



Mary Taylor, CPA
Auditor of State

**City of Mt. Healthy
Hamilton County, Ohio**

**General Purpose External Financial Statements
For the Year Ended December 31, 2006**

Local Government Services Section

CITY OF MT. HEALTHY, OHIO
GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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Mary Taylor, CPA
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October 31, 2007

City Council
City of Mt. Healthy
7700 Perry Street
Mt. Healthy, Ohio 45231

We have compiled the accompanying basic financial statements of the City of Mt. Healthy as of and for the year ended December 31, 2006, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

We did not compile the financial statements of the discretely presented component unit, the Mt. Healthy Community Improvement Corporation. The financial statements for the Mt. Healthy Community Improvement Corporation were provided to us for inclusion in the City of Mt. Healthy's general purpose external financial statements.

Management's Discussion and Analysis is required supplementary information that has been prepared by management. We have not compiled, reviewed, nor audited this information and, accordingly, assume no responsibility for it.

Mary Taylor, CPA
Auditor of State

Peter R. Sorem
Chief of Local Government Services

CITY OF MT. HEALTHY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) of the City of Mt. Healthy's financial performance provides an overview of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole, and readers are encouraged to review the transmittal letter, the basic financial statements and notes to enhance their understanding of the City's overall financial performance.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased \$499,758, which represents a 24 percent increase from 2005.
- General revenues accounted for \$2,838,301 or 68 percent of all government revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,364,931 or 32 percent of total governmental revenues of \$4,203,232.
- The City had \$3,703,474 in expenses; \$1,364,931 of these expenses were offset by program specific revenues in the form of charges for services and sales, grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City of Mt. Healthy's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a long-term view of the City's finances. The fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term, as well as the amount of funds available for future spending. The fund financial statements focus on the City's most significant funds, with all other nonmajor funds presented in total in one column.

REPORTING THE CITY AS A WHOLE

One of the most important questions asked about the City is "How did we do financially during 2006?" The Statement of Net Assets and the Statements of Activities, which appear first in the City's financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. However, the City's goal is to provide services to its citizens, not to generate profits as commercial entities do.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the City's major funds begins on page 6. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the City Auditor, with the approval of Council, to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The major funds for the City of Mt. Healthy are the General Fund, Safety Tax, and Capital Improvement Funds.

Governmental Funds – Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. 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 to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds – The City's fiduciary funds consist of three agency funds. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

THE CITY AS A WHOLE

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

Table 1
Net Assets

| | Governmental Activities | | |
|---------------------------------|-------------------------|------------------|-------------|
| | 2006 | Restated 2005 | Change |
| ASSETS | | | |
| Current and Other Assets | \$2,344,859 | \$2,583,477 | (\$238,618) |
| Nondepreciable Capital Assets | 259,213 | 118,290 | 140,923 |
| Depreciable Capital Assets, Net | 2,737,103 | 2,226,355 | 510,748 |
| Total Assets | \$5,341,175 | \$4,928,122 | \$413,053 |

(continued)

Table 1
Net Assets
(continued)

| | Governmental Activities | | |
|-------------------------------|-------------------------|--------------------|------------------|
| | 2006 | Restated 2005 | Change |
| LIABILITIES | | | |
| Current and Other Liabilities | \$1,087,517 | \$1,083,582 | \$3,935 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 245,530 | 203,032 | 42,498 |
| Due in More Than One Year | 1,429,093 | 1,562,231 | (133,138) |
| Total Liabilities | <u>2,762,140</u> | <u>2,848,845</u> | <u>(86,705)</u> |
| NET ASSETS | | | |
| Invested in Capital Assets, | | | |
| Net of Related Debt | 1,589,347 | 762,548 | 826,799 |
| Restricted | 388,079 | 611,367 | (223,288) |
| Unrestricted | 601,609 | 705,362 | (103,753) |
| Total Net Assets | <u>\$2,579,035</u> | <u>\$2,079,277</u> | <u>\$499,758</u> |

Net assets increased \$499,758, due primarily to an increase in capital and operating grants and contributions received during the year.

Table 2 shows the changes in net assets for the year ended December 31, 2006 compared to 2005.

Table 2
Change in Net Assets

| | Governmental Activities | | |
|--------------------------------------|-------------------------|--------------------|------------------|
| | 2006 | 2005 | Change |
| REVENUES | | | |
| Program Revenues | | | |
| Charges for Services and Sales | \$608,573 | \$667,812 | (\$59,239) |
| Operating Grants and Contributions | 310,719 | 9,231 | 301,488 |
| Capital Grants and Contributions | 445,639 | 95,092 | 350,547 |
| Total Program Revenues | <u>1,364,931</u> | <u>772,135</u> | <u>592,796</u> |
| General Revenues | | | |
| Property and Other Local Taxes | 971,439 | 983,733 | (12,294) |
| Income Taxes | 1,292,933 | 1,238,514 | 54,419 |
| Grants and Entitlements | | | |
| not Restricted for Specific Purposes | 494,190 | 866,093 | (371,903) |
| Unrestricted Investment Earnings | 2,814 | 1,083 | 1,731 |
| Other | 76,925 | 98,981 | (22,056) |
| Total General Revenues | <u>2,838,301</u> | <u>3,188,404</u> | <u>(350,103)</u> |
| Total Revenues | <u>\$4,203,232</u> | <u>\$3,960,539</u> | <u>\$242,693</u> |
| | | | (continued) |

Table 2
Change in Net Assets
(continued)

| | Governmental Activities | | |
|----------------------------------|---------------------------|---------------------------|-------------------------|
| | 2006 | Restated 2005 | Change |
| PROGRAM EXPENSES | | | |
| General Government | \$585,146 | \$663,675 | (\$78,529) |
| Security of Persons and Property | 1,799,928 | 1,611,817 | 188,111 |
| Public Works | 412,433 | 393,460 | 18,973 |
| Leisure Time Activities | 201,890 | 197,462 | 4,428 |
| Community Environment | 104,441 | 88,534 | 15,907 |
| Transportation | 525,020 | 399,824 | 125,196 |
| Interest and Fiscal Charges | 74,616 | 82,041 | (7,425) |
| Total Expenses | <u>3,703,474</u> | <u>3,436,813</u> | <u>266,661</u> |
| Increase in Net Assets | 499,758 | 523,726 | (23,968) |
| Net Assets at Beginning of Year | <u>2,079,277</u> | <u>1,555,551</u> | <u>523,726</u> |
| Net Assets at End of Year | <u><u>\$2,579,035</u></u> | <u><u>\$2,079,277</u></u> | <u><u>\$499,758</u></u> |

Governmental Activities

Property and Other Local Taxes decreased by \$12,294, which is not significant. Income Taxes increased \$54,419 due mainly to a reduction in the credit allowed for income taxes paid to other municipalities. Grants and Entitlements not Restricted for Specific Purposes decreased by \$371,903 largely due to a decrease in receipts from inheritance tax settlements. Capital Grants and Contributions and Operating Grants and Contributions increased by \$350,547 and \$301,488, respectively. The increase in Capital Grants and Contributions was mainly due to receipts of an Ohio Public Works Grant and a Community Development Block Grant for the purpose of capital improvements. The increase in Operating Grants and Contributions, for the most part, was related to an increase in State shared monies received during the year.

