,977	467,974
368,738	0	368,738
<u>(294,281)</u>	<u>294,281</u>	<u>0</u>
<u>7,447,611</u>	<u>354,258</u>	<u>7,801,869</u>
(424,356)	685,297	260,941
<u>18,748,195</u>	<u>14,998,180</u>	<u>33,746,375</u>
<u>\$ 18,323,839</u>	<u>\$ 15,683,477</u>	<u>\$ 34,007,316</u>

CITY OF LOVELAND, OHIO

Balance Sheet
Governmental Funds
December 31, 2007

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Assets:				
Cash and Cash Equivalents	\$ 0	\$ 757,765	\$ 116,478	\$ 63,901
Investments	0	1,197,520	0	0
Receivables:				
Taxes	959,754	323,450	844,263	456,821
Accounts	0	0	0	0
Intergovernmental	251,928	0	32,500	24,000
Interest	0	0	0	0
Special Assessments	0	0	0	0
Inventory of Supplies, at Cost	1,939	0	0	0
Prepaid Items	16,054	0	0	8,619
Restricted Assets:				
Cash and Cash Equivalents	0	0	0	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0
Total Assets	\$ 1,229,675	\$ 2,278,735	\$ 993,241	\$ 553,341
Liabilities:				
Accounts Payable	\$ 52,260	\$ 35,514	\$ 26,023	\$ 11,986
Accrued Wages and Benefits Payable	190,450	18,418	0	0
Matured Bonds and Interest Payable	0	0	0	0
Deferred Revenue	1,071,476	30,840	876,763	480,821
Accrued Interest Payable	0	0	0	0
General Obligation Notes Payable	0	0	0	0
Total Liabilities	1,314,186	84,772	902,786	492,807
Fund Balances:				
Reserved for Prepaid Items	16,054	0	0	8,619
Reserved for Supplies Inventory	1,939	0	0	0
Reserved for Debt Service	0	0	0	0
Unreserved, Undesignated in:				
General Fund	(102,504)	0	0	0
Special Revenue Funds	0	2,193,963	90,455	51,915
Capital Projects Funds	0	0	0	0
Total Fund Balances	(84,511)	2,193,963	90,455	60,534
Total Liabilities and Fund Balances	\$ 1,229,675	\$ 2,278,735	\$ 993,241	\$ 553,341

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 98,443	\$ 2,000	\$ 0	\$ 570,694	\$ 1,609,281
0	0	0	751,545	1,949,065
574,909	0	0	0	3,159,197
0	0	0	13,379	13,379
23,500	0	36,706	319,393	688,027
0	0	0	68,118	68,118
0	0	0	72,650	72,650
0	0	0	54,738	56,677
0	0	0	4,377	29,050
0	0	0	81,121	81,121
0	18,677	0	0	18,677
<u>\$ 696,852</u>	<u>\$ 20,677</u>	<u>\$ 36,706</u>	<u>\$ 1,936,015</u>	<u>\$ 7,745,242</u>
\$ 1,209	\$ 0	\$ 30,436	\$ 22,224	\$ 179,652
0	0	0	31,700	240,568
0	18,677	0	0	18,677
598,409	0	0	293,308	3,351,617
0	0	0	7,560	7,560
0	0	0	250,000	250,000
<u>599,618</u>	<u>18,677</u>	<u>30,436</u>	<u>604,792</u>	<u>4,048,074</u>
0	0	0	4,377	29,050
0	0	0	54,737	56,676
0	2,000	0	8,499	10,499
0	0	0	0	(102,504)
97,234	0	0	543,492	2,977,059
0	0	6,270	720,118	726,388
<u>97,234</u>	<u>2,000</u>	<u>6,270</u>	<u>1,331,223</u>	<u>3,697,168</u>
<u>\$ 696,852</u>	<u>\$ 20,677</u>	<u>\$ 36,706</u>	<u>\$ 1,936,015</u>	<u>\$ 7,745,242</u>

CITY OF LOVELAND, OHIO

Reconciliation Of Total Governmental Fund Balances To Net Assets Of Governmental Activities December 31, 2007

Total Governmental Fund Balances \$ 3,697,168

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

Capital Assets used in governmental activities are not
resources and therefore are not reported in the funds. 22,266,785

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

Property Taxes	181,147	
Income Taxes	30,840	
Intergovernmental Revenues	572,274	
Investment Earnings	7,729	<u>791,990</u>

Long-term liabilities, including bonds payable, are not due
and payable in the current period and therefore are not
reported in the funds.

General Obligation Bonds Payable	(4,685,000)	
Deferred Loss on Debt Defeasnce	55,192	
OPWC Public Works Commission Loans	(2,763,737)	
Capital Leases	(42,841)	
Compensated Absences Payable	(932,406)	
Police/Fire Accured Pension Liability	(34,737)	
Accrued Interest Payable	(28,575)	<u>(8,432,104)</u>

Net Assets of Governmental Activities **\$ 18,323,839**

See accompanying notes to the basic financial statements

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CITY OF LOVELAND, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2007

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Revenues:				
Property Taxes	\$ 893,588	\$ 0	\$ 912,733	\$ 488,650
Municipal Income Tax	0	3,097,973	0	0
Intergovernmental Revenues	702,523	0	89,437	47,709
Charges for Services	489,787	0	60,002	0
Licenses and Permits	100,258	0	0	0
Investment Earnings	0	0	0	0
Fines and Forfeitures	127,055	0	0	0
All Other Revenue	24,612	5,334	0	54,798
Total Revenue	2,337,823	3,103,307	1,062,172	591,157
Expenditures:				
Current:				
Security of Persons and Property	2,455,262	0	990,036	331,610
Leisure Time Activities	0	0	0	0
Community Environment	202,433	0	0	0
Transportation	0	0	0	0
General Government	1,603,369	909,842	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	45,900	5,000	0	133,980
Interest & Fiscal Charges	22,404	2,245	0	72,505
Total Expenditures	4,329,368	917,087	990,036	538,095
Excess (Deficiency) of Revenues Over Expenditures	(1,991,545)	2,186,220	72,136	53,062
Other Financing Sources (Uses):				
Sale of Bonds	0	0	0	0
Premiums on Debt Issuance	0	0	0	0
Issuance of OPWC Loans	0	0	0	0
Transfers In	1,979,882	0	0	0
Transfers Out	0	(2,346,922)	0	0
Total Other Financing Sources (Uses)	1,979,882	(2,346,922)	0	0
Net Change in Fund Balances	(11,663)	(160,702)	72,136	53,062
Fund Balances at Beginning of Year	(74,787)	2,354,665	18,319	7,472
Increase (Decrease) in Inventory Reserve	1,939	0	0	0
Fund Balances End of Year	\$ (84,511)	\$ 2,193,963	\$ 90,455	\$ 60,534

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 621,661	\$ 0	\$ 0	\$ 47,514	\$ 2,964,146
0	0	0	0	3,097,973
59,891	0	1,118,626	664,250	2,682,436
0	0	0	0	549,789
0	0	0	23,501	123,759
0	0	0	430,665	430,665
0	0	0	773	127,828
0	17,610	0	266,384	368,738
<u>681,552</u>	<u>17,610</u>	<u>1,118,626</u>	<u>1,433,087</u>	<u>10,345,334</u>
587,818	0	0	3,000	4,367,726
0	0	0	330,872	330,872
0	0	0	0	202,433
0	0	0	707,969	707,969
0	15,856	0	1,186,185	3,715,252
0	0	1,599,359	382,414	1,981,773
0	304,428	0	114,350	603,658
0	47,839	0	64,392	209,385
<u>587,818</u>	<u>368,123</u>	<u>1,599,359</u>	<u>2,789,182</u>	<u>12,119,068</u>
93,734	(350,513)	(480,733)	(1,356,095)	(1,773,734)
0	0	0	1,150,000	1,150,000
0	0	0	903	903
0	0	487,003	0	487,003
0	334,653	0	367,040	2,681,575
0	0	0	0	(2,346,922)
<u>0</u>	<u>334,653</u>	<u>487,003</u>	<u>1,517,943</u>	<u>1,972,559</u>
93,734	(15,860)	6,270	161,848	198,825
3,500	17,860	0	1,169,487	3,496,516
0	0	0	(112)	1,827
<u>\$ 97,234</u>	<u>\$ 2,000</u>	<u>\$ 6,270</u>	<u>\$ 1,331,223</u>	<u>\$ 3,697,168</u>

CITY OF LOVELAND, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2007***

Net Change in Fund Balances - Total Governmental Funds \$ 198,825

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

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

Capital Outlay	1,352,840	
Depreciation Expense	(908,275)	444,565

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets. (27,434)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (2,104)

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. (1,637,003)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	385,000	
Deferred Loss on Bond Refunding	(5,519)	
Ohio Public Works Commission Loans	218,660	
Police/Fire Accrued Pension Payment	649	
Capital Leases Payable	56,927	655,717

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (1,866)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(56,883)	
Change in Inventory	1,827	(55,056)

Change in Net Assets of Governmental Activities **\$ (424,356)**

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 877,000	\$ 893,400	\$ 893,588	\$ 188
Intergovernmental Revenue	643,300	696,300	657,873	(38,427)
Charges for Services	521,800	522,800	523,230	430
Licenses and Permits	115,000	100,000	100,258	258
Fines and Forfeitures	151,000	128,000	127,055	(945)
All Other Revenues	15,000	26,000	26,390	390
Total Revenues	2,323,100	2,366,500	2,328,394	(38,106)
Expenditures:				
Current:				
Security of Persons and Property	2,498,700	2,466,200	2,441,539	24,661
Community Environment	196,950	200,850	200,821	29
General Government	1,640,250	1,664,350	1,597,612	66,738
Debt Service:				
Principal Retirement	44,200	45,900	45,900	0
Interest and Fiscal Charges	24,400	22,700	22,404	296
Total Expenditures	4,404,500	4,400,000	4,308,276	91,724
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,081,400)	(2,033,500)	(1,979,882)	53,618
Other Financing Sources (Uses):				
Transfers In	2,081,400	2,033,500	1,979,882	(53,618)
Total Other Financing Sources (Uses):	2,081,400	2,033,500	1,979,882	(53,618)
Net Change in Fund Balance	0	0	0	0
Fund Balance at Beginning of Year	0	0	0	0
Fund Balance at End of Year	\$ 0	\$ 0	\$ 0	\$ 0

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - Income Tax Fund
For the Year Ended December 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Municipal Income Tax	\$ 2,760,000	\$ 3,100,000	\$ 3,097,973	\$ (2,027)
All Other Revenues	0	5,300	5,334	34
Total Revenues	2,760,000	3,105,300	3,103,307	(1,993)
Expenditures:				
Current:				
General Government	2,211,577	2,716,000	883,576	1,832,424
Debt Service:				
Principal Retirement	5,000	5,000	5,000	0
Interest and Fiscal Charges	2,500	2,500	2,245	255
Total Expenditures	2,219,077	2,723,500	890,821	1,832,679
Excess (Deficiency) of Revenues Over (Under) Expenditures	540,923	381,800	2,212,486	1,830,686
Other Financing Sources (Uses):				
Transfers Out	(2,621,999)	(2,465,500)	(2,346,922)	118,578
Total Other Financing Sources (Uses):	(2,621,999)	(2,465,500)	(2,346,922)	118,578
Net Change in Fund Balance	(2,081,076)	(2,083,700)	(134,436)	1,949,264
Fund Balance at Beginning of Year	2,089,721	2,089,721	2,089,721	0
Fund Balance at End of Year	\$ 8,645	\$ 6,021	\$ 1,955,285	\$ 1,949,264

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Paramedic Fund
For the Year Ended December 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 866,400	\$ 914,300	\$ 912,733	\$ (1,567)
Intergovernmental Revenue	122,400	89,600	89,437	(163)
Charges for Services	60,000	60,000	60,002	2
Total Revenues	1,048,800	1,063,900	1,062,172	(1,728)
Expenditures:				
Current:				
Security of Persons and Property	1,067,185	1,068,000	964,156	103,844
Total Expenditures	1,067,185	1,068,000	964,156	103,844
Net Change in Fund Balance	(18,385)	(4,100)	98,016	102,116
Fund Balance at Beginning of Year	18,462	18,462	18,462	0
Fund Balance at End of Year	\$ 77	\$ 14,362	\$ 116,478	\$ 102,116

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire and EMS Fund
For the Year Ended December 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 455,200	\$ 490,700	\$ 488,650	\$ (2,050)
Intergovernmental Revenue	59,794	47,800	47,709	(91)
All Other Revenues	42,960	54,760	54,798	38
Total Revenues	557,954	593,260	591,157	(2,103)
Expenditures:				
Current:				
Security of Persons and Property	368,965	372,855	336,180	36,675
Debt Service:				
Principal Retirement	138,290	134,000	133,980	20
Interest and Fiscal Charges	61,045	70,145	67,505	2,640
Total Expenditures	568,300	577,000	537,665	39,335
Net Change in Fund Balance	(10,346)	16,260	53,492	37,232
Fund Balance at Beginning of Year	10,409	10,409	10,409	0
Fund Balance at End of Year	\$ 63	\$ 26,669	\$ 63,901	\$ 37,232