Income Taxes and Property and Other Local Taxes made up 31 and 23 percent, respectively, of revenues for governmental activities of the City of Mt. Healthy, for a total of 54 percent of all revenues.

Program expenses for Security of Persons and Property and Transportation increased by \$188,111 and \$125,196, respectively. The increase in Security of Persons and Property expenses is due primarily to an increase in salaries and benefits for the police and fire departments, along with various equipment purchases for the fire department that were not capitalized because the equipment did not meet the threshold for capitalization. The increase in Transportation during the year was mainly due to an expense made by the City on behalf of Cincinnati Water Works for improvements made to the water lines during the Elizabeth Street Phase II project. The City received the revenue from Cincinnati Water Works for the project in 2005 and the work was done in 2006.

Security of Persons and Property comprises 49 percent of governmental program expenses, while General Government and Transportation makes up 16 and 14 percent, respectively, of governmental program expenses.

The 1.5 percent income tax is the largest source of revenue for the General Fund and the City of Mt. Healthy. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used to pay the cost of administering the tax, General Fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council.

Governmental program expenses for 2006 were as follows:

Table 3
Governmental Activities

| | Total Cost Of Services 2006 | Net Cost of Services 2006 | Total Cost Of Services 2005 | Net Cost of Services 2005 |
|----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| General Government | \$585,146 | (\$454,376) | \$663,675 | (\$523,313) |
| Security of Persons and Property | 1,799,928 | (1,631,437) | 1,611,817 | (1,467,498) |
| Public Works | 412,433 | (133,592) | 393,460 | (61,429) |
| Leisure Time Activities | 201,890 | (133,799) | 197,462 | (175,005) |
| Community Environment | 104,441 | (86,250) | 88,534 | (74,247) |
| Transportation | 525,020 | 175,527 | 399,824 | (304,732) |
| Interest and Fiscal Charges | 74,616 | (74,616) | 82,041 | (82,041) |
| Total Expenses | \$3,703,474 | (\$2,338,543) | \$3,436,813 | (\$2,688,265) |

THE CITY'S FUNDS

Information about the City's major governmental funds begins on page 12. These funds are reported using the modified accrual basis of accounting. All governmental funds had total revenues of \$4,131,433 and expenditures of \$4,529,011. The General Fund's balance decreased by \$157,757 due primarily to a decrease in Intergovernmental revenues resulting from a decline in receipts from inheritance tax settlements. The Safety Tax Fund's balance increased by \$21,851. Although expenditures for salaries and benefits in that fund increased, revenues increased more than expenditures due to the receipt of a grant for the purchase of fire equipment. The Capital Improvement Fund's balance decreased by \$274,213, due largely to an increase in expenditures for capital acquisitions.

General Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of receipts and disbursements. The City's budget is adopted at the object level (personal services and other expenditures) within each department and fund by City Council in the form of an appropriations resolution.

Original General Fund budgeted revenues were \$2,935,565. The final budgeted amount was \$3,031,805, which represents a three percent increase. Actual revenues were \$2,890,954 at year-end, which represents a five percent decrease over final budgeted revenues.

Final budgeted income tax revenues were \$1,387,215 and actual income tax revenues were \$1,272,916 in the General Fund, resulting in a difference of \$114,299. The City budgeted for an increase in income tax revenue with the expectation that more taxpayers would pay quarterly due to the credit rollback implemented in 2006. However, there was no noticeable change in paying patterns.

Original General Fund appropriations were \$2,566,840. Final appropriations were \$2,611,990. This represents an increase of only two percent. The City's actual expenditures were \$2,538,322 at year-end, which represents a decrease of three percent from final budgeted expenditures.

Final budgeted capital outlay expenditures were \$167,515 and actual capital outlay expenditures were \$91,653 in the General Fund, resulting in a difference of \$75,862. The City budgeted for Community Development Block Grant monies for the Park Improvements project; however, the full grant amount was not received during 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the City had \$2,996,316 invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$651,671, or 28 percent from the prior year. The increase in capital assets is largely due to an increase in construction in progress primarily for park improvements, along with a large increase in infrastructure from the street improvement projects that the City finished in 2006.

See Note 10 of the notes to the basic financial statements for more detailed information.

Debt

At December 31, 2006, the City had \$1,486,969 in general obligation debt outstanding. The City's long-term obligations also included compensated absences of \$137,635 and police pension of \$50,019.

The City's overall 10.5 percent legal debt margin was \$8,583,860 as of December 31, 2006. The more restrictive unvoted legal debt margin was \$3,788,227 as of the same date.

See Note 16 of the notes to the basic financial statements for more detailed information.

CURRENT FINANCIAL CHALLENGES AND INITIATIVES

The Administration and City Council have taken a proactive approach to effective budget management. Revenue, payroll, and expenses are monitored in great detail. Adjustments are made and managed as needed throughout the year.

Effective in 2006, the income tax credit was rolled back to 83 percent. This provides an ongoing increasing source of revenue. This rollback credit has been earmarked for economic development and capital purchasing plan. With little area for new development, redevelopment of existing properties with the Community Improvement Corporation is an ongoing endeavor. Major improvements were made to the park to replace out-dated equipment and to complement the aquatic facility. The Administration evaluates current systems for continuous improvement and to better utilize technology.

CONTACTING THE CITY'S FINANCE DEPARTMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Jill Claire, Auditor, City of Mt. Healthy; 7700 Perry Street, Mt. Healthy, Ohio 45231.

BASIC FINANCIAL STATEMENTS

CITY OF MT. HEALTHY, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

| | <u>Primary Governmental Activities</u> | <u>Component Unit Mt. Healthy Community Improvement Corporation</u> |
|---|--|---|
| ASSETS | | |
| Equity in Pooled Cash and Cash Equivalents | \$729,688 | \$0 |
| Cash in Segregated Accounts | 9,743 | 0 |
| Accrued Interest Receivable | 1,233 | 0 |
| Accounts Receivable | 17,151 | 0 |
| Income Taxes Receivable | 331,073 | 0 |
| Property Taxes Receivable | 907,323 | 0 |
| Intergovernmental Receivable | 348,648 | 0 |
| Cash with Fiscal Agents | 0 | 58,696 |
| Nondepreciable Capital Assets | 259,213 | 0 |
| Depreciable Capital Assets, Net | 2,737,103 | 0 |
| Total Assets | 5,341,175 | 58,696 |
| LIABILITIES | | |
| Accounts Payable | 24,039 | 0 |
| Accrued Wages and Benefits | 57,140 | 0 |
| Intergovernmental Payable | 106,252 | 0 |
| Contracts Payable | 45,022 | 0 |
| Retainage Payable | 5,392 | 0 |
| Accrued Interest Payable | 11,311 | 0 |
| Deferred Revenue | 838,361 | 0 |
| Long-Term Liabilities: | | |
| Due Within One Year | 245,530 | 0 |
| Due in More Than One Year | 1,429,093 | 0 |
| Total Liabilities | 2,762,140 | 0 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 1,589,347 | 0 |
| Restricted for: | | |
| Capital Outlay | 135,780 | 0 |
| Transportation | 231,759 | 0 |
| Security of Persons and Property | 20,540 | 0 |
| Unrestricted | 601,609 | 58,696 |
| Total Net Assets | \$2,579,035 | \$58,696 |

See accountants' compilation report
See accompanying notes to the basic financial statements

CITY OF MT. HEALTHY, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | |
|---|--------------------|--------------------------------------|---------------------------------------|-------------------------------------|--|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | Component Unit |
| | | | | | Governmental Activities | Mt. Healthy Community Improvement Corporation |
| GOVERNMENTAL ACTIVITIES | | | | | | |
| General Government | \$585,146 | \$130,770 | \$0 | \$0 | (\$454,376) | \$0 |
| Security of Persons and Property | 1,799,928 | 159,759 | 8,732 | 0 | (1,631,437) | 0 |
| Public Works | 412,433 | 278,841 | 0 | 0 | (133,592) | 0 |
| Leisure Time Activities | 201,890 | 22,091 | 0 | 46,000 | (133,799) | 0 |
| Community Environment | 104,441 | 16,866 | 1,325 | 0 | (86,250) | 0 |
| Transportation | 525,020 | 246 | 300,662 | 399,639 | 175,527 | 0 |
| Interest and Fiscal Charges | 74,616 | 0 | 0 | 0 | (74,616) | 0 |
| Total Governmental Activities | <u>\$3,703,474</u> | <u>\$608,573</u> | <u>\$310,719</u> | <u>\$445,639</u> | <u>(2,338,543)</u> | <u>0</u> |
| COMPONENT UNIT | | | | | | |
| Mt. Healthy Community Improvement Corporation | <u>\$49,413</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>0</u> | <u>(49,413)</u> |
| General Revenues: | | | | | | |
| Taxes | | | | | | |
| Property and Other Local Taxes Levied For: | | | | | | |
| General Purposes | | | | | 469,694 | 0 |
| Capital Outlay | | | | | 130,433 | 0 |
| Security of Persons and Property | | | | | 371,312 | 0 |
| Income Taxes | | | | | 1,292,933 | 0 |
| Grants and Entitlements not Restricted to Specific Programs | | | | | 494,190 | 0 |
| Unrestricted Investment Earnings | | | | | 2,814 | 464 |
| Other | | | | | 76,925 | 7,542 |
| Total General Revenues | | | | | <u>2,838,301</u> | <u>8,006</u> |
| Change in Net Assets | | | | | 499,758 | (41,407) |
| Net Assets at Beginning of Year - Restated (See Note 3) | | | | | <u>2,079,277</u> | <u>100,103</u> |
| Net Assets at End of Year | | | | | <u>\$2,579,035</u> | <u>\$58,696</u> |

See accountants' compilation report

See accompanying notes to the basic financial statements

CITY OF MT HEALTHY, OHIO
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

| | GENERAL | SAFETY TAX | CAPITAL IMPROVEMENT | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|--------------------|------------------|------------------------|-----------------------------------|--------------------------------|
| ASSETS | | | | | |
| Equity in Pooled Cash and | | | | | |
| Cash Equivalents | \$412,985 | \$85,005 | \$17,261 | \$214,437 | \$729,688 |
| Cash in Segregated Accounts | 9,743 | 0 | 0 | 0 | 9,743 |
| Intergovernmental Receivable | 151,391 | 35,205 | 10,152 | 151,900 | 348,648 |
| Income Taxes Receivable | 331,073 | 0 | 0 | 0 | 331,073 |
| Property Taxes Receivable | 393,925 | 380,708 | 132,690 | 0 | 907,323 |
| Accounts Receivable | 16,905 | 0 | 0 | 246 | 17,151 |
| Accrued Interest Receivable | 1,233 | 0 | 0 | 0 | 1,233 |
| Total Assets | \$1,317,255 | \$500,918 | \$160,103 | \$366,583 | \$2,344,859 |
| LIABILITIES | | | | | |
| Accounts Payable | \$14,284 | \$7,739 | \$0 | \$2,016 | \$24,039 |
| Accrued Wages and Benefits | 39,382 | 12,644 | 0 | 5,114 | 57,140 |
| Contracts Payable | 31,223 | 0 | 4,599 | 9,200 | 45,022 |
| Intergovernmental Payable | 83,110 | 15,863 | 0 | 7,279 | 106,252 |
| Retainage Payable | 5,392 | 0 | 0 | 0 | 5,392 |
| Deferred Revenue | 733,938 | 415,913 | 142,842 | 123,387 | 1,416,080 |
| Total Liabilities | 907,329 | 452,159 | 147,441 | 146,996 | 1,653,925 |
| FUND BALANCES | | | | | |
| Reserved: | | | | | |
| Reserved for Encumbrances | 5,068 | 1,000 | 0 | 0 | 6,068 |
| Unreserved, Undesignated, Reported in: | | | | | |
| General Fund | 404,858 | 0 | 0 | 0 | 404,858 |
| Special Revenue Funds | 0 | 47,759 | 0 | 57,164 | 104,923 |
| Debt Service Fund | 0 | 0 | 0 | 113 | 113 |
| Capital Projects Funds | 0 | 0 | 12,662 | 162,310 | 174,972 |
| Total Fund Balances | 409,926 | 48,759 | 12,662 | 219,587 | 690,934 |
| Total Liabilities and Fund Balances | \$1,317,255 | \$500,918 | \$160,103 | \$366,583 | \$2,344,859 |

See accountants' compilation report
See accompanying notes to the basic financial statements

CITY OF MT. HEALTHY, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

| | |
|----------------------------------|-----------|
| Total Governmental Fund Balances | \$690,934 |
|----------------------------------|-----------|

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. These assets consist of:

| | | |
|--------------------------|-------------|-----------|
| Land | 180,910 | |
| Construction in Progress | 78,303 | |
| Infrastructure | 1,342,220 | |
| Other Capital Assets | 3,122,324 | |
| Accumulated Depreciation | (1,727,441) | |
| Total Capital Assets | 2,996,316 | 2,996,316 |

Some of the City's revenues will be collected after year-end,
but are not available soon enough to pay for the current period's expenditures
and therefore are deferred in the funds.

| | | |
|--|---------|---------|
| Delinquent Property Taxes | 68,962 | |
| Due From Other Governments | | |
| Estate Taxes | 2,766 | |
| Shared Taxes and Local Government Revenue Assistance | 299,261 | |
| Income Taxes | 206,730 | |
| | 577,719 | 577,719 |

Long-term liabilities are not due and payable in the current period and therefore
are not reported in the funds. Those liabilities consist of:

| | | |
|----------------------|-------------|-------------|
| Bonds | (1,486,969) | |
| Police Pension | (50,019) | |
| Compensated absences | (137,635) | |
| Total Liabilities | (1,674,623) | (1,674,623) |

Some items reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in
governmental funds. These activities consist of:

| | |
|------------------|----------|
| Accrued Interest | (11,311) |
| | (11,311) |

| | |
|---------------------------------------|-------------|
| Net Assets of Governmental Activities | \$2,579,035 |
|---------------------------------------|-------------|

See accountants' compilation report
See accompanying notes to the basic financial statements