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire Protection Fund
For the Year Ended December 31, 2007**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 586,500	\$ 624,900	\$ 621,661	\$ (3,239)
Intergovernmental Revenue	87,500	60,000	59,891	(109)
Total Revenues	674,000	684,900	681,552	(3,348)
Expenditures:				
Current:				
Security of Persons and Property	676,935	671,400	586,609	84,791
Total Expenditures	676,935	671,400	586,609	84,791
Net Change in Fund Balance	(2,935)	13,500	94,943	81,443
Fund Balance at Beginning of Year	3,500	3,500	3,500	0
Fund Balance at End of Year	\$ 565	\$ 17,000	\$ 98,443	\$ 81,443

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Net Assets
Proprietary Funds
December 31, 2007**

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
Assets:					
<i>Current Assets:</i>					
Cash and Cash Equivalents	\$ 725,098	\$ 141,262	\$ 118,621	\$ 31,420	\$ 1,016,401
Investments	1,145,895	223,240	187,460	49,655	1,606,250
<i>Receivables:</i>					
Accounts	302,373	427,585	79,208	20,353	829,519
Inventory of Supplies at Cost	25,180	0	88	375	25,643
Prepaid Items	5,695	0	1,675	1,675	9,045
<i>Restricted Assets:</i>					
Cash and Cash Equivalents	235,636	0	0	0	235,636
Total Current Assets	<u>2,439,877</u>	<u>792,087</u>	<u>387,052</u>	<u>103,478</u>	<u>3,722,494</u>
<i>Non Current Assets:</i>					
<i>Capital Assets:</i>					
Capital Assets Not Being Depreciated	183,050	63,118	58,334	4,000	308,502
Capital Assets Being Depreciated	9,653,449	1,503,530	3,855,496	0	15,012,475
Total Assets	<u>12,276,376</u>	<u>2,358,735</u>	<u>4,300,882</u>	<u>107,478</u>	<u>19,043,471</u>
Liabilities:					
<i>Current Liabilities:</i>					
Accounts Payable	14,422	189	1,681	67,812	84,104
Accrued Wages and Benefits	20,309	2,741	5,076	9,156	37,282
Accrued Interest Payable	6,123	29	4,933	379	11,464
Total Current Liabilities	<u>40,854</u>	<u>2,959</u>	<u>11,690</u>	<u>77,347</u>	<u>132,850</u>
<i>Long Term Liabilities:</i>					
Compensated Absences Payable	95,855	19,135	10,676	43,588	169,254
Capital Leases Payable	0	3,169	21,445	18,276	42,890
General Obligation Bonds Payable	1,630,000	0	1,385,000	0	3,015,000
Total Liabilities	<u>1,766,709</u>	<u>25,263</u>	<u>1,428,811</u>	<u>139,211</u>	<u>3,359,994</u>
Net Assets:					
Invested in Capital Assets, Net of Related Debt	8,206,499	1,563,479	2,507,385	0	12,277,363
Unrestricted	2,303,168	769,993	364,686	(31,733)	3,406,114
Total Net Assets	<u>\$ 10,509,667</u>	<u>\$ 2,333,472</u>	<u>\$ 2,872,071</u>	<u>\$ (31,733)</u>	<u>\$ 15,683,477</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2007**

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stomwater	Sanitation	Total
Operating Revenues:					
Charges for Services	\$ 1,593,283	\$ 2,142,940	\$ 383,986	\$ 795,013	\$ 4,915,222
Other Operating Revenue	5,582	751	382	382	7,097
Total Operating Revenues	1,598,865	2,143,691	384,368	795,395	4,922,319
Operating Expenses:					
Personal Services	334,278	39,380	86,703	118,213	578,574
Contractual Services	304,842	1,936,101	126,837	980,132	3,347,912
Materials and Supplies	84,127	5,153	11,442	18,987	119,709
Basic Utility Services	152,353	0	0	0	152,353
Depreciation	267,191	67,173	124,415	0	458,779
Total Operating Expenses	1,142,791	2,047,807	349,397	1,117,332	4,657,327
Operating Income (Loss)	456,074	95,884	34,971	(321,937)	264,992
Nonoperating Revenue (Expenses):					
Intergovernmental Grants	0	0	0	26,839	26,839
Investment Earnings	59,977	0	0	0	59,977
Interest Expense	(74,866)	(876)	(61,305)	(4,266)	(141,313)
Gain (Loss) on Disposal of Capital Assets	(24,801)	0	0	0	(24,801)
Total Nonoperating Revenues (Expenses)	(39,690)	(876)	(61,305)	22,573	(79,298)
Income (Loss) Before Transfers and Contributions	416,384	95,008	(26,334)	(299,364)	185,694
Transfers and Contributions					
Capital Contributions	403,403	0	430,853	0	834,256
Transfers Out	(267,947)	0	(55,213)	(11,493)	(334,653)
Total Transfers and Contributions	135,456	0	375,640	(11,493)	499,603
Change in Net Assets	551,840	95,008	349,306	(310,857)	685,297
Net Assets Beginning of Year	9,957,827	2,238,464	2,522,765	279,124	14,998,180
Net Assets End of Year	\$ 10,509,667	\$ 2,333,472	\$ 2,872,071	\$ (31,733)	\$ 15,683,477

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2007

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stomwater	Sanitation	Total
Cash Flows from Operating Activities:					
Cash Received from Customers	\$1,550,493	\$2,117,536	\$385,845	\$980,258	\$5,034,132
Cash Payments for Goods and Services	(539,349)	(2,002,205)	(138,582)	(932,257)	(3,612,393)
Cash Payments to Employees	(314,680)	(35,234)	(73,004)	(111,727)	(534,645)
Net Cash Provided (Used) by Operating Activities	696,464	80,097	174,259	(63,726)	887,094
Cash Flows from Noncapital Financing Activities:					
Intergovernmental Grants	0	0	0	26,839	26,839
Transfers Out to Other Funds	(267,947)	0	(55,213)	(11,493)	(334,653)
Net Cash Used by Noncapital Financing Activities	(267,947)	0	(55,213)	15,346	(307,814)
Cash Flows from Capital and Related Financing Activities:					
Acquisition and Construction of Assets	(161,538)	(1,488)	(329,747)	(17,609)	(510,382)
Issuance of General Obligation Bonds	0	0	300,000	0	300,000
Principal Paid on General Obligation Bonds	(115,000)	0	(65,000)	0	(180,000)
Interest Paid on All Debt	(75,298)	(170)	(60,286)	(4,631)	(140,385)
Net Cash Used for Capital and Related Financing Activities	(351,836)	(1,658)	(155,033)	(22,240)	(530,767)
Cash Flows from Investing Activities:					
Receipts of Interest	59,977	0	0	0	59,977
Sale of Investments	453,758	39,099	126,240	89,460	708,557
Net Cash Provided by Investing Activities	513,735	39,099	126,240	89,460	768,534
Net Increase (Decrease) in Cash and Cash Equivalents	590,416	117,538	90,253	18,840	817,047
Cash and Cash Equivalents at Beginning of Year	370,318	23,724	28,368	12,580	434,990
Cash and Cash Equivalents at End of Year	\$960,734	\$141,262	\$118,621	\$31,420	\$1,252,037
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$456,074	\$95,884	\$34,971	(\$321,937)	\$264,992
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	267,191	67,173	124,415	0	458,779
Changes in Assets and Liabilities:					
Decrease in Accounts Receivable	(48,372)	(26,155)	1,477	184,863	111,813
(Increase) in Inventory	2,244	0	262	(25)	2,481
Decrease in Prepaid Items	(945)	0	(1,175)	(925)	(3,045)
Increase in Accounts Payable	674	(60,951)	610	67,812	8,145
Increase (Decrease) in Accrued Wages and Benefits	1,787	828	3,023	2,484	8,122
Increase (Decrease) in Compensated Absences	17,811	3,318	10,676	4,002	35,807
Total Adjustments	240,390	(15,787)	139,288	258,211	622,102
Net Cash Provided (Used) by Operating Activities	\$696,464	\$80,097	\$174,259	(\$63,726)	\$887,094

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

***Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2007***

	<u>Agency</u>
Assets:	
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	<u>\$ 19,464</u>
Total Assets	<u>19,464</u>
Liabilities:	
Due to Others	<u>19,464</u>
Total Liabilities	<u><u>\$ 19,464</u></u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance, and other governmental services. The City also provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund. In addition, the City has included the Community Improvement Corporation of Loveland (CIC) as a blended component unit.

The Community Improvement Corporation of Loveland (CIC), a non-profit organization, is an eleven-member board comprised of one City official, seven council members and three community representatives. Although it is legally separate from the City, the CIC is reported as if it were part of the primary government because the City can impose its will on the CIC. The CIC is responsible for research and development of the City, including the assurance that mortgage payments will be made to foster such development, the acquisition, construction, equipment and improvement of buildings, structures and other properties, the acquisition of sites for such development, the lease, sale and subdivision of such sites and incurring of debt in order to carry out such development, and to make loans to any individual or business entity in order to carry out such development purpose for the City. Funding to finance the CIC comes from the sale of properties owned by the CIC and contributions from the City and private sources.

B. Basis of Presentation - Fund Accounting

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types are used by the City:

Governmental Funds - are those funds through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Principal sources of revenue are municipal income taxes and shared tax revenues. Primary expenditures are for police protection, community environment and general government.

Income Tax - This fund is used to account for the receipts and distribution of the City's income tax collections.

Paramedic - This fund is used to account for the City's paramedic services.

Fire & EMS - This fund is used to account for the operation of the City's fire and EMS department.

Fire Protection - This fund is used to account for the activities provided by the City's fire protection service.

General Bond - This fund is used to account for the accumulation of resources for, and the payment of, the City's long-term debt obligations.

Issue Two Projects - This fund is used to account for Issue Two funds from the State of Ohio for Capital Projects.

Proprietary Funds - The proprietary funds are accounted for on an "economic resource" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the City's major enterprise funds:

Water - This fund is used to account for the operation of the City's water treatment and distribution systems.

Sewer - This fund is used to account for the operation of the City's sewage treatment and collection systems.

Stormwater - This fund is used to account for the operation of the City's stormwater system.

Sanitation - This fund is used to account for the operation of the City's refuse collection system.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's fiduciary fund is an agency fund which accounts for the activity of the municipal court. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Basis of Presentation - Financial Statements

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds, the expendable trust fund, and the agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because generally these revenues are not measurable until received.

Special assessments receivable, which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 2007 but which are not intended to finance 2007 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 3.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by 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 do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2007.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual—All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year end, however, are reported as reservations of fund balances for subsequent year expenditures in the accompanying basic financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" for the General Fund and the Major Special Revenue Funds:

	Net Change in Fund Balance				
	General Fund	Income Tax Fund	Paradmedic Fund	Fire & EMS Fund	Fire Protection Fund
GAAP Basis (as reported)	(\$11,663)	(\$160,702)	\$72,136	\$53,062	\$93,734
Increase (Decrease):					
Accrued Revenues at December 31, 2007 received during 2008	(140,206)	(292,610)	0	0	0
Accrued Revenues at December 31, 2006 received during 2007	130,777	292,610	0	0	0
Accrued Expenditures at December 31, 2007 paid during 2008	242,710	53,932	26,023	11,986	1,209
Accrued Expenditures at December 31, 2006 paid during 2007	(216,453)	(27,666)	(143)	(7,937)	0
2007 Prepays for 2008	(16,054)	0	0	(8,619)	0
2006 Prepays for 2007	10,889	0	0	5,000	0
Budget Basis	<u>\$0</u>	<u>(\$134,436)</u>	<u>\$98,016</u>	<u>\$53,492</u>	<u>\$94,943</u>

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and the State Treasurer's Asset Reserve (STAR Ohio). STAR Ohio is considered a cash equivalent because it is a highly liquid investment with an original maturity date of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled deposits and investments are considered to be cash equivalents. See Note 2 "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts which are reported at cost, which approximates fair value. Fair value is determined by quoted market prices. See Note 2, "Cash, Cash Equivalents and Investments."

The City has invested funds in STAR Ohio during 2007. 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, 2007.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life threshold of three or more years.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, improvements to land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined at December 31, 1987 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment – Business-Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (Years)</u>
Land Improvements	20
Buildings	25 – 50
Building Improvements	20 – 30
Infrastructure	10 – 20
Machinery, Equipment, Furniture, Fixtures and Vehicles	3 – 30

CITY OF LOVELAND, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2007***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Fund Income Tax Fund Fire and EMS Fund Street Maintenance Fund Recreation Capital Improvement Fund North End TIF Fund General Bond Fund Water Fund Stormwater Fund
Ohio Public Works Commission Loans	General Bond Fund
Capital Leases	General Fund Fire and EMS Fund Street Maintenance Fund Recreation Capital Improvement Fund Water Fund Sanitation Fund Stormwater Fund
Police/Fire Pension Accrued Liability	General Fund
Compensated Absences	General Fund Water Fund Sewer Fund Sanitation Fund Stormwater Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned. The related liability is reported within the fund.