CITY OF MT. HEALTHY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

| | GENERAL | SAFETY TAX | CAPITAL IMPROVEMENT | NONMAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|---|------------------|-----------------|------------------------|-----------------------------------|--------------------------------|
| REVENUES | | | | | |
| Property Taxes | \$386,127 | \$395,322 | \$108,825 | \$0 | \$890,274 |
| Other Local Taxes | 83,039 | 0 | 0 | 0 | 83,039 |
| Income Taxes | 1,269,807 | 0 | 0 | 0 | 1,269,807 |
| Charges for Services | 454,757 | 0 | 0 | 246 | 455,003 |
| Fines, Licenses and Permits | 146,793 | 0 | 0 | 5,977 | 152,770 |
| Intergovernmental | 397,376 | 107,817 | 330,906 | 315,077 | 1,151,176 |
| Interest | 2,552 | 0 | 0 | 262 | 2,814 |
| Rent | 800 | 0 | 0 | 0 | 800 |
| Donations | 1,325 | 0 | 0 | 47,500 | 48,825 |
| Other | 63,998 | 6,396 | 404 | 6,127 | 76,925 |
| Total Revenues | 2,806,574 | 509,535 | 440,135 | 375,189 | 4,131,433 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General Government | 574,427 | 0 | 0 | 0 | 574,427 |
| Security of Persons and Property | 1,181,757 | 544,902 | 0 | 10,786 | 1,737,445 |
| Public Works | 375,277 | 0 | 0 | 0 | 375,277 |
| Leisure Time Activities | 172,854 | 0 | 0 | 0 | 172,854 |
| Community Environment | 96,899 | 0 | 0 | 0 | 96,899 |
| Transportation | 0 | 0 | 0 | 276,166 | 276,166 |
| Capital Outlay | 128,268 | 6,319 | 769,348 | 139,751 | 1,043,686 |
| Debt Service: | | | | | |
| Principal Retirement | 892 | 11,463 | 0 | 163,665 | 176,020 |
| Interest and Fiscal Charges | 2,154 | 0 | 0 | 74,083 | 76,237 |
| Total Expenditures | 2,532,528 | 562,684 | 769,348 | 664,451 | 4,529,011 |
| Excess of Revenues Over (Under) | | | | | |
| Expenditures | 274,046 | (53,149) | (329,213) | (289,262) | (397,578) |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers In | 0 | 75,000 | 55,000 | 303,408 | 433,408 |
| General Obligation Bonds Issued | 0 | 0 | 0 | 80,000 | 80,000 |
| Proceeds from Sale of Capital Assets | 1,605 | 0 | 0 | 0 | 1,605 |
| Transfers Out | (433,408) | 0 | 0 | 0 | (433,408) |
| Total Other Financing Sources (Uses) | (431,803) | 75,000 | 55,000 | 383,408 | 81,605 |
| Net Change in Fund Balances | (157,757) | 21,851 | (274,213) | 94,146 | (315,973) |
| Fund Balances at Beginning of Year - Restated (See Note 3) | 567,683 | 26,908 | 286,875 | 125,441 | 1,006,907 |
| Fund Balances at End of Year | \$409,926 | \$48,759 | \$12,662 | \$219,587 | \$690,934 |

See accountants' compilation report
See accompanying notes to the basic financial statements

CITY OF MT. HEALTHY, OHIO
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net Change in Fund Balances - Total Governmental Funds (\$315,973)

Amounts reported for governmental activities in the
Statement of Activities are different because:

Capital outlays are reported as expenditures in governmental funds.

However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. In the current
period, these amounts are:

| | | |
|------------------------------------|------------------|---------|
| Capital Asset Additions | 765,507 | |
| Construction in Progress Additions | 78,303 | |
| Current Year Depreciation | <u>(186,726)</u> | |
| | | 657,084 |

The proceeds from the sale of capital assets are reported as revenue in the
governmental funds. However, the cost of capital assets is removed from
the capital assets account in the Statement of Net Assets and offset against the
proceeds from the sale of capital assets resulting in a loss on the sale of capital assets
in the Statement of Activities.

| | | |
|--------------------------------------|----------------|---------|
| Proceeds from Sale of Capital Assets | (1,605) | |
| Loss on Disposal of Capital Assets | <u>(3,808)</u> | |
| | | (5,413) |

Because some revenues will not be collected for several months after the City's year-end,
they are not considered "available" revenues and are deferred in the governmental funds.

| | | |
|--|---------------|--------|
| Property and Other Local Taxes | (1,874) | |
| Shared Taxes and Local Government Revenue Assistance | 50,547 | |
| Income Taxes | <u>23,126</u> | |
| | | 71,799 |

Bond proceeds are reported as other financing sources in governmental funds
and thus contribute to the change in fund balances. In the government-wide
statements, however, issuing debt increases long-term liabilities in the
Statement of Net Assets and does not effect the Statement of Activities.

| | | |
|--------------------------------------|--|----------|
| Proceeds of General Obligation Bonds | | (80,000) |
|--------------------------------------|--|----------|

Repayment of long-term debt is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of
Net Assets. In the current year, these amounts consist of:

| | | |
|-------------------------------------|---------------|---------|
| Bond Principal Retirement | 161,985 | |
| Police Pension Principal Retirement | 892 | |
| Intergovernmental Payable | <u>13,143</u> | |
| Total Long-term Debt Repayment | | 176,020 |

Some items reported in the Statement of Activities do not require the
use of current financial resources and therefore are not reported as
expenditures in governmental funds. These activities consist of:

| | | |
|----------------------------------|--------------|----------------|
| Increase in Compensated Absences | (5,380) | |
| Decrease in Accrued Interest | <u>1,621</u> | |
| Total Additional Expenditures | | <u>(3,759)</u> |

Change in Net Assets of Governmental Activities \$499,758

See accountants' compilation report
See accompanying notes to the basic financial statements

CITY OF MT. HEALTHY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|--------------------|------------------|------------------|----------------------------------|
| REVENUES | | | | |
| Property and Other Local Taxes | \$351,079 | \$443,278 | \$469,166 | \$25,888 |
| Income Taxes | 1,385,049 | 1,387,215 | 1,272,916 | (114,299) |
| Charges for Services | 508,371 | 509,166 | 469,552 | (39,614) |
| Fines, Licenses and Permits | 173,195 | 173,466 | 136,145 | (37,321) |
| Intergovernmental | 486,934 | 487,695 | 475,343 | (12,352) |
| Interest | 1,127 | 1,129 | 1,294 | 165 |
| Rent | 548 | 549 | 800 | 251 |
| Donations | 2,277 | 2,281 | 1,325 | (956) |
| Other | 26,985 | 27,026 | 64,413 | 37,387 |
| Total Revenues | 2,935,565 | 3,031,805 | 2,890,954 | (140,851) |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 573,049 | 584,749 | 588,737 | (3,988) |
| Security of Persons and Property | 1,171,683 | 1,184,137 | 1,184,885 | (748) |
| Public Works | 402,156 | 402,156 | 394,361 | 7,795 |
| Leisure Time Activities | 158,937 | 173,237 | 178,279 | (5,042) |
| Community Environment | 100,300 | 97,150 | 97,361 | (211) |
| Capital Outlay | 160,715 | 167,515 | 91,653 | 75,862 |
| Debt Service: | | | | |
| Principal Retirement | 0 | 892 | 892 | 0 |
| Interest and Fiscal Charges | 0 | 2,154 | 2,154 | 0 |
| Total Expenditures | 2,566,840 | 2,611,990 | 2,538,322 | 73,668 |
| Excess of Revenues Over (Under) Expenditures | 368,725 | 419,815 | 352,632 | (67,183) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from Sale of Capital Assets | 0 | 0 | 1,605 | 1,605 |
| Transfers Out | (418,608) | (433,408) | (433,408) | 0 |
| Total Other Financing Sources (Uses) | (418,608) | (433,408) | (431,803) | 1,605 |
| Net Change in Fund Balance | (49,883) | (13,593) | (79,171) | (65,578) |
| Fund Balance at Beginning of Year | 487,063 | 487,063 | 487,063 | 0 |
| Fund Balance (Deficit) at End of Year | <u>\$437,180</u> | <u>\$473,470</u> | <u>\$407,892</u> | <u>(\$65,578)</u> |

See accountants' compilation report
See accompanying notes to the basic financial statements

CITY OF MT. HEALTHY, OHIO
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)
SAFETY TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|--------------------|-----------------|-----------------|----------------------------------|
| REVENUES | | | | |
| Property and Other Local Taxes | \$380,000 | \$367,972 | \$395,322 | \$27,350 |
| Intergovernmental | 117,188 | 123,839 | 107,817 | (16,022) |
| Other | 6,151 | 6,500 | 6,396 | (104) |
| Total Revenues | 503,339 | 498,311 | 509,535 | 11,224 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Security of Persons and Property | 580,746 | 561,501 | 545,249 | 16,252 |
| Capital Outlay | 6,500 | 6,000 | 6,319 | (319) |
| Debt Service: | | | | |
| Principal Retirement | 0 | 12,745 | 12,739 | 6 |
| Total Expenditures | 587,246 | 580,246 | 564,307 | 15,939 |
| Excess of Revenues Over (Under) Expenditures | (83,907) | (81,935) | (54,772) | 27,163 |
| OTHER FINANCING SOURCES | | | | |
| Transfers In | 70,972 | 75,000 | 75,000 | 0 |
| Net Change in Fund Balance | (12,935) | (6,935) | 20,228 | 27,163 |
| Fund Balance at Beginning of Year | 63,777 | 63,777 | 63,777 | 0 |
| Fund Balance at End of Year | \$50,842 | \$56,842 | \$84,005 | \$27,163 |

See accountants' compilation report
See accompanying notes to the basic financial statements

CITY OF MT. HEALTHY, OHIO
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
December 31, 2006

ASSETS

| | |
|--|--------------|
| Equity in Pooled Cash and Cash Equivalents | \$12,122 |
| Cash in Segregated Accounts | <u>9,293</u> |

| | |
|--------------|------------------------|
| Total Assets | <u><u>\$21,415</u></u> |
|--------------|------------------------|

LIABILITIES

| | |
|---------------------------|---------------|
| Intergovernmental Payable | \$2,496 |
| Undistributed Monies | <u>18,919</u> |

| | |
|-------------------|------------------------|
| Total Liabilities | <u><u>\$21,415</u></u> |
|-------------------|------------------------|

See accountants' compilation report

See accompanying notes to the basic financial statements

***CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006***

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

The City of Mt. Healthy (the "City") was incorporated in 1817 as a body politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The City is directed by a publicly-elected eight-member Council.

The eight-member Council is elected to two year terms. The Mayor, City Auditor, and Treasurer are elected to four year terms. The Mayor appoints a Safety Service Director who executes the laws and administers the government of the City. The Safety Service Director appoints all of the department managers of the City.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government represents the primary City operations which are directly responsible to the Mayor and Council. The City is divided into departments and financial management and control systems. Services provided include police and fire protection, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare. A staff provides support (e.g., payroll processing, accounts payable, revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. Water and sewer services are provided by the City of Cincinnati, although the City of Mt. Healthy maintains the water and sewer lines.

The Mayor's Court has been included in the City's financial statements as an agency fund. The Mayor is the City official who has fiduciary responsibility for the collection and distribution of the court fees and fines.

The City participates in two organizations which are defined as jointly governed organizations. These organizations are the Center for Local Government and the Hamilton County Municipal League. These organizations are presented in NOTE 17 of the Basic Financial Statements.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the organization's budget, the issuance of its debt or the levying of its taxes.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY (continued)

The component unit column in the government-wide financial statements identifies the financial data of the City's discretely presented component unit, the Mt. Healthy Community Improvement Corporation (CIC). The CIC is reported separately to emphasize that it is legally separate from the City.

The Mt. Healthy Community Improvement Corporation was created as a not for profit corporation under Sections 1724.01 et. seq., Ohio Revised Code. The CIC was established in January, 1990, for the purpose of acquiring and developing real property located in the City of Mt. Healthy to increase the opportunities for employment and strengthen the economic development of the City. The CIC's original cash balances were established from the sale of property that was donated by the City, and the City occasionally provides funding for the purchase of properties to be restored and resold by the CIC. The CIC is governed by a nine member Board of Trustees, six of which are elected or appointed officials of the City. Based on the City's history of providing financial support to the CIC and the City's appointment of a voting majority of the CIC board, the CIC is presented as a component unit of the City. Separately issued financial statements can be obtained from the Mt. Healthy Community Improvement Corporation, 7700 Perry St., Mt. Healthy, Ohio 75231.

The information in NOTES 2 through 20 relate to the primary government. Information for the CIC is presented in NOTE 21.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities unless those pronouncements conflict or contradict with GASB pronouncements. The more significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements normally distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities; however, the City has no business-type activities.

The Statement of Net Assets presents the financial condition of the governmental activities of the City at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds utilized by the City: governmental and fiduciary.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Governmental Funds

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

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

Safety Tax Fund - The Safety Tax Fund is used to account for monies received from property taxes levied to support the City fire department and corresponding fire department expenses.

Capital Improvement Fund - The Capital Improvement Fund is used to account for monies received from property taxes levied to support street improvements and repairs.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The City's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has three agency funds which are used to account for money held for individuals and organizations. These funds account for the collection and distribution of court fees, the distribution of payroll related taxes and withholdings, and the collection of seized and forfeited monies in criminal cases distributed to parties outside the City as determined by the court.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. “Measurable” means the amount of the transaction can be determined and “available” means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days of year-end.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income taxes and intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), licenses, permits and fees, grants, and accrued interest.

Deferred Revenues

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met have also been recorded as deferred revenue.

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

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Cash and Cash Equivalents

To improve cash management, all cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. Cash and cash equivalents that are held separately for the Mayor's court and not held in the cash management pool are recorded on the financial statements as "Cash in Segregated Accounts." The cash pertaining to the CIC is presented on the Statement of Net Assets as "Cash with Fiscal Agents."

Investments with original maturities of three months or less at the time they are purchased by the City are reported on the financial statements as cash equivalents. The City had no investments during the year or at December 31, 2006.

The City Council has, by resolution, specified the funds to receive an allocation of interest earnings. Investment income credited to the General Fund during 2006 amounted to \$2,552, which includes \$680 assigned from other City funds.

Internal Activities

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

Capital Assets

All of the City's capital assets are classified as general capital assets. General capital assets are capital assets that are associated with and generally rise from governmental activities. They generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

All capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values on the date donated. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed.

All capital assets except for land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Descriptions</u> | <u>Estimated Life</u> |
|-------------------------------------|-----------------------|
| Land Improvements | 10-25 years |
| Buildings and Building Improvements | 20-30 years |
| Equipment and Vehicles | 3-20 years |
| Infrastructure | 10-60 years |

The City's infrastructure consists of streets, curbs and gutters, sidewalks and street lighting. The City reported infrastructure for the first time in 2004 and is only reporting infrastructure additions prospectively.

Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

Accrued Liabilities and Long-Term Debt

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

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

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

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

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.

The government-wide Statement of Net Assets reports \$391,079 of restricted net assets, none of which is restricted by enabling legislation.

Estimates

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

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (continued)

Budgets and Budgetary Accounting

The budget documents prepared by the City are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level (personal services and other expenditures) within each department and fund.

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

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE AND NET ASSETS

Change in Accounting Principles

For 2006, the City has implemented *GASB Statement No. 47, "Accounting for Termination Benefits."*

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND BALANCE AND NET ASSETS (continued)

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the City's financial statements for 2006.

Restatement of Prior Fund Balance and Net Assets

The police department maintains an account for monies seized in criminal cases. 2006 is the first year that the City has reported these monies on their financial statements. This resulted in the following restatement at December 31, 2005:

| | Nonmajor Governmental Funds |
|------------------------------------|--------------------------------|
| Fund Balance at 12/31/05 | \$101,854 |
| Cash and Cash Equivalents | 23,587 |
| Fund Balance at 12/31/05, Restated | \$125,441 |
| | Governmental Activities |
| Net Assets at 12/31/05 | \$2,055,690 |
| Cash and Cash Equivalents | 23,587 |
| Net Assets at 12/31/05, Restated | \$2,079,277 |

NOTE 4 – COMPLIANCE

The following accounts had an excess of expenditures plus encumbrances over appropriations for the year ended December 31, 2006:

| Fund Type/Name/Program/Object | Final Appropriations | Final Expenditures | Excess |
|----------------------------------|-------------------------|-----------------------|------------|
| General Fund: | | | |
| General Government | | | |
| Other | \$190,881 | \$203,594 | (\$12,713) |
| Security of Persons and Property | | | |
| Materials and Supplies | 117,540 | 118,131 | (591) |
| Other | 70,589 | 75,193 | (4,604) |
| Leisure Time Activities | | | |
| Materials and Supplies | 51,750 | 55,484 | (3,734) |
| Other | 13,651 | 15,197 | (1,546) |
| Community Environment | | | |
| Other | 84,500 | 86,680 | (2,180) |

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 – COMPLIANCE (continued)

| <u>Fund Type/Name/Program/Object</u> | <u>Final</u> <u>Appropriations</u> | <u>Final</u> <u>Expenditures</u> | <u>Excess</u> |
|--------------------------------------|---------------------------------------|-------------------------------------|---------------|
| Special Revenue Funds: | | | |
| State Highway Fund | | | |
| Transportation | | | |
| Personal Services | \$13,446 | \$13,612 | (\$166) |
| Law Enforcement Trust Fund | | | |
| Security of Persons and Property | | | |
| Other | 0 | 10,786 | (10,786) |
| Safety Tax Fund | | | |
| Capital Outlay | | | |
| Capital Outlay | 6,000 | 6,319 | (319) |
| Capital Projects Fund: | | | |
| Capital Improvement Fund | | | |
| Capital Outlay | | | |
| Capital Outlay | 751,254 | 764,749 | (13,495) |

The City Auditor will monitor budgetary controls more closely in the future to alleviate such compliance issues.

NOTE 5 - BUDGET TO GAAP RECONCILIATION

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) is presented for the General Fund and the Safety Tax Special Revenue Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and the GAAP basis are that:

- a. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- b. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- c. Unrecorded cash represents amounts received but not included on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - BUDGET TO GAAP RECONCILIATION (continued)

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the General Fund and the Safety Tax Special Revenue Fund are as follows:

| | Net Change in Fund Balance | |
|------------------------|----------------------------|---------------|
| | General | Safety Tax |
| GAAP Basis | (\$157,757) | \$21,851 |
| Revenue Accruals | 84,552 | 0 |
| Expenditure Accruals | (726) | (623) |
| Encumbrances | (5,068) | (1,000) |
| Unrecorded Cash - 2005 | 9,596 | 0 |
| Unrecorded Cash - 2006 | (9,768) | 0 |
| Budget Basis | (\$79,171) | \$20,228 |

NOTE 6 - DEPOSITS AND INVESTMENTS

The investment and deposit of City monies are governed by the Ohio Revised Code. State statutes classify monies held by the City into three categories.

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

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

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

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).

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

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

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

NOTE 7 - PROPERTY TAXES

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

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

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

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

The full tax rate for all City operations for the year ended December 31, 2006, was \$11.11 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

| <u>Category</u> | <u>Assessed Value</u> | <u>Percentage</u> |
|--------------------------------------|-----------------------|-------------------|
| Real Property | | |
| Residential/Agricultural | \$61,511,790 | 64.13% |
| Commercial/Industrial/Public Utility | 27,409,250 | 28.58% |
| Public Utility Personal | 4,945,270 | 5.16% |
| General Business Personal | 2,046,350 | 2.13% |
| Total Property Taxes | <u>\$95,912,660</u> | <u>100.00%</u> |

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 7 - PROPERTY TAXES (continued)

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

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

NOTE 8 - INCOME TAX

The City levies a municipal income tax of 1.5 percent on substantially all income earned within the City. In addition, the residents of the City are required to pay income tax on income earned outside of the City; however, the City allows a credit for income taxes paid to another municipality up to 83 percent of the City's current tax rate.

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

In 2006, income tax proceeds were allocated to the General Fund.

NOTE 9 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accrued interest, accounts and intergovernmental receivables arising from grants, fines, fees and shared revenues. All receivables are considered fully collectible and will be collected within one year.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 – RECEIVABLES (continued)

A summary of the principal items of intergovernmental receivables follows:

| <u>Governmental Activities</u> | <u>Amount</u> |
|--------------------------------------|------------------|
| Homestead and Rollback | \$84,680 |
| Estate Tax | 11,065 |
| Local Government Revenue Assistance | 7,959 |
| Undivided Local Government | 10,015 |
| Shared Income | 55,248 |
| State Gasoline Excise Tax | 61,336 |
| Permissive Motor Vehicle License Tax | 55,449 |
| Gasoline Cents Per Gallon | 35,115 |
| CDBG Reimbursement | 25,227 |
| Recycling Reimbursement | 2,554 |
| Total | <u>\$348,648</u> |