L. Restricted Assets

Certain cash and cash equivalents are classified as restricted on the balance sheet because these funds are being held by a trustee, an agent or by the City for specified purposes.

M Intergovernmental Revenues

In governmental funds, grants awarded on a non-reimbursement basis, entitlements and shared revenues are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursable grants are recorded as intergovernmental receivables and revenues when the related expenditures are made.

Grants received for proprietary fund operations are recognized as revenues when measurable and earned. Such resources restricted for the construction of capital assets are recorded as contributed capital.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

O. Interfund Activity

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

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Reservations of Fund Balance

Reserves 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 supplies inventory, prepaid items, debt service and encumbered amounts that are not accrued at year end.

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

S. Estimates

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

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CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the City into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2007**

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$2,379,147 and the bank balance was \$2,467,420. Federal depository insurance covered \$2,052,000 of the bank balance and \$415,420 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$415,420
Total Balance	\$415,420

B. Investments

The City's investments at December 31, 2007 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)	
			less than 1	1-3
Repurchase Agreements	\$14,826	N/A	\$407,461	\$0
STAR Ohio	2,636,607	AAAm ¹	2,636,607	0
FHLB	500,470	AAA ¹ /Aaa ²	0	500,470
FNMA	1,004,845	AAA ¹ /Aaa ²	501,405	503,440
Total Investments	\$4,156,748		\$3,545,473	\$1,003,910

¹ Standard & Poor's

² Moody's Investor Service

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments (Continued)

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date, the City has no policy beyond that of Ohio Revised Code.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer. Of the City's total investments, 63.4% are in STAR Ohio, 24.2% are FNMA, and 12% are FHLB.

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 investment or collateral securities that are in the possession of an outside party. Of the City's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Financial Statements	\$2,980,580	\$3,555,315
Certificates of Deposit (with maturities of more than 3 months)	2,050,000	(2,050,000)
Repurchase Agreements	(14,826)	14,826
STAR Ohio	<u>(2,636,607)</u>	<u>2,636,607</u>
Per GASB Statement No. 3	<u>\$2,379,147</u>	<u>\$4,156,748</u>

* Includes Cash with Fiscal Agent

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 3 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2007 were levied after October 1, 2006 on assessed values as of January 1, 2006, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 2002 for Clermont County, 2006 for Warren County, and 2005 for Hamilton County. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

The assessed values upon which the 2007 property tax receipts were based were as follows:

	<u>County</u>		
	<u>Hamilton</u>	<u>Clermont</u>	<u>Warren</u>
Real Property:			
Residential/Agricultural	\$217,703,640	\$38,957,640	\$25,666,740
Personal Property:			
Tangible Personal Property	5,764,150	319,969	209,060
Public Utility Personal Property	4,307,140	1,294,730	49,733
Total Assessed Value	<u>\$227,774,930</u>	<u>\$40,572,339</u>	<u>\$25,925,533</u>
Tax Rate/Assessed Value	\$10.35/\$1,000	\$9.9/\$1,000	\$10.07/\$1,000

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2007**

NOTE 3 – TAXES (Continued)

B. Income Tax

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 4 - RECEIVABLES

Receivables at December 31, 2007 consisted of property and income taxes, accounts receivable, interest, special assessments, and intergovernmental receivables arising from shared revenues.

NOTE 5 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2007:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$1,979,882	\$0
Income Tax Fund	0	2,346,922
General Bond Fund	334,653	0
Nonmajor Governmental Funds	367,040	0
Total Governmental Funds	2,681,575	2,346,922
Enterprise Fund:		
Water	0	267,947
Stromwater	0	55,213
Sanitation	0	11,493
Total Enterprise Funds	0	334,653
Totals	<u>\$2,681,575</u>	<u>\$2,681,575</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The Enterprise funds provided transfers to the debt service fund during the year to retire a portion of debt paid by governmental activities. Transfers out of the Income tax fund were made according in accordance with City ordinances. The City's governmental activities paid for capital assets of the enterprise funds. These transactions were recorded as capital contributions in the Enterprise Funds Statement of Activities, but were recorded as transfers on the Entity Wide Statement of Activities.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2007**

NOTE 6 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2007:

Historical Cost:

Class	December 31, 2006	Additions	Deletions	December 31, 2007
Capital assets not being depreciated:				
Land	\$3,069,252	\$799,982	\$0	\$3,869,234
Construction in Progress	147,192	230,859	0	378,051
Capital assets being depreciated:				
Buildings	6,475,317	50,467	(8,575)	6,517,209
Improvements other than Buildings	1,257,908	0	0	1,257,908
Machinery and Equipment	4,175,737	271,532	(354,298)	4,092,971
Infrastructure	19,449,517	0	0	19,449,517
Total Cost	<u>\$34,574,923</u>	<u>\$1,352,840</u>	<u>(\$362,873)</u>	<u>\$35,564,890</u>

Accumulated Depreciation:

Class	December 31, 2006	Additions	Deletions	December 31, 2007
Buildings	(1,163,121)	(135,972)	4,630	(1,294,463)
Improvements other than Buildings	(942,189)	(36,861)	0	(979,050)
Machinery and Equipment	(2,469,707)	(379,402)	330,809	(2,518,300)
Infrastructure	(8,150,252)	(356,040)	0	(8,506,292)
Total Depreciation	<u>(\$12,725,269)</u>	<u>(\$908,275) *</u>	<u>\$335,439</u>	<u>(\$13,298,105)</u>
Net Value:	<u>\$21,849,654</u>			<u>\$22,266,785</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$291,027
Leisure Time Activities	114,859
Transportation	408,691
General Government	93,698
Total Depreciation Expense	<u>\$908,275</u>

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2007**

NOTE 6 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by category of changes in business-type activities capital assets at December 31, 2007:

Historical Cost:

Class	December 31, 2006	Additions	Deletions	December 31, 2007
<i>Capital assets not being depreciated:</i>				
Land	\$250,168	\$0	\$0	\$250,168
Construction In Progress	509,816	0	(451,482)	58,334
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	2,610,596	0	0	2,610,596
Utility Structures in Service	14,472,453	938,486	(15,656)	15,395,283
Infrastructure	3,420,740	742,216	0	4,162,956
Machinery and Equipment	290,298	74,937	(36,676)	328,559
Total Cost	<u>\$21,554,071</u>	<u>\$1,755,639</u>	<u>(\$503,814)</u>	<u>\$22,805,896</u>

Accumulated Depreciation:

Class	December 31, 2006	Additions	Deletions	December 31, 2007
Buildings and Improvements	(\$1,002,430)	(\$69,234)	\$0	(\$1,071,664)
Utility Structures in Service	(4,565,324)	(291,850)	2,130	(4,855,044)
Infrastructure	(1,298,073)	(70,576)	0	(1,368,649)
Machinery and Equipment	(187,844)	(27,119)	25,401	(189,562)
Total Depreciation	<u>(\$7,053,671)</u>	<u>(\$458,779)</u>	<u>\$27,531</u>	<u>(\$7,484,919)</u>

Net Value:

Total	<u>\$14,500,400</u>			<u>\$15,320,977</u>
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CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 7 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2007, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.5%. The 2007 employer contribution rate for local government employer units was 13.85%, of covered payroll. From January 1 through June 30, 2007, 8.85% was allocated to fund the pension and 5.0% to fund health care and from July 1, 2007 through December 31, 2007, 7.85% was allocated to fund the pension and 6.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2007, 2006, and 2005 were \$289,421, \$439,981 and \$422,018, respectively, which were equal to the required contributions for each year.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2007 employer contribution rate (identified above) that was used to fund health care was 5.0% from January 1 through June 30, 2007 and 6.0% from July 1 through December 31, 2007, of covered payroll which amounted to \$114,932.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2006. The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2006 was 6.5%. An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from .50% to 5% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 374,979. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2006 is \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2007, 2006, and 2005 were \$225,066, \$208,772 and \$196,641 for police, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment 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 person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2007 covered payroll that was used to fund postemployment health care benefits was \$77,907 representing 6.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2006, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 14,120 for police and 10,563 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2006 were \$120,373,722, which was net of member contributions of \$58,532,848.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2007**

NOTE 8 – COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every two hours of unused sick leave. A retiring employee's payout may not exceed 1,248 hours of unused sick leave. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

All full-time City employees earn vacation at varying rates based upon length of service. An employee may carry forward up to one year of vacation credit, plus six days, to the next year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City records a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the Long-Term Obligations on the Entity Wide Statement of Net Assets. The amount increased \$56,883 from a beginning year balance of \$875,523 to a year-end balance of \$932,406.

At December 31, 2007 the total accumulated unpaid sick leave time recorded in the Governmental Activities was as follows:

	Hours	Amount
Sick Leave	27,078	\$790,708
Vacation	4,757	141,698
Total	31,835	\$932,406

Compensated absences attributable to the Enterprise Funds of \$169,254 have been recorded within the Enterprise Funds and are not included in the above figures.

NOTE 9 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities that would have been required if the bonds had been issued at the expiration of the initial five year period.

	Issue Date	Balance January 1, 2007	Issued	(Retired)	Balance December 31, 2007
Capital Projects Notes Payable:					
3.90% Recreation Land Acquisition	03/23/07	\$0	\$250,000	\$0	\$250,000

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 10 - LONG-TERM OBLIGATIONS

Long-term obligations of the City at December 31, 2007 were as follows:

		Balance December 31,			Balance December 31,		Amount Due Within
		2006	Issued	(Retired)	2007	One Year	
Business-Type Activities:							
General Obligation Bonds:							
1998 Water System Improvement	4.37%	\$1,745,000	\$0	(\$115,000)	\$1,630,000	\$120,000	
2003 Stormwater System	3.00%	905,000	0	(40,000)	865,000	40,000	
2005 Stormwater System	4.48%	245,000	0	(10,000)	235,000	10,000	
2007 Stormwater System	4.25%	0	300,000	(15,000)	285,000	10,000	
Total General Obligation Bonds		<u>2,895,000</u>	<u>300,000</u>	<u>(180,000)</u>	<u>3,015,000</u>	<u>180,000</u>	
Other Long-Term Obligations:							
Compensated Absences		133,447	169,254	(133,447)	169,254	28,844	
Capital Leases		79,658	0	(36,768)	42,890	39,732	
Total Other Long-Term Obligations		<u>213,105</u>	<u>169,254</u>	<u>(170,215)</u>	<u>212,144</u>	<u>68,576</u>	
Total Business-Type Activities		<u>\$3,108,105</u>	<u>\$469,254</u>	<u>(\$350,215)</u>	<u>\$3,227,144</u>	<u>\$248,576</u>	
Governmental Activities:							
General Obligation Bonds:							
1997 Various Purpose Bonds	4.55%	\$115,000	\$0	(\$115,000)	\$0	\$0	
2002 Various Purpose Bonds	3.25%	950,000	0	(40,000)	910,000	45,000	
2003 City Hall-HVAC System	3.00%	55,000	0	(5,000)	50,000	5,000	
2003 Fire Truck Acquisition	3.00%	495,000	0	(65,000)	430,000	65,000	
2005 Various Purpose Refunding Bonds	4.25%	1,650,000	0	(20,000)	1,630,000	135,000	
2005 Deferred Loss on Refunding		(60,711)	0	5,519	(55,192)	(5,519)	
2005 P.W. Vehicles	4.23%	105,000	0	(35,000)	70,000	35,000	
2005 North End T.I.F.	4.16%	550,000	0	(60,000)	490,000	65,000	
2007 Christman Park Land T.I.F.	4.13%	0	650,000	0	650,000	0	
2007 P.W. Buildings	4.13%	0	500,000	(45,000)	455,000	40,000	
Total General Obligation Bonds		<u>3,859,289</u>	<u>1,150,000</u>	<u>(379,481)</u>	<u>4,629,808</u>	<u>384,481</u>	
Ohio Public Works Commission Loans:							
1993 Hanna Avenue Waterline	0.00%	68,972	0	(11,495)	57,477	11,495	
1993 State Route 48 Waterline	3.00%	26,632	0	(17,623)	9,009	9,009	
1994 Park Avenue Waterline	3.00%	22,630	0	(11,147)	11,483	11,483	
1994 East Loveland Avenue	3.00%	152,101	0	(17,091)	135,010	17,607	
1994 West Booster	3.00%	117,095	0	(14,144)	102,951	14,572	
1995 Lever Water Tower	3.00%	352,318	0	(30,700)	321,618	31,630	
1996 Maderia Road Waterline	0.00%	281,487	0	(28,149)	253,338	28,149	
1999 State Route 48 North	3.00%	166,948	0	(13,673)	153,275	13,676	
2002 West Loveland Waterline	0.00%	232,500	0	(15,000)	217,500	15,000	
2003 West Loveland Avenue	0.00%	291,718	0	(16,670)	275,048	16,670	
2004 Elysi on Extension	0.00%	429,039	0	(23,836)	405,203	23,836	
2005 Walker Extension	0.00%	353,954	0	(19,132)	334,822	19,132	
2007 Downtown Water Line	0.00%	0	487,003	0	487,003	12,175	
Total Ohio Public Works Commission Loans		<u>2,495,394</u>	<u>487,003</u>	<u>(218,660)</u>	<u>2,763,737</u>	<u>224,434</u>	
Other Long-Term Obligations:							
Compensated Absences		875,523	932,406	(875,523)	932,406	141,698	
Capital Leases		99,768	0	(56,927)	42,841	28,327	
Police and Firemen's Pension Accrued Liability		35,386	0	(649)	34,737	687	
Total Other Long-Term Obligations		<u>1,010,677</u>	<u>932,406</u>	<u>(933,099)</u>	<u>1,009,984</u>	<u>170,712</u>	
Total Governmental Activities		<u>\$7,365,360</u>	<u>\$2,569,409</u>	<u>(\$1,531,240)</u>	<u>\$8,403,529</u>	<u>\$779,627</u>	

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2007**

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

A. Police and Firemen's Pension Fund

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 2007 was \$59,269 in principal and interest payments through the year 2035. Only the principal amount due of \$34,737 is included in the Governmental Activities.

B. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2007, follows:

Years	General Obligation Bonds		OPWC Loans		Police Pension Accrued Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$570,000	\$321,113	\$224,434	\$16,753	\$687	\$1,469
2009	610,000	300,606	218,047	14,426	716	1,439
2010	605,000	277,748	220,037	12,435	746	1,408
2011	615,000	254,994	222,090	10,384	778	1,376
2012	640,000	230,627	224,201	8,272	812	1,343
2013-2017	3,000,000	765,566	894,601	12,973	4,615	6,160
2018-2022	1,210,000	277,037	505,900	6	5,696	5,080
2023-2027	450,000	48,901	254,427	0	7,028	3,747
2028-2032	0	0	0	0	8,688	2,193
2033-2035	0	0	0	0	4,971	317
Totals	<u>\$7,700,000</u>	<u>\$2,476,592</u>	<u>\$2,763,737</u>	<u>\$75,249</u>	<u>\$34,737</u>	<u>\$24,532</u>

C. Defeasance of General Obligation Debt

In May of 2005 The City issued \$1,715,000 of Various Purpose Refunding General Obligation Bonds to defease the \$1,586,079 of General Obligation Bonds for Various Purposes dated October 1, 1997.

The net proceeds of the 2005 Various Purpose Refunding General Obligation Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts, which including interest earned, was and will be used to pay the principal and interest on the refunded bonds. The refunded General Obligation Bonds, which have a balance of \$1,545,000 at December 31, 2007, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advanced refunding.

CITY OF LOVELAND, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2007***

NOTE 11 - CAPITAL LEASE COMMITMENTS

Under several capital leases the City leases phone and computer equipment, a public safety radio communication system, an ambulance, three trucks, and a street sweeper for the police, fire, street and recreation departments. The cost of the leased assets and the related liability are accounted for in the Governmental Activities and Business-type funds capital assets and long-term debt accounts. The original cost of the assets under capital lease is \$734,540.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2007:

<u>Year Ending December 31,</u>	<u>Governmental Capital Leases</u>	<u>Business-Type Capital Leases</u>
2008	\$29,534	\$41,264
2009	14,767	3,316
Minimum Lease Payments	44,301	44,580
Less: Amount representing interest at the City's incremental borrowing rate of interest	<u>(1,460)</u>	<u>(1,690)</u>
Present value of minimum lease payments	<u>\$42,841</u>	<u>\$42,890</u>

NOTE 12 - INSURANCE AND RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

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

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2007

NOTE 13 - COMPLIANCE AND ACCOUNTABILITY

The fund deficit at December 31, 2006 of \$84,511 in the General Fund arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The Income Tax Fund provides transfers when cash is required, not when accruals occur.

NOTE 14 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2007, the City has implemented GASB Statement No. 45 “*Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*” and GASB Statement No. 48, “*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*”.

GASB Statement No. 45 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all postemployment benefits other than pensions.

GASB Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as sales or a collateralized borrowings. The statement also includes disclosure requirements for future revenues that are pledged and sold.

Implementation of GASB Statement No. 45 and No. 48 did not affect the presentation of the financial statements of the City.

NOTE 15 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

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BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2006**

Prepared by:
William R. Taphorn
Director of Finance

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of City Council
City of Loveland, Ohio

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 Loveland, Ohio as of and for the year ended December 31, 2006, which collectively comprise the City of Loveland, Ohio's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Loveland, Ohio'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 of Loveland, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons for the General Fund, Income Tax Fund, Paramedic Fund, Fire and EMS Fund and Fire Protection Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2008, on our consideration of the City of Loveland, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Bastin & Company, L L C". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
July 31, 2008

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2006***

Unaudited

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

FINANCIAL HIGHLIGHTS

Key financial highlights for 2006 are as follows:

- In total, net assets increased \$407,738. Net assets of governmental activities increased \$384,015, which represents a 2.1% increase from 2005. Net assets of business-type activities increased \$23,723 from 2005.
- General revenues accounted for \$6,775,927, in revenue or 46.8% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,717,297 or 53.2% of all revenues.
- The City had \$9,278,993 in expenses related to governmental activities; only \$2,670,681 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$6,992,327 were adequate to provide for these programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – *management's discussion and analysis*, the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2006*

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as the City's tax base and the condition of the City's capital assets.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including police protection, parks and recreation, planning, zoning, street maintenance and other governmental services.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's refuse collection, water, water treatment, and stormwater services are reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

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

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

Unaudited

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 statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of the City's net assets at December 31, 2006 and 2005:

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2006	2005	2006	2005	2006	2005
Current and other assets	\$7,228,750	\$7,334,475	\$3,725,253	\$3,941,497	\$10,954,003	\$11,275,972
Capital assets, Net	21,849,654	21,256,845	14,500,400	14,434,144	36,350,054	35,690,989
Total assets	29,078,404	28,591,320	18,225,653	18,375,641	47,304,057	46,966,961
Long-term debt outstanding	7,365,360	7,836,603	3,108,105	3,283,866	10,473,465	11,120,469
Other liabilities	2,964,849	2,390,537	119,368	117,318	3,084,217	2,507,855
Total liabilities	10,330,209	10,227,140	3,227,473	3,401,184	13,557,682	13,628,324
Net assets						
Invested in capital assets, net of related debt	15,395,203	14,207,002	11,557,627	11,316,432	26,952,830	25,523,434
Restricted	3,969,165	4,498,421	0	0	3,969,165	4,498,421
Unrestricted	(616,173)	(341,243)	3,440,553	3,658,025	2,824,380	3,316,782
Total net assets	\$18,748,195	\$18,364,180	\$14,998,180	\$14,974,457	\$33,746,375	\$33,338,637

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CITY OF LOVELAND, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2006

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for fiscal year 2006 and 2005:

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total	Total
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues:						
Charges for Services and Sales	\$815,331	\$837,201	\$5,024,429	\$4,722,625	\$5,839,760	5,559,826
Operating Grants and Contributions	594,683	560,818	22,187	0	616,870	560,818
Capital Grants and Contributions	1,260,667	620,895	0	2,422,415	1,260,667	3,043,310
General revenues:						
Income Taxes	2,730,911	2,443,582	0	0	2,730,911	2,443,582
Property Taxes	2,438,196	2,100,856	0	0	2,438,196	2,100,856
Grants and Entitlements not Restricted to Specific Programs	838,121	1,580,646	0	0	838,121	1,580,646
Investment Earnings	343,815	253,651	59,960	0	403,775	253,651
Miscellaneous	364,924	487,977	0	0	364,924	487,977
Total revenues	<u>9,386,648</u>	<u>8,885,626</u>	<u>5,106,576</u>	<u>7,145,040</u>	<u>14,493,224</u>	<u>16,030,666</u>
Program Expenses						
Security of Persons and Property	4,346,319	3,719,720	0	0	4,346,319	3,719,720
Leisure Time Activities	450,602	403,470	0	0	450,602	403,470
Community Development	190,075	171,196	0	0	190,075	171,196
Transportation	955,852	940,464	0	0	955,852	940,464
General Government	2,931,216	4,397,565	0	0	2,931,216	4,397,565
Interest and Fiscal Charges	404,929	297,141	0	0	404,929	297,141
Water	0	0	1,473,226	1,432,013	1,473,226	1,432,013
Sewer	0	0	2,047,054	1,755,232	2,047,054	1,755,232
Stormwater	0	0	433,421	793,667	433,421	793,667
Sanitation	0	0	852,792	959,381	852,792	959,381
Total expenses	<u>9,278,993</u>	<u>9,929,556</u>	<u>4,806,493</u>	<u>4,940,293</u>	<u>14,085,486</u>	<u>14,869,849</u>
Excess (deficiency) before Transfers	107,655	(1,043,930)	300,083	2,204,747	407,738	1,160,817
Transfers	276,360	251,231	(276,360)	(251,231)	0	0
Total Change in Net Assets	384,015	(792,699)	23,723	1,953,516	407,738	1,160,817
Beginning Net Assets	18,364,180	19,156,879	14,974,457	13,020,941	33,338,637	32,177,820
Ending Net Assets	<u>\$18,748,195</u>	<u>\$18,364,180</u>	<u>\$14,998,180</u>	<u>\$14,974,457</u>	<u>\$33,746,375</u>	<u>\$33,338,637</u>

Governmental Activities

The net assets of the City's governmental activities increased by \$384,015, mainly due to the increased income and property tax collections.

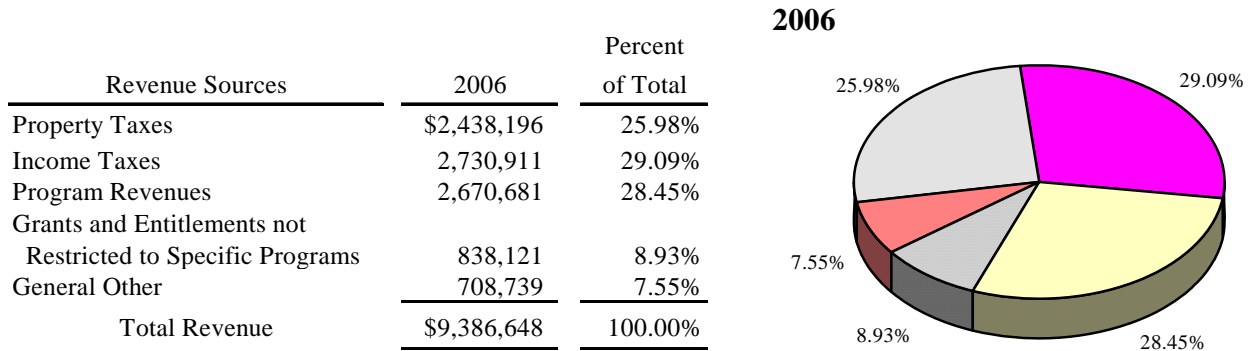
CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

Unaudited

The City receives an income tax, which is based on 1.00% of all salaries, wages, commissions and other compensation and on net profits earned from businesses and residents living within the City.

Property taxes and income taxes made up 25.98% and 29.09% respectively of revenues for governmental activities for the City in fiscal year 2006. The City's reliance upon tax revenues is demonstrated by the following graph indicating 55.07% of total revenues from general tax revenues:



Business-Type Activities

Net assets of the business-type activities remained stable increasing by less than 0.2% or \$23,723. The City was able to maintain net assets due to its efforts to control expenditures during the 2006 fiscal year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$3,496,516, which is a decrease from last year's balance of \$4,162,264. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2006 and 2005:

	Fund Balance (Deficit) December 31, 2006	Fund Balance (Deficit) December 31, 2005	Increase (Decrease)
General	(\$74,787)	\$103,017	(\$177,804)
Income Tax	2,354,665	2,747,039	(392,374)
Paramedic	18,319	41,787	(23,468)
Fire and EMS	7,472	44,900	(37,428)
Fire Protection	3,500	36,030	(32,530)
General Bond	17,860	17,860	0
Other Governmental	1,169,487	1,171,631	(2,144)
Total	<u>\$3,496,516</u>	<u>\$4,162,264</u>	<u>(\$665,748)</u>

CITY OF LOVELAND, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2006***

Unaudited

General Fund – The City's General Fund balance decrease is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2006	2005	Increase
	<u>Revenues</u>	<u>Revenues</u>	<u>(Decrease)</u>
Property Taxes	\$876,704	\$540,300	\$336,404
Intergovernmental Revenues	767,460	1,370,650	(603,190)
Charges for Services	436,762	427,748	9,014
Licenses and Permits	108,819	127,866	(19,047)
Fines and Forfeitures	151,337	150,296	1,041
All Other Revenue	70,544	44,770	25,774
Total	<u><u>\$2,411,626</u></u>	<u><u>\$2,661,630</u></u>	<u><u>(\$250,004)</u></u>

General Fund revenues in 2006 decreased 9.4% compared to revenues in fiscal year 2005. The most significant factor contributing to this decrease was the decrease in intergovernmental revenues, mainly due to the lower estate collections.

	2006	2005	Increase
	<u>Expenditures</u>	<u>Expenditures</u>	<u>(Decrease)</u>
Security of Persons and Property	\$2,401,269	\$2,247,937	\$153,332
Community Environment	190,075	171,196	18,879
General Government	1,507,631	1,289,717	217,914
Principal Retirement	44,200	51,000	(6,800)
Interest and Fiscal Charges	26,221	17,442	8,779
Total	<u><u>\$4,169,396</u></u>	<u><u>\$3,777,292</u></u>	<u><u>\$392,104</u></u>

General Fund expenditures increased by \$392,104 over the prior year mostly due to increases in salary, insurance and fuel costs.

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

During the course of fiscal year 2006 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$2.6 million did not significantly change over the original budget estimates of \$2.3 million. The General Fund had an adequate fund balance to cover expenditures.

CITY OF LOVELAND, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2006*

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2006 the City had \$36,350,054 net of accumulated depreciation invested in land, buildings, infrastructure, equipment and vehicles. Of this total, \$21,849,654 was related to governmental activities and \$14,500,400 to the business-type activities. The following table shows fiscal year 2006 and 2005 balances:

	Governmental Activities		Increase (Decrease)
	2006	2005	
Land	\$3,069,252	\$3,069,252	\$0
Construction In Progress	147,192	0	147,192
Buildings	6,475,317	6,275,990	199,327
Improvements Other than Buildings	1,257,908	1,257,908	0
Machinery and Equipment	4,175,737	3,982,838	192,899
Infrastructure	19,449,517	18,666,432	783,085
Less: Accumulated Depreciation	(12,725,269)	(11,995,575)	(729,694)
Totals	\$21,849,654	\$21,256,845	\$592,809

	Business-Type Activities		Increase (Decrease)
	2006	2005	
Land	\$250,168	\$250,168	\$0
Construction in Progress	509,816	398,002	\$111,814
Buildings & Improvements	2,610,596	2,610,596	0
Utility Structures in Service	14,472,453	14,084,816	387,637
Infrastructure	3,420,740	3,420,740	0
Machinery and Equipment	290,298	300,237	(9,939)
Less: Accumulated Depreciation	(7,053,671)	(6,630,415)	(423,256)
Totals	\$14,500,400	\$14,434,144	\$66,256

The primary increase occurred in infrastructure. These increases resulted from the construction and improvements of several roadways throughout the City. For additional information on the City's capital assets see Note 6.

CITY OF LOVELAND, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2006**

Unaudited

Debt

At December 31, 2006, the City had \$6,815,000 in bonds outstanding, \$505,000 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Governmental Activities:		
General Obligation Bonds	\$3,920,000	\$4,250,000
Deferred Loss on Refundings	(60,711)	(66,230)
Ohio Public Works Commission Loans	2,495,394	2,711,385
Capital Leases Payable	99,768	154,688
Compensated Absences	875,523	750,743
Police Pension Accrued Liability	35,386	36,017
Total Governmental Activities	<u>\$7,365,360</u>	<u>\$7,836,603</u>
Business-Type Activities:		
General Obligation Bonds	\$2,895,000	\$3,050,000
Capital Leases Payable	79,658	116,560
Compensated Absences	133,447	117,306
Total Business-Type Activities	<u>3,108,105</u>	<u>3,283,866</u>
Totals	<u>\$10,473,465</u>	<u>\$11,120,469</u>

Under current state statutes, the City's general obligation bonded debt issues are subject to a legal limitation based on 10.5% of the total assessed value of real and personal property. At December 31, 2006, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 9.

ECONOMIC FACTORS

During 2006, City Council expressed a need for an enhanced economic development focus to better assure the City's long-term financial outlook. The Administration has partnered with the Greater Cincinnati Chamber of Commerce in a more regional approach to economic development and growth, yet continues to work on relationships with local businesses and industries.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bill Taphorn, Director of Finance, City of Loveland, 120 West Loveland Ave., Loveland, Ohio 45140.

CITY OF LOVELAND, OHIO

Statement of Net Assets *December 31, 2006*

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	\$ 362,949	\$ 209,331	\$ 572,280
Investments	2,767,441	2,314,807	5,082,248
Receivables:			
Taxes	2,980,649	0	2,980,649
Accounts	35,221	941,332	976,553
Intergovernmental	772,478	0	772,478
Interest	74,191	0	74,191
Special Assessments	72,650	0	72,650
Inventory of Supplies at Cost	54,850	28,124	82,974
Prepays	18,739	6,000	24,739
Restricted Assets:			
Cash and Cash Equivalents	70,905	225,659	296,564
Cash and Cash Equivalents with Fiscal Agent	18,677	0	18,677
Capital Assets:			
Capital Assets Not Being Depreciated	3,216,444	759,984	3,976,428
Capital Assets Being Depreciated	18,633,210	13,740,416	32,373,626
Total Assets	29,078,404	18,225,653	47,304,057
Liabilities:			
Accounts Payable	226,555	78,959	305,514
Accrued Wages and Benefits	204,884	29,160	234,044
Matured Bonds & Interest Payable	18,677	0	18,677
Deferred Revenue	2,488,024	0	2,488,024
Accrued Interest Payable	26,709	11,249	37,958
Long Term Liabilities:			
Due Within One Year	743,331	223,976	967,307
Due in More Than One Year	6,622,029	2,884,129	9,506,158
Total Liabilities	10,330,209	3,227,473	13,557,682
Net Assets:			
Invested in Capital Assets, Net of Related Debt	15,395,203	11,557,627	26,952,830
Restricted For:			
Capital Projects	557,225	0	557,225
Debt Service	1,044	0	1,044
Other Purposes	3,410,896	0	3,410,896
Unrestricted (Deficit)	(616,173)	3,440,553	2,824,380
Total Net Assets	\$ 18,748,195	\$ 14,998,180	\$ 33,746,375

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Activities
For the Year Ended December 31, 2006

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 4,346,319	\$ 212,250	\$ 7,324	\$ 0
Leisure Time Activities	450,602	28,500	0	0
Community Environment	190,075	108,819	0	0
Transportation	955,852	29,000	587,359	1,260,667
General Government	2,931,216	436,762	0	0
Interest and Fiscal Charges	404,929	0	0	0
Total Governmental Activities	9,278,993	815,331	594,683	1,260,667
Business-Type Activities:				
Water	1,473,226	1,666,489	0	0
Sewer	2,047,054	1,973,690	0	0
Stormwater	433,421	414,910	0	0
Sanitation	852,792	969,340	22,187	0
Total Business-Type Activities	4,806,493	5,024,429	22,187	0
Totals	\$ 14,085,486	\$ 5,839,760	\$ 616,870	\$ 1,260,667

General Revenues

- Property Taxes
- Municipal Income Taxes
- Grants and Entitlements not Restricted to Specific Programs
- Investment Earnings
- Miscellaneous
- Transfers
- Total General Revenues and Transfers
- Change in Net Assets
- Net Assets Beginning of Year
- Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,126,745)	\$ 0	\$ (4,126,745)
(422,102)	0	(422,102)
(81,256)	0	(81,256)
921,174	0	921,174
(2,494,454)	0	(2,494,454)
<u>(404,929)</u>	<u>0</u>	<u>(404,929)</u>
<u>(6,608,312)</u>	<u>0</u>	<u>(6,608,312)</u>
0	193,263	193,263
0	(73,364)	(73,364)
0	(18,511)	(18,511)
<u>0</u>	<u>138,735</u>	<u>138,735</u>
<u>0</u>	<u>240,123</u>	<u>240,123</u>
<u>(6,608,312)</u>	<u>240,123</u>	<u>(6,308,229)</u>
2,438,196	0	2,438,196
2,730,911	0	2,730,911
838,121	0	838,121
343,815	59,960	403,775
364,924	0	364,924
<u>276,360</u>	<u>(276,360)</u>	<u>0</u>
<u>6,992,327</u>	<u>(216,400)</u>	<u>6,775,927</u>
384,015	23,723	407,738
<u>18,364,180</u>	<u>14,974,457</u>	<u>33,338,637</u>
<u>\$ 18,748,195</u>	<u>\$ 14,998,180</u>	<u>\$ 33,746,375</u>

CITY OF LOVELAND, OHIO

Balance Sheet
Governmental Funds
December 31, 2006

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Assets:				
Cash and Cash Equivalents	\$ 0	\$ 173,305	\$ 18,462	\$ 10,409
Investments	0	1,916,416	0	0
Receivables:				
Taxes	847,882	323,450	813,569	441,425
Accounts	35,221	0	0	0
Intergovernmental	310,862	0	32,331	23,750
Interest	0	0	0	0
Special Assessments	0	0	0	0
Inventory of Supplies, at Cost	0	0	0	0
Prepaid Items	10,889	0	0	5,000
Restricted Assets:				
Cash and Cash Equivalents	0	0	0	0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	0
Total Assets	\$ 1,204,854	\$ 2,413,171	\$ 864,362	\$ 480,584
Liabilities:				
Accounts Payable	\$ 48,492	\$ 14,728	\$ 143	\$ 7,937
Accrued Wages and Benefits Payable	167,961	12,938	0	0
Matured Bonds and Interest Payable	0	0	0	0
Deferred Revenue	1,063,188	30,840	845,900	465,175
Total Liabilities	1,279,641	58,506	846,043	473,112
Fund Balances:				
Reserved for Encumbrances	0	0	0	0
Reserved for Prepaid Items	10,889	0	0	5,000
Reserved for Supplies Inventory	0	0	0	0
Reserved for Debt Service	0	0	0	0
Unreserved, Undesignated in:				
General Fund	(85,676)	0	0	0
Special Revenue Funds	0	2,354,665	18,319	2,472
Capital Projects Funds	0	0	0	0
Total Fund Balances	(74,787)	2,354,665	18,319	7,472
Total Liabilities and Fund Balances	\$ 1,204,854	\$ 2,413,171	\$ 864,362	\$ 480,584

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 3,500	\$ 17,860	\$ 0	\$ 139,413	\$ 362,949
0	0	0	851,025	2,767,441
554,323	0	0	0	2,980,649
0	0	0	0	35,221
23,082	0	88,964	293,489	772,478
0	0	0	74,191	74,191
0	0	0	72,650	72,650
0	0	0	54,850	54,850
0	0	0	2,850	18,739
0	0	0	70,905	70,905
0	18,677	0	0	18,677
<u>\$ 580,905</u>	<u>\$ 36,537</u>	<u>\$ 88,964</u>	<u>\$ 1,559,373</u>	<u>\$ 7,228,750</u>
\$ 0	\$ 0	\$ 88,964	\$ 66,291	\$ 226,555
0	0	0	23,985	204,884
0	18,677	0	0	18,677
577,405	0	0	299,610	3,282,118
<u>577,405</u>	<u>18,677</u>	<u>88,964</u>	<u>389,886</u>	<u>3,732,234</u>
0	0	0	164,679	164,679
0	0	0	2,850	18,739
0	0	0	54,850	54,850
0	17,860	0	8,375	26,235
0	0	0	0	(85,676)
3,500	0	0	651,087	3,030,043
0	0	0	287,646	287,646
<u>3,500</u>	<u>17,860</u>	<u>0</u>	<u>1,169,487</u>	<u>3,496,516</u>
<u>\$ 580,905</u>	<u>\$ 36,537</u>	<u>\$ 88,964</u>	<u>\$ 1,559,373</u>	<u>\$ 7,228,750</u>

CITY OF LOVELAND, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2006***

Total Governmental Fund Balances \$ 3,496,516

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

Capital Assets used in governmental activities are not resources and therefore are not reported in the funds. 21,849,654

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

Property Taxes	160,204	
Income Taxes	30,840	
Intergovernmental Revenues	571,750	
Investment Earnings	<u>31,300</u>	794,094

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds Payable	(3,920,000)	
Deferred Loss on Debt Defeasance	60,711	
OPWC Public Works Commission Loans	(2,495,394)	
Capital Leases	(99,768)	
Compensated Absences Payable	(875,523)	
Police/Fire Accrued Pension Liability	(35,386)	
Accrued Interest Payable	<u>(26,709)</u>	<u>(7,392,069)</u>