NOTE 10 – CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2006, was as follows:

| | <u>Balance At</u> <u>12/31/2005</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance At</u> <u>12/31/2006</u> |
|---|--|-------------------|------------------|--|
| <u>Governmental Activities</u> | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$118,290 | \$62,620 | \$0 | \$180,910 |
| Construction in Progress | 0 | 78,303 | 0 | 78,303 |
| Total Capital Assets, Not Being Depreciated | <u>118,290</u> | <u>140,923</u> | <u>0</u> | <u>259,213</u> |
| Depreciable Capital Assets: | | | | |
| Land Improvements | 240,484 | 0 | 0 | 240,484 |
| Buildings and Building Improvements | 1,169,410 | 10,632 | 0 | 1,180,042 |
| Equipment and Vehicles | 1,685,672 | 37,777 | (21,651) | 1,701,798 |
| Infrastructure | 687,742 | 654,478 | 0 | 1,342,220 |
| Total Depreciable Capital Assets | <u>3,783,308</u> | <u>702,887</u> | <u>(21,651)</u> | <u>4,464,544</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (88,092) | (10,817) | 0 | (98,909) |
| Buildings and Building Improvements | (233,816) | (25,456) | 0 | (259,272) |
| Equipment and Vehicles | (1,211,074) | (90,712) | 16,238 | (1,285,548) |
| Infrastructure | (23,971) | (59,741) | 0 | (83,712) |
| Total Accumulated Depreciation | <u>(1,556,953)</u> | <u>(186,726)*</u> | <u>16,238</u> | <u>(1,727,441)</u> |
| Depreciable Capital Assets, Net | <u>2,226,355</u> | <u>516,161</u> | <u>(5,413)</u> | <u>2,737,103</u> |
| Governmental Activities Capital Assets, Net | <u>\$2,344,645</u> | <u>\$657,084</u> | <u>(\$5,413)</u> | <u>\$2,996,316</u> |

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 10 – CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental programs as follows:

| | |
|----------------------------------|-------------------------|
| General Government | \$6,523 |
| Security of Persons and Property | 60,984 |
| Leisure Time Activities | 38,457 |
| Transportation | <u>80,762</u> |
| Total Depreciation Expense | <u><u>\$186,726</u></u> |

NOTE 11 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2006 was 9.2 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.43 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - DEFINED BENEFIT PENSION PLANS (continued)

The City's required contributions for pension obligations to the traditional and combined plans for the year-ended December 31, 2006, 2005, and 2004 were \$58,699, \$53,747, and \$64,764, respectively; 77.73 percent has been contributed for 2006 and 100 percent for 2005 and 2004. There were no contributions made to the member-directed plan for 2006.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police for the year ended December 31, 2006, 2005, and 2004 were \$68,420, \$74,355, and \$69,220, respectively. The City's contributions to OP&F for firefighters for the year ended December 31, 2006, 2005, and 2004 were \$6,443, \$6,692, and \$3,713, respectively. The full amount has been contributed for 2005 and 2004. For 2006, 76.57 percent has been contributed for the police and the full amount has been contributed for the firefighters.

NOTE 12 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at between 0.50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual City contributions for 2006 which were used to fund postemployment benefits were \$25,521. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarially accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

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

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS (continued)

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.50 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment health care benefits were \$45,128 for police and \$3,073 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

In addition to current contributions, the City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and firefighters in 1967. As of December 31, 2006, the unfunded liability of the City was \$50,019, payable in semiannual installments through the year 2035. This is an accounting liability of the City which will not vary. The liability is reported on the government-wide financial statements.

NOTE 13 - OTHER EMPLOYEE BENEFITS

Compensated Absences

City employees earn vacation leave at varying rates based upon length of service. Upon departure from City employment, an employee (or their estate) will be paid for unused vacation leave.

Full-time employees of the City of Mt. Healthy are credited with 15 days of sick leave per year. There is not a maximum sick leave accumulation amount. Upon retirement with ten or more years of service with the City, the State or another political subdivision, an employee shall be paid for one-fourth of his/her total sick leave accumulation.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - OTHER EMPLOYEE BENEFITS (continued)

Insurance Benefits

The City has elected to provide employee medical/surgical and life insurance benefits through Anthem Blue Cross/Blue Shield for all employees. The City pays 100 percent of the monthly premium for all full-time employees under the family plan and the single plan. The City pays 75 percent of the monthly premium for spouses and dependents of full-time employees under the family plan. The City provides employee dental insurance through MetLife only for full-time employees. The City pays 100 percent of dental insurance for all full-time employees and their families.

Deferred Compensation

City employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2006, the City contracted with Hylant Group for insurance. The coverage and deductibles are as follows:

| <u>Type of Coverage</u> | <u>Coverage</u> | <u>Deductible</u> |
|--------------------------------------|-----------------------|-------------------|
| Municipal General Liability | \$3,000,000/5,000,000 | \$0 |
| Employer's Liability (Ohio Stop Gap) | 3,000,000 | 0 |
| Employee Benefits Liability | 1,000,000/3,000,000 | 0 |
| Municipal Automobile Liability | 3,000,000 | Various |
| Property | 2,844,860 | 1,000 |
| Law Enforcement Liability | 3,000,000/5,000,000 | 2,500 |
| Public Officials' Liability | 3,000,000/5,000,000 | 2,500 |

(continued)

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - RISK MANAGEMENT (continued)

| <u>Type of Coverage</u> | <u>Coverage</u> | <u>Deductible</u> |
|-------------------------------|-----------------|-------------------|
| Crime | \$10,000/25,000 | \$100 |
| Inland Marine | 75,000/179,050 | 500 |
| EDP Software/Hardware | 73,108 | 1,000 |
| Fire Vehicle | 716,000 | 500 |
| Boiler and Machinery Coverage | 2,844,860 | 1,000 |
| Electronic Media | 100,000 | 1,000 |

Settled claims have not exceeded the City's coverage in any of the last three years. There has been no significant change in coverage from last year.

NOTE 15 – TRANSFERS FROM/TO OTHER FUNDS

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

| | | Transfers To | | | Total |
|----------------|--------------|--------------------|--------------------------------|-----------------------------------|------------------|
| | | Safety Tax Fund | Capital Improvement Fund | Nonmajor Governmental Funds | |
| Transfers From | General Fund | <u>\$75,000</u> | <u>\$55,000</u> | <u>\$303,408</u> | <u>\$433,408</u> |

Transfers from the General Fund to the Safety Tax Special Revenue Fund were made for operating monies for the Fire Department. Transfers from the General Fund to the Capital Improvement Capital Projects Fund were made to cover additional costs for the street improvements projects. Transfers from the General Fund to the Nonmajor Governmental Funds were made for scheduled debt service payments.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during 2006 were as follows:

| | Balance at December 31, 2005 | Increase | Decrease | Balance at December 31, 2006 | Amounts Due in One Year |
|--|------------------------------------|------------------|------------------|------------------------------------|-------------------------------|
| <u>General Obligation Bonds:</u> | | | | | |
| Various Purpose Refunding Bonds | | | | | |
| 3.46% - 2003 | \$292,754 | \$0 | \$94,285 | \$198,469 | \$97,547 |
| Valley Auto Theater Property Bonds | | | | | |
| 7.50% - 1990 | 75,000 | 0 | 15,000 | 60,000 | 15,000 |
| Aquatic Facilities Bonds | | | | | |
| 2.00% to 5.00% - 2002 | 1,145,000 | 0 | 25,000 | 1,120,000 | 40,000 |
| Police Vehicles Refunding Bonds | | | | | |
| 3.16% - 2003 | 56,200 | 0 | 27,700 | 28,500 | 28,500 |
| Park Improvement Bonds | | | | | |
| 3.89% - 2006 | 0 | 80,000 | 0 | 80,000 | 16,000 |
| TOTAL - General Obligation Bonds | 1,568,954 | 80,000 | 161,985 | 1,486,969 | 197,047 |
| <u>Other Long-Term Obligations:</u> | | | | | |
| Compensated Absences | 132,255 | 91,030 | 85,650 | 137,635 | 47,553 |
| Cooperative Purchase Agreement | 13,143 | 0 | 13,143 | 0 | 0 |
| Police Pension Liability | 50,911 | 0 | 892 | 50,019 | 930 |
| TOTAL - Other Long-Term Obligations | 196,309 | 91,030 | 99,685 | 187,654 | 48,483 |
| TOTAL - General Long-Term Obligations | \$1,765,263 | \$171,030 | \$261,670 | \$1,674,623 | \$245,530 |

The Various Purpose Refunding Bonds were issued in 2003 in the amount of \$471,969 for a period of five years with final maturity on August 20, 2008. The bonds were issued at a 3.46 percent interest rate for the purpose of refunding the 1997 Various Purpose and the 1997 Building Improvement General Obligation Bonds as well as the 2001 Fire Equipment Loan. Interest is paid annually. The bond issue will be repaid from General Fund monies transferred to the Debt Service Fund.

The Valley Auto Theater Property Bonds were issued in 1990 in the amount of \$300,000 for a period of 20 years. The bonds were issued at a 7.5 percent interest rate with final maturity on June 15, 2010. Interest is paid semiannually. The bond issue will be repaid from property taxes received in the Compton Road Capital Projects Fund.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

The Aquatic Facilities Bonds were issued on April 30, 2002 in the amount of \$1,250,000 for a period of 20 years. The bonds were issued at an interest rate from 2.0 percent to 5.0 percent with final maturity on December 1, 2021. Interest is paid semi-annually. The bond issue was used to retire the Aquatic and Community Facility Bond Anticipation Notes. The bond issue will be repaid from General Fund monies transferred to the Debt Service Fund.

On December 18, 2003, the City issued a four year Police Vehicles Refunding Bond for \$109,000. The bond has an interest rate of 3.16 percent and is due to mature August 20, 2007. Interest is paid annually. The purpose of the bond was to refund a note issued in the prior year. The bond issue will be repaid from General Fund monies transferred to the Debt Service Fund.

On December 20, 2006, the City issued a five year Park Improvement General Obligation Bond for \$80,000. The bond has an interest rate of 3.89 percent and is due to mature December 1, 2011. The bonds were issued for the purpose of acquiring and constructing various park improvements and related appurtenances within the City.

Compensated absences will be paid from the General Fund and the Street Construction, Maintenance and Repair and Safety Tax Special Revenue Funds.

On May 12, 2001, the City entered into a cooperative purchase agreement with the City of North College Hill to purchase a 2000 Street Sweeper. The City of North College Hill obtained a loan from Fifth/Third Bank in the amount of \$121,905. There was a down payment required of \$30,000. The agreement states that the City of Mt. Healthy is to pay half of the down payment, half of all required loan payments, and half of any insurance and maintenance costs. Upon default by the City of Mt. Healthy, the street sweeper would belong solely to the City of North College Hill. The loan will be repaid from General Fund monies transferred to the Street Construction, Maintenance and Repair Fund.

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police personnel in 1967. The original liability was \$54,126. The liability is payable semiannually from the General Fund.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,583,860, and the unvoted legal debt margin was \$3,788,227.

Principal and interest requirements to retire the City's outstanding bond obligations at December 31, 2006, are:

| | General Obligation Bonds | |
|-----------|-----------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$197,047 | \$72,011 |
| 2008 | 186,922 | 64,383 |
| 2009 | 91,000 | 56,806 |
| 2010 | 91,000 | 52,507 |
| 2011 | 81,000 | 48,772 |
| 2012-2016 | 365,000 | 191,962 |
| 2017-2021 | 475,000 | 81,125 |
| Total | <u>\$1,486,969</u> | <u>\$567,566</u> |

Principal and interest requirements to retire the City's police pension obligations at December 31, 2006, are:

| | Police Pension | |
|-----------|------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$931 | \$2,116 |
| 2008 | 971 | 2,076 |
| 2009 | 1,012 | 2,034 |
| 2010 | 1,056 | 1,991 |
| 2011 | 1,101 | 1,946 |
| 2012-2016 | 6,255 | 8,977 |
| 2017-2021 | 7,719 | 7,513 |
| 2022-2026 | 9,525 | 5,706 |
| 2027-2031 | 11,754 | 3,477 |
| 2032-2035 | 9,695 | 833 |
| Total | <u>\$50,019</u> | <u>\$36,669</u> |

***CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006***

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS

Center for Local Government

The Center for Local Government (the Center) was established to improve public service delivery by the cities, townships and villages in the Greater Cincinnati metropolitan area, especially among its member jurisdictions, through improved information exchange, cost reductions, shared resources, interjurisdictional collaboration, and new approaches to capital equipment and skills acquisition. The Center is governed by a five member board of trustees. Each of the trustees is the chief administrative officer of the entity that they represent. Trustees are volunteer members, ratified by the general members of the Center. The City does not have any financial interest in or responsibility for the Center. The amount the City contributed during 2006 was \$1,900. Information can be obtained from the Center by writing to Lee Meyer, Director of the Center for Local Government, 4144 Crossgate Drive, Cincinnati, Ohio, 45236.

Hamilton County Municipal League

The City participates in the Hamilton County Municipal League (HCML), a jointly governed organization. HCML members are represented by the Mayor or his designee from the incorporated municipalities of Hamilton County. Any member municipality may nominate for membership a municipality located outside Hamilton County. The purpose of the HCML is the furtherance of local government, the improvement of municipal government and services, promotion of general welfare of the cities and villages, to provide an opportunity for the municipalities to meet as a group for the discussion of mutual problems or special problems, and to provide training or educational programs as may be deemed appropriate.

The HCML charges an annual membership fee as determined by the Board of Directors and confirmed by a majority of the membership of the HCML. This Board consists of the five officers elected by a majority vote and the Mayor of the City of Cincinnati or his designee. This Board was created to conduct the business of the HCML.

Any member may withdraw its membership upon written notice to the HCML. A member shall also cease to be a member in good standing if the dues are not paid at the annual meeting. If the organization were to dissolve, HCML's net assets revert to the public bodies in proportion to each body's contribution towards the assets.

Payments to the HCML are made from the General Fund. The amount the City contributed during 2006 was \$1,057. To obtain financial information, write to Curt Paddock, Director of the Hamilton County Municipal League at 5725 Dragon Way, Suite 219, Cincinnati, Ohio, 45227.

CITY OF MT. HEALTHY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 18 – CONTRACTUAL COMMITMENTS

As of December 31, 2006, the City had the following contractual purchase commitment:

| <u>Project/Contractor</u> | <u>Contract Amount</u> | <u>Amount Expended</u> | <u>Balance at December 31, 2006</u> |
|---------------------------|----------------------------|----------------------------|---|
| Park Improvements | | | |
| Jeffery Allen | \$195,900 | \$78,303 | \$117,597 |

NOTE 19 - CONTINGENT LIABILITIES

Litigation

The City is not party to any legal proceedings.

Federal and State Grants

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

NOTE 20 – RELATED PARTY TRANSACTIONS

The City received \$46,000 from the Mt. Healthy Community Improvement Corporation, a discretely presented component unit of the City of Mt Healthy, for the purpose of property acquisition.

NOTE 21 – MT. HEALTHY COMMUNITY IMPROVEMENT CORPORATION

As indicated in Note 1 to the Basic Financial Statements, the following disclosures are made on behalf of the Mt. Healthy Community Improvement