Net Assets of Governmental Activities \$ 18,748,195

See accompanying notes to the basic financial statements

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CITY OF LOVELAND, OHIO

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

	General Fund	Income Tax Fund	Paramedic Fund	Fire and EMS Fund
Revenues:				
Property Taxes	\$ 876,704	\$ 0	\$ 573,820	\$ 481,892
Municipal Income Tax	0	2,743,318	0	0
Intergovernmental Revenues	767,460	0	53,636	44,944
Charges for Services	436,762	0	60,000	0
Licenses and Permits	108,819	0	0	0
Investment Earnings	0	0	0	0
Fines and Forfeitures	151,337	0	0	0
All Other Revenue	70,544	0	0	52,536
Total Revenue	2,411,626	2,743,318	687,456	579,372
Expenditures:				
Current:				
Security of Persons and Property	2,401,269	0	710,924	422,584
Leisure Time Activities	0	0	0	0
Community Environment	190,075	0	0	0
Transportation	0	0	0	0
General Government	1,507,631	948,976	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	44,200	5,000	0	127,280
Interest & Fiscal Charges	26,221	2,404	0	66,936
Total Expenditures	4,169,396	956,380	710,924	616,800
Excess (Deficiency) of Revenues Over Expenditures	(1,757,770)	1,786,938	(23,468)	(37,428)
Other Financing Sources (Uses):				
Transfers In	1,582,597	0	0	0
Transfers Out	0	(2,179,312)	0	0
Total Other Financing Sources (Uses)	1,582,597	(2,179,312)	0	0
Net Change in Fund Balances	(175,173)	(392,374)	(23,468)	(37,428)
Fund Balances at Beginning of Year	103,017	2,747,039	41,787	44,900
Increase (Decrease) in Inventory Reserve	(2,631)	0	0	0
Fund Balances End of Year	\$ (74,787)	\$ 2,354,665	\$ 18,319	\$ 7,472

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Fire Protection Fund	General Bond Fund	Issue Two Projects Fund	Other Governmental Funds	Total Governmental Funds
\$ 426,094	\$ 0	\$ 0	\$ 31,135	\$ 2,389,645
0	0	0	0	2,743,318
39,336	0	622,420	600,099	2,127,895
0	0	0	0	496,762
0	0	0	57,500	166,319
0	0	0	325,297	325,297
0	0	0	913	152,250
0	82,105	0	159,739	364,924
<u>465,430</u>	<u>82,105</u>	<u>622,420</u>	<u>1,174,683</u>	<u>8,766,410</u>
497,960	0	0	0	4,032,737
0	0	0	340,382	340,382
0	0	0	0	190,075
0	0	0	569,508	569,508
0	0	0	340,531	2,797,138
0	0	622,420	233,904	856,324
0	234,085	0	135,426	545,991
0	124,380	0	183,189	403,130
<u>497,960</u>	<u>358,465</u>	<u>622,420</u>	<u>1,802,940</u>	<u>9,735,285</u>
(32,530)	(276,360)	0	(628,257)	(968,875)
0	276,360	0	596,715	2,455,672
0	0	0	0	(2,179,312)
0	276,360	0	596,715	276,360
(32,530)	0	0	(31,542)	(692,515)
36,030	17,860	0	1,171,631	4,162,264
0	0	0	29,398	26,767
<u>\$ 3,500</u>	<u>\$ 17,860</u>	<u>\$ 0</u>	<u>\$ 1,169,487</u>	<u>\$ 3,496,516</u>

CITY OF LOVELAND, OHIO

***Reconciliation Of The Statement Of Revenues, Expenditures
And Changes In Fund Balances Of Governmental Funds
To The Statement Of Activities
For The Fiscal Year Ended December 31, 2006***

Net Change in Fund Balances - Total Governmental Funds \$ (692,515)

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

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

Capital Outlay	1,494,571	
Depreciation Expense	(898,409)	596,162

The net effect of various miscellaneous transactions involving capital assets (i.e. disposals and donations) is to increase net assets.

The statement of activities reports losses arising from the disposal of capital assets. Conversely, the governmental funds do not report any loss on the disposal of capital assets.		(3,353)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(18,009)
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Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal Payment	330,000	
Deferred Loss on Bond Refunding	(5,519)	
Ohio Public Works Commission Loans	215,991	
Police/Fire Accrued Pension Payment	631	
Capital Leases Payable	54,920	596,023

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		3,720
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Compensated Absences	(124,780)	
Change in Inventory	26,767	(98,013)

<i>Change in Net Assets of Governmental Activities</i>		<i>\$ 384,015</i>
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See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 835,000	\$ 878,000	\$ 877,432	\$ (568)
Intergovernmental Revenue	725,000	914,900	916,392	1,492
Charges for Services	435,200	435,200	434,930	(270)
Licenses and Permits	120,000	108,000	108,819	819
Fines and Forfeitures	160,000	151,000	151,337	337
All Other Revenues	15,000	67,000	69,718	2,718
Total Revenues	2,290,200	2,554,100	2,558,628	4,528
Expenditures:				
Current:				
Security of Persons and Property	2,328,300	2,400,000	2,381,361	18,639
Community Environment	190,400	190,400	189,466	934
General Government	1,602,900	1,575,979	1,512,178	63,801
Debt Service:				
Principal Retirement	44,200	44,200	44,200	0
Interest and Fiscal Charges	24,400	26,221	26,221	0
Total Expenditures	4,190,200	4,236,800	4,153,426	83,374
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,900,000)	(1,682,700)	(1,594,798)	87,902
Other Financing Sources (Uses):				
Transfers In	1,900,010	1,671,000	1,582,597	(88,403)
Total Other Financing Sources (Uses):	1,900,010	1,671,000	1,582,597	(88,403)
Net Change in Fund Balance	10	(11,700)	(12,201)	(501)
Fund Balance at Beginning of Year	12,201	12,201	12,201	0
Fund Balance at End of Year	\$ 12,211	\$ 501	\$ 0	\$ (501)

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund - Income Tax Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Municipal Income Tax	\$ 2,620,000	\$ 2,650,000	\$ 2,708,921	\$ 58,921
Total Revenues	2,620,000	2,650,000	2,708,921	58,921
Expenditures:				
Current:				
General Government	2,397,408	2,852,900	940,495	1,912,405
Debt Service:				
Principal Retirement	5,000	5,000	5,000	0
Interest and Fiscal Charges	2,500	2,500	2,404	96
Total Expenditures	2,404,908	2,860,400	947,899	1,912,501
Excess (Deficiency) of Revenues Over (Under) Expenditures	215,092	(210,400)	1,761,022	1,971,422
Other Financing Sources (Uses):				
Transfers Out	(2,387,029)	(2,267,700)	(2,179,312)	88,388
Total Other Financing Sources (Uses):	(2,387,029)	(2,267,700)	(2,179,312)	88,388
Net Change in Fund Balance	(2,171,937)	(2,478,100)	(418,290)	2,059,810
Fund Balance at Beginning of Year	2,508,011	2,508,011	2,508,011	0
Fund Balance at End of Year	\$ 336,074	\$ 29,911	\$ 2,089,721	\$ 2,059,810

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Paramedic Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 565,000	\$ 570,000	\$ 574,432	\$ 4,432
Intergovernmental Revenue	57,800	53,800	53,636	(164)
Charges for Services	60,000	60,000	60,000	0
Total Revenues	682,800	683,800	688,068	4,268
Expenditures:				
Current:				
Security of Persons and Property	723,975	723,000	710,781	12,219
Total Expenditures	723,975	723,000	710,781	12,219
Excess (Deficiency) of Revenues Over (Under) Expenditures	(41,175)	(39,200)	(22,713)	16,487
Fund Balance at Beginning of Year	41,175	41,175	41,175	0
Fund Balance at End of Year	\$ 0	\$ 1,975	\$ 18,462	\$ 16,487

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire and EMS Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 461,000	\$ 481,000	\$ 482,358	\$ 1,358
Intergovernmental Revenue	53,000	45,000	44,944	(56)
All Other Revenues	42,960	52,537	52,536	(1)
Total Revenues	556,960	578,537	579,838	1,301
Expenditures:				
Current:				
Security of Persons and Property	407,528	433,545	425,205	8,340
Debt Service:				
Principal Retirement	138,290	127,280	127,280	0
Interest and Fiscal Charges	61,045	66,965	66,936	29
Total Expenditures	606,863	627,790	619,421	8,369
Excess (Deficiency) of Revenues Over (Under) Expenditures	(49,903)	(49,253)	(39,583)	9,670
Fund Balance at Beginning of Year	49,992	49,992	49,992	0
Fund Balance at End of Year	\$ 89	\$ 739	\$ 10,409	\$ 9,670

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
Special Revenue Fund – Fire Protection Fund
For the Year Ended December 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 422,000	\$ 424,000	\$ 426,559	\$ 2,559
Intergovernmental Revenue	60,900	58,000	39,336	(18,664)
Total Revenues	482,900	482,000	465,895	(16,105)
Expenditures:				
Current:				
Security of Persons and Property	518,465	516,600	497,960	18,640
Total Expenditures	518,465	516,600	497,960	18,640
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(35,565)	(34,600)	(32,065)	2,535
Fund Balance at Beginning of Year	35,565	35,565	35,565	0
Fund Balance at End of Year	\$ 0	\$ 965	\$ 3,500	\$ 2,535

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Net Assets Proprietary Funds December 31, 2006

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
Assets:					
<i>Current Assets:</i>					
Cash and Cash Equivalents	\$ 144,659	\$ 23,724	\$ 28,368	\$ 12,580	\$ 209,331
Investments	1,599,653	262,339	313,700	139,115	2,314,807
<i>Receivables:</i>					
Accounts	254,001	401,430	80,685	205,216	941,332
Inventory of Supplies at Cost	27,424	0	350	350	28,124
Prepaid Items	4,750	0	500	750	6,000
<i>Restricted Assets:</i>					
Cash and Cash Equivalents	225,659	0	0	0	225,659
Total Current Assets	2,256,146	687,493	423,603	358,011	3,725,253
<i>Non Current Assets:</i>					
<i>Capital Assets:</i>					
Capital Assets Not Being Depreciated	634,532	63,118	58,334	4,000	759,984
Capital Assets, net of depreciation	8,932,018	1,570,703	3,237,695	0	13,740,416
Total Assets	11,822,696	2,321,314	3,719,632	362,011	18,225,653
Liabilities:					
<i>Current Liabilities:</i>					
Accounts Payable	16,748	61,140	1,071	0	78,959
Accrued Wages and Benefits	18,522	1,913	2,053	6,672	29,160
Accrued Interest Payable	6,555	36	3,914	744	11,249
Total Current Liabilities	41,825	63,089	7,038	7,416	119,368
<i>Long Term Liabilities:</i>					
Compensated Absences Payable	78,044	15,817	0	39,586	133,447
Capital Leases Payable	0	3,944	39,829	35,885	79,658
General Obligation Bonds Payable	1,745,000	0	1,150,000	0	2,895,000
Total Liabilities	1,864,869	82,850	1,196,867	82,887	3,227,473
Net Assets:					
Invested in Capital Assets, Net of Related Debt	7,821,550	1,629,877	2,106,200	0	11,557,627
Unrestricted	2,136,277	608,587	416,565	279,124	3,440,553
Total Net Assets	\$ 9,957,827	\$ 2,238,464	\$ 2,522,765	\$ 279,124	\$ 14,998,180

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

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

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
Operating Revenues:					
Charges for Services	\$ 1,458,833	\$ 1,973,690	\$ 395,661	\$ 969,340	\$ 4,797,524
Other Operating Revenue	207,656	0	19,249	0	226,905
Total Operating Revenues	1,666,489	1,973,690	414,910	969,340	5,024,429
Operating Expenses:					
Personal Services	303,086	37,462	60,243	87,953	488,744
Contractual Services	649,112	1,933,937	191,807	757,246	3,532,102
Materials and Supplies	58,569	8,326	8,350	5,935	81,180
Basic Utility Services	133,398	0	0	0	133,398
Depreciation	248,852	67,173	117,170	0	433,195
Total Operating Expenses	1,393,017	2,046,898	377,570	851,134	4,668,619
Operating Income (Loss)	273,472	(73,208)	37,340	118,206	355,810
Nonoperating Revenue (Expenses):					
In tergovernmental Grants	0	0	0	22,187	22,187
In vestment Earnings	59,960	0	0	0	59,960
In terest Expense	(80,209)	(156)	(55,851)	(1,658)	(137,874)
Total Nonoperating Revenues (Expenses)	(20,249)	(156)	(55,851)	20,529	(55,727)
Income (Loss) Before Transfers	253,223	(73,364)	(18,511)	138,735	300,083
Transfers Out	(244,548)	(5,000)	(15,906)	(10,906)	(276,360)
Change in Net Assets	8,675	(78,364)	(34,417)	127,829	23,723
Net Assets Beginning of Year	9,949,152	2,316,828	2,557,182	151,295	14,974,457
Net Assets End of Year	\$ 9,957,827	\$ 2,238,464	\$ 2,522,765	\$ 279,124	\$ 14,998,180

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2006

	Business-Type Activities				
	Enterprise Funds				
	Water	Sewer	Stormwater	Sanitation	Total
Cash Flows from Operating Activities:					
Cash Received from Customers	\$1,621,991	\$1,882,274	\$409,793	\$934,035	\$4,848,093
Cash Payments for Goods and Services	(860,989)	(1,882,793)	(198,430)	(821,675)	(3,763,887)
Cash Payments to Employees	(286,386)	(32,929)	(65,496)	(83,268)	(468,079)
Net Cash Provided (Used) by Operating Activities	474,616	(33,448)	145,867	29,092	616,127
Cash Flows from Noncapital Financing Activities:					
Intergovernmental Grants	0	0	0	22,187	22,187
Transfers Out to Other Funds	(244,548)	(5,000)	(15,906)	(10,906)	(276,360)
Net Cash Used by Noncapital Financing Activities	(244,548)	(5,000)	(15,906)	11,281	(254,173)
Cash Flows from Capital and Related Financing Activities:					
Acquisition and Construction of Assets	(438,117)	(1,488)	(76,785)	(16,963)	(533,353)
Principal Paid on General Obligation Bonds	(110,000)	0	(45,000)	0	(155,000)
Interest Paid on All Debt	(80,622)	(170)	(56,340)	(2,010)	(139,142)
Net Cash Used for Capital and Related Financing Activities	(628,739)	(1,658)	(178,125)	(18,973)	(827,495)
Cash Flows from Investing Activities:					
Receipts of Interest	59,960	0	0	0	59,960
Purchase of Investments	0	0	0	(19,861)	(19,861)
Sale of Investments	315,975	36,191	43,465	0	395,631
Net Cash Provided by Investing Activities	375,935	36,191	43,465	(19,861)	435,730
Net Increase (Decrease) in Cash and Cash Equivalents	(22,736)	(3,915)	(4,699)	1,539	(29,811)
Cash and Cash Equivalents at Beginning of Year	393,054	27,639	33,067	11,041	464,801
Cash and Cash Equivalents at End of Year	\$370,318	\$23,724	\$28,368	\$12,580	\$434,990
Reconciliation of Operating Income (Loss) to					
Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$273,472	(\$73,208)	\$37,340	\$118,206	\$355,810
Adjustments to Reconcile Operating Income (Loss) to					
Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	248,852	67,173	117,170	0	433,195
Changes in Assets and Liabilities:					
Decrease in Accounts Receivable	(44,498)	(91,416)	(11,717)	(35,305)	(182,936)
Decrease in Intergovernmental Receivables	0	0	6,600	0	6,600
(Increase) in Inventory	(12,632)	0	(250)	(250)	(13,132)
Decrease in Prepaid Items	(755)	0	906	(20)	131
Increase in Accounts Payable	(6,523)	59,470	1,071	(58,224)	(4,206)
Increase (Decrease) in Accrued Wages and Benefits	4,567	460	(47)	(456)	4,524
Increase (Decrease) in Compensated Absences	12,133	4,073	(5,206)	5,141	16,141
Total Adjustments	201,144	39,760	108,527	(89,114)	260,317
Net Cash Provided (Used) by Operating Activities	\$474,616	(\$33,448)	\$145,867	\$29,092	\$616,127

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2006

	<u>Agency</u>
Assets:	
Restricted Assets:	
Cash and Cash Equivalents with Fiscal Agent	<u>\$ 3,660</u>
Total Assets	<u>\$ 3,660</u>
Liabilities:	
Due to Others	<u>\$ 3,660</u>
Total Liabilities	<u>\$ 3,660</u>

See accompanying notes to the basic financial statements

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

The accompanying basic financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance, and other governmental services. The City also provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund. In addition, the City has included the Community Improvement Corporation of Loveland (CIC) as a blended component unit.

The Community Improvement Corporation of Loveland (CIC), a non-profit organization, is an eleven-member board comprised of one City official, seven council members and three community representatives. Although it is legally separate from the City, the CIC is reported as if it were part of the primary government because the City can impose its will on the CIC. The CIC is responsible for research and development of the City, including the assurance that mortgage payments will be made to foster such development, the acquisition, construction, equipment and improvement of buildings, structures and other properties, the acquisition of sites for such development, the lease, sale and subdivision of such sites and incurring of debt in order to carry out such development, and to make loans to any individual or business entity in order to carry out such development purpose for the City. Funding to finance the CIC comes from the sale of properties owned by the CIC and contributions from the City and private sources.

B. Basis of Presentation - Fund Accounting

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following fund types are used by the City:

Governmental Funds - are those funds through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Principal sources of revenue are municipal income taxes and shared tax revenues. Primary expenditures are for police protection, community environment and general government.

Income Tax - This fund is used to account for the receipts and distribution of the City's income tax collections.

Paramedic - This fund is used to account for the City's paramedic services.

Fire & EMS - This fund is used to account for the operation of the City's fire and EMS department.

Fire Protection - This fund is used to account for the activities provided by the City's fire protection service.

General Bond - This fund is used to account for the accumulation of resources for, and the payment of, the City's long-term debt obligations.

Issue Two Projects - This fund is used to account for Issue Two funds from the State of Ohio for Capital Projects.

Proprietary Funds - The proprietary funds are accounted for on an "economic resource" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The following are the City's major enterprise funds:

Water - This fund is used to account for the operation of the City's water treatment and distribution systems.

Sewer - This fund is used to account for the operation of the City's sewage treatment and collection systems.

Stormwater - This fund is used to account for the operation of the City's stormwater system.

Sanitation - This fund is used to account for the operation of the City's refuse collection system.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments, and other funds. The City's fiduciary fund is an agency fund which accounts for the activity of the municipal court. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

C. Basis of Presentation - Financial Statements

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses reported in the financial statements. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

The modified accrual basis of accounting is followed by the governmental funds, the expendable trust fund, and the agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, and state levied locally shared taxes (including motor vehicle license fees, gasoline tax, and local government assistance). Other revenue, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues are recorded as revenue when received in cash because generally these revenues are not measurable until received.

Special assessments receivable, which are measurable, but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 2006 but which are not intended to finance 2006 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 3.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses recognized when incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by 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 do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2006.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual—All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year end, however, are reported as reservations of fund balances for subsequent year expenditures in the accompanying basic financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the "Statement of Revenues, Expenditures, and Changes in Fund Balances-Budget and Actual" for the General Fund and the Major Special Revenue Funds:

	Net Change in Fund Balance				
	General Fund	Income Tax Fund	Paradmedic Fund	Fire & EMS Fund	Fire Protection Fund
GAAP Basis (as reported)	(\$175,173)	(\$392,374)	(\$23,468)	(\$37,428)	(\$32,530)
Increase (Decrease):					
Accrued Revenues at December 31, 2006 received during 2007	(130,777)	(292,610)	0	0	0
Accrued Revenues at December 31, 2005 received during 2006	277,779	258,213	612	466	465
Accrued Expenditures at December 31, 2006 paid during 2007	216,453	27,666	143	7,937	0
Accrued Expenditures at December 31, 2005 paid during 2006	(200,099)	(19,185)	0	(10,983)	0
2006 Prepays for 2007	(10,889)	0	0	(5,000)	0
2005 Prepays for 2006	10,505	0	0	5,425	0
Budget Basis	<u>(\$12,201)</u>	<u>(\$418,290)</u>	<u>(\$22,713)</u>	<u>(\$39,583)</u>	<u>(\$32,065)</u>

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and the State Treasurer's Asset Reserve (STAR Ohio). STAR Ohio is considered a cash equivalent because it is a highly liquid investment with an original maturity date of three months or less.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintains its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds' share of equity in pooled deposits and investments are considered to be cash equivalents. See Note 2 "Cash, Cash Equivalents and Investments."

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts which are reported at cost, which approximates fair value. Fair value is determined by quoted market prices. See Note 2, "Cash, Cash Equivalents and Investments."

The City has invested funds in STAR Ohio during 2006. 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.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life threshold of three or more years.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the Fund Financial Statements.

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, improvements to land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined at December 31, 1987 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

2. Property, Plant and Equipment – Business-Type Activities

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental and Business-Type Activities Estimated Lives (Years)</u>
Land Improvements	20
Buildings	25 – 50
Building Improvements	20 – 30
Infrastructure	10 – 20
Machinery, Equipment, Furniture, Fixtures and Vehicles	3 – 30

CITY OF LOVELAND, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2006***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Fund Income Tax Fund Fire and EMS Fund Street Maintenance Fund Recreation Capital Improvement Fund North End TIF Fund General Bond Fund Water Fund Stormwater Fund
Ohio Public Works Commission Loans	General Bond Fund
Capital Leases	General Fund Fire and EMS Fund Street Maintenance Fund Recreation Capital Improvement Fund Water Fund Sanitation Fund Stormwater Fund
Police/Fire Pension Accrued Liability	General Fund
Compensated Absences	General Fund Water Fund Sewer Fund Sanitation Fund Stormwater Fund

K. Compensated Absences

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

For governmental funds, that portion of unpaid compensated absences that is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned. The related liability is reported within the fund.

L. Restricted Assets

Certain cash and cash equivalents are classified as restricted on the balance sheet because these funds are being held by a trustee, an agent or by the City for specified purposes.

M Intergovernmental Revenues

In governmental funds, grants awarded on a non-reimbursement basis, entitlements and shared revenues are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursable grants are recorded as intergovernmental receivables and revenues when the related expenditures are made.

Grants received for proprietary fund operations are recognized as revenues when measurable and earned. Such resources restricted for the construction of capital assets are recorded as contributed capital.

N. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

O. Interfund Activity

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

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Reservations of Fund Balance

Reserves 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 supplies inventory, prepaid items, debt service and encumbered amounts that are not accrued at year end.

R. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

S. Estimates

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

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CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash resources of several individual funds are combined to form a pool of cash, cash equivalents and investments.

Statutes require the classification of funds held by the City into three categories. Category 1 consists of “active” funds - those funds required to be kept in a “cash” or “near cash” status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of “inactive” funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds - those funds which are not needed for immediate use but, which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of City cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the City's deposits was \$1,635,499 and the bank balance was \$1,648,132. Federal depository insurance covered \$1,464,000 of the bank balance and \$184,132 was uninsured. Of the remaining uninsured bank balance, the City was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	\$184,132
Total Balance	\$184,132

B. Investments

The City's investments at December 31, 2006 were as follows:

	Fair Value	Credit Rating	Investment Maturities (in Years)	
			less than 1	1-3
Repurchase Agreements	\$407,461	N/A	\$407,461	\$0
STAR Ohio	212,221	AAAm ¹	212,221	0
FNMA	972,533	AAA ¹ /Aaa ²	972,533	0
FHLB	2,245,785	AAA ¹ /Aaa ²	1,245,785	1,000,000
FHLMC	499,930	AAA ¹ /Aaa ²	499,930	0
Total Investments	\$4,337,930		\$3,337,930	\$1,000,000

¹ Standard & Poor's

² Moody's Investor Service

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

B. Investments (Continued)

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date, the City has no policy beyond that of Ohio Revised Code.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer. Of the City's total investments, 22.4% are FNMA, 51.8% are FHLB, and 11.5% are FHLMC.

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 investment or collateral securities that are in the possession of an outside party. Of the City's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the City.

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Certificates of deposit with an original maturity of three months or less are treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Financial Statements	\$891,181	\$5,082,248
Certificates of Deposit (with maturities of more than 3 months)	1,364,000	(1,364,000)
Repurchase Agreements	(407,461)	407,461
STAR Ohio	(212,221)	212,221
Per GASB Statement No. 3	<u>\$1,635,499</u>	<u>\$4,337,930</u>

* Includes Cash with Fiscal Agent

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 3 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2006 were levied after October 1, 2005 on assessed values as of January 1, 2005, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 2002 for Clermont County, 2006 for Warren County, and 2005 for Hamilton County. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

The assessed values upon which the 2006 property tax receipts were based were as follows:

	County		
	Hamilton	Clermont	Warren
Real Property:			
Residential/Agricultural	\$215,827,730	\$33,800,170	\$20,531,100
Personal Property:			
Tangible Personal Property	7,994,990	996,321	81,071
Public Utility Personal Property	4,571,220	1,409,530	195,400
Total Assessed Value	<u>\$228,393,940</u>	<u>\$36,206,021</u>	<u>\$20,807,571</u>
Tax Rate/Assessed Value	\$12.00/\$1,000	\$11.55/\$1,000	\$11.72/\$1,000

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 3 – TAXES (Continued)

B. Income Tax

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

NOTE 4 - RECEIVABLES

Receivables at December 31, 2006 consisted of property and income taxes, accounts receivable, interest, special assessments, and intergovernmental receivables arising from shared revenues.

NOTE 5 - TRANSFERS

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>
General Fund	\$1,582,597	\$0
Income Tax Fund	0	2,179,312
General Bond Fund	276,360	0
Nonmajor Governmental Funds	596,715	0
Total Governmental Funds	2,455,672	2,179,312
Enterprise Fund:		
Water	0	244,548
Sewer	0	5,000
Stromwater	0	15,906
Sanitation	0	10,906
Total Enterprise Funds	0	276,360
Totals	<u>\$2,455,672</u>	<u>\$2,455,672</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed. The Enterprise funds provided transfers to the debt service fund during the year to retire a portion of debt paid by governmental activities. Transfers out of the Income tax fund were made according in accordance with City ordinances.

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 6 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2006:

Historical Cost:

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Capital assets not being depreciated:				
Land	\$3,069,252	\$0	\$0	\$3,069,252
Construction in Progress	0	147,192	0	147,192
Capital assets being depreciated:				
Buildings	6,275,990	199,327	0	6,475,317
Improvements other than Buildings	1,257,908	0	0	1,257,908
Machinery and Equipment	3,982,838	364,967	(172,068)	4,175,737
Infrastructure	18,666,432	783,085	0	19,449,517
Total Cost	<u>\$33,252,420</u>	<u>\$1,494,571</u>	<u>(\$172,068)</u>	<u>\$34,574,923</u>

Accumulated Depreciation:

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings	(1,031,536)	(131,585)	0	(1,163,121)
Improvements other than Buildings	(905,328)	(36,861)	0	(942,189)
Machinery and Equipment	(2,259,950)	(378,472)	168,715	(2,469,707)
Infrastructure	(7,798,761)	(351,491)	0	(8,150,252)
Total Depreciation	<u>(\$11,995,575)</u>	<u>(\$898,409) *</u>	<u>\$168,715</u>	<u>(\$12,725,269)</u>
Net Value:	<u>\$21,256,845</u>			<u>\$21,849,654</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$296,502
Leisure Time Activities	110,470
Transportation	398,549
General Government	92,888
Total Depreciation Expense	<u>\$898,409</u>

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 6 - CAPITAL ASSETS (Continued)

B. Business-Type Activities Capital Assets

Summary by category of changes in business-type activities capital assets at December 31, 2006:

Historical Cost:

Class	December 31, 2005	Additions	Deletions	December 31, 2006
<i>Capital assets not being depreciated:</i>				
Land	\$250,168	\$0	\$0	\$250,168
Construction In Progress	398,002	111,814	0	509,816
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	2,610,596	0	0	2,610,596
Utility Structures in Service	14,084,816	387,637	0	14,472,453
Infrastructure	3,420,740	0	0	3,420,740
Machinery and Equipment	300,237	0	(9,939)	290,298
Total Cost	<u>\$21,064,559</u>	<u>\$499,451</u>	<u>(\$9,939)</u>	<u>\$21,554,071</u>

Accumulated Depreciation:

Class	December 31, 2005	Additions	Deletions	December 31, 2006
Buildings and Improvements	(\$933,196)	(\$69,234)	\$0	(\$1,002,430)
Utility Structures in Service	(4,286,580)	(278,744)	0	(4,565,324)
Infrastructure	(1,234,741)	(63,332)	0	(1,298,073)
Machinery and Equipment	(175,898)	(21,885)	9,939	(187,844)
Total Depreciation	<u>(\$6,630,415)</u>	<u>(\$433,195)</u>	<u>\$9,939</u>	<u>(\$7,053,671)</u>

Net Value:

	<u>\$14,434,144</u>			<u>\$14,500,400</u>
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CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 7 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 9.0%. The 2006 employer contribution rate for local government employer units was 13.70%, of covered payroll, 9.20% to fund the pension and 4.5% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2006, 2005, and 2004 were \$439,981, \$422,018 and \$397,779, respectively, which were equal to the required contributions for each year.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2006 employer contribution rate (identified above) that was used to fund health care for the year 2006 was 4.5% of covered payroll which amounted to \$144,520.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2005. The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2006 was 6.5%. An annual increase of 4.0%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 374,979. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2006 is \$12.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$30.7 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 7 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 2006, 2005, and 2004 were \$208,722, \$196,641 and \$199,701 for police, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment 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 person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2006 covered payroll that was used to fund postemployment health care benefits was \$82,954 representing 7.75% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2006, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 14,120 for police and 10,563 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2006 were \$120,373,722, which was net of member contributions of \$58,532,848.

CITY OF LOVELAND, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2006***

NOTE 8 – COMPENSATED ABSENCES

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every two hours of unused sick leave. A retiring employee's payout may not exceed 1,248 hours of unused sick leave. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

All full-time City employees earn vacation at varying rates based upon length of service. An employee may carry forward up to one year of vacation credit, plus six days, to the next year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City records a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for governmental funds not currently due and payable at year end are recorded in the Long-Term Obligations on the Entity Wide Statement of Net Assets. The amount increased \$124,780 from a beginning year balance of \$750,743 to a year-end balance of \$875,523.

At December 31, 2006 the total accumulated unpaid sick leave time recorded in the Governmental Activities was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	26,402	\$742,909
Vacation	4,734	132,614
Total	<u>31,135</u>	<u>\$875,523</u>

Compensated absences attributable to the Enterprise Funds of \$133,447 have been recorded within the Enterprise Funds and are not included in the above figures.

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CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 9- LONG-TERM OBLIGATIONS

Long-term obligations of the City at December 31, 2006 were as follows:

		Balance December 31, 2005	Issued	(Retired)	Balance December 31, 2006	Amount Due Within One Year
Business-Type Activities:						
General Obligation Bonds:						
1998 Water System Improvement	4.37%	\$1,855,000	\$0	(\$110,000)	\$1,745,000	\$115,000
2003 Stormwater System	3.00%	940,000	0	(35,000)	905,000	40,000
2005 Stormwater System	4.48%	255,000	0	(10,000)	245,000	10,000
Total General Obligation Bonds		<u>3,050,000</u>	<u>0</u>	<u>(155,000)</u>	<u>2,895,000</u>	<u>165,000</u>
Other Long-Term Obligations:						
Compensated Absences		117,306	133,447	(117,306)	133,447	20,683
Capital Leases		116,560	0	(36,902)	79,658	38,293
Total Other Long-Term Obligations		<u>233,866</u>	<u>133,447</u>	<u>(154,208)</u>	<u>213,105</u>	<u>58,976</u>
Total Business-Type Activities		<u>\$3,283,866</u>	<u>\$133,447</u>	<u>(\$309,208)</u>	<u>\$3,108,105</u>	<u>\$223,976</u>
Governmental Activities:						
General Obligation Bonds:						
1997 Various Purpose Bonds	4.55%	\$225,000	\$0	(\$110,000)	\$115,000	\$115,000
2002 Various Purpose Bonds	3.25%	990,000	0	(40,000)	950,000	40,000
2003 City Hall-HVAC System	3.00%	60,000	0	(5,000)	55,000	5,000
2003 Fire Truck Acquisition	3.00%	555,000	0	(60,000)	495,000	65,000
2005 Various Purpose Refunding Bonds	4.25%	1,670,000	0	(20,000)	1,650,000	20,000
2005 Deferred Loss on Refunding		(66,230)	0	5,519	(60,711)	(5,519)
2005 P.W. Vehicles	4.23%	140,000	0	(35,000)	105,000	35,000
2005 North End T.I.F	4.16%	610,000	0	(60,000)	550,000	60,000
Total General Obligation Bonds		<u>4,183,770</u>	<u>0</u>	<u>(324,481)</u>	<u>3,859,289</u>	<u>334,481</u>
Ohio Public Works Commission Loans:						
1993 Hanna Avenue Waterline	0.00%	80,467	0	(11,495)	68,972	11,495
1993 State Route 48 Waterline	3.00%	43,737	0	(17,105)	26,632	17,623
1994 Park Avenue Waterline	3.00%	33,449	0	(10,819)	22,630	11,147
1994 East Loveland Avenue	3.00%	168,691	0	(16,590)	152,101	17,091
1994 West Booster	3.00%	130,823	0	(13,728)	117,095	14,144
1995 Lever Water Tower	3.00%	382,118	0	(29,800)	352,318	30,700
1996 Maderia Road Waterline	0.00%	309,636	0	(28,149)	281,487	28,149
1999 State Route 48 North	3.00%	180,615	0	(13,667)	166,948	13,673
2002 West Loveland Waterline	0.00%	247,500	0	(15,000)	232,500	15,000
2003 West Loveland Avenue	0.00%	308,388	0	(16,670)	291,718	16,670
2004 Elyson Extension	0.00%	452,875	0	(23,836)	429,039	23,836
2005 Walker Extension	0.00%	373,086	0	(19,132)	353,954	19,132
Total Ohio Public Works Commission Loans		<u>2,711,385</u>	<u>0</u>	<u>(215,991)</u>	<u>2,495,394</u>	<u>218,660</u>
Other Long-Term Obligations:						
Compensated Absences		750,743	875,523	(750,743)	875,523	132,614
Capital Leases		154,688	0	(54,920)	99,768	56,927
Police and Firemen's Pension Accrued Liability		36,017	0	(631)	35,386	649
Total Other Long-Term Obligations		<u>941,448</u>	<u>875,523</u>	<u>(806,294)</u>	<u>1,010,677</u>	<u>190,190</u>
Total Governmental Activities		<u>\$7,836,603</u>	<u>\$875,523</u>	<u>(\$1,346,766)</u>	<u>\$7,365,360</u>	<u>\$743,331</u>

CITY OF LOVELAND, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2006**

NOTE 9 - LONG-TERM OBLIGATIONS (Continued)

A. Police and Firemen's Pension Fund

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 2006 was \$60,483 in principal and interest payments through the year 2035. Only the principal amount due of \$35,386 is included in the Governmental Activities.

B. Principal and Interest Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2006, follows:

Years	General Obligation Bonds		OPWC Loans		Police Pension Accrued Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$505,000	\$281,777	\$218,660	\$19,497	\$649	\$1,497
2008	520,000	262,600	212,254	16,753	687	1,469
2009	535,000	244,220	193,697	14,426	716	1,439
2010	530,000	224,454	195,687	12,435	746	1,408
2011	540,000	204,850	197,740	10,384	778	1,376
2012-2016	2,610,000	693,407	886,461	21,236	4,425	6,350
2017-2021	1,295,000	214,509	407,472	15	5,461	5,314
2022-2026	280,000	21,136	183,423	0	6,739	3,106
2027-2031	0	0	0	0	8,325	2,549
2032-2035	0	0	0	0	6,860	589
Totals	<u>\$6,815,000</u>	<u>\$2,146,953</u>	<u>\$2,495,394</u>	<u>\$94,746</u>	<u>\$35,386</u>	<u>\$25,097</u>

C. Defeasance of General Obligation Debt

In May of 2005 The City issued \$1,715,000 of Various Purpose Refunding General Obligation Bonds to defease the \$1,586,079 of General Obligation Bonds for Various Purposes dated October 1, 1997.

The net proceeds of the 2005 Various Purpose Refunding General Obligation Bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts, which including interest earned, was and will be used to pay the principal and interest on the refunded bonds. The refunded General Obligation Bonds, which have a balance of \$1,545,000 at December 31, 2006, are not included in the City's outstanding debt since the City has in-substance satisfied its obligations through the advanced refunding.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 10 - CAPITAL LEASE COMMITMENTS

Under several capital leases the City leases phone and computer equipment, a public safety radio communication system, an ambulance, three trucks, and a street sweeper for the police, fire, street and recreation departments. The cost of the leased assets and the related liability are accounted for in the Governmental Activities and Business-type funds capital assets and long-term debt accounts. The original cost of the assets under capital lease is \$734,540.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of December 31, 2006:

<u>Year Ending December 31,</u>	<u>Governmental Capital Leases</u>	<u>Business-Type Capital Leases</u>
2007	\$60,216	\$41,264
2008	29,534	41,264
2009	14,767	1,658
Minimum Lease Payments	104,517	84,186
Less: Amount representing interest at the City's incremental borrowing rate of interest	<u>(4,749)</u>	<u>(4,528)</u>
Present value of minimum lease payments	<u>\$99,768</u>	<u>\$79,658</u>

NOTE 11 - INSURANCE AND RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

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

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

CITY OF LOVELAND, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2006

NOTE 12 - COMPLIANCE AND ACCOUNTABILITY

The fund deficit at December 31, 2006 of \$74,787 in the General Fund arises from the recognition of expenditures on the modified accrual basis which are greater than expenditures recognized on the budgetary basis. The Income Tax Fund provides transfers when cash is required, not when accruals occur.

NOTE 13 – CHANGES IN ACCOUNTING PRINCIPLES

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

GASB Statement No. 46 clarifies when net assets should be restricted based on enabling legislation.

GASB Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to all termination benefits without limitation as to the period of time during which the benefits are offered.

Implementation of GASB Statement No. 46 and No. 47 did not affect the presentation of the financial statements of the City.

NOTE 14 - CONTINGENCIES

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Bastin & Company, LLC

Certified Public Accountants

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*

To The Members of City Council
City of Loveland, Ohio

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Loveland, Ohio, as of and for the years ended December 31, 2007 and 2006, which collectively comprise the City of Loveland, Ohio's basic financial statements, and have issued our reports thereon dated July 31, 2008. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Loveland, Ohio's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Loveland, Ohio's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Loveland, Ohio's internal control.

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

Compliance and Other Matters

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

We noted certain other matters that we have reported to management in a separate letter dated July 31, 2008.

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

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a light-colored background.

Cincinnati, Ohio
July 31, 2008



Mary Taylor, CPA
Auditor of State

CITY OF LOVELAND

HAMILTON 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
OCTOBER 14, 2008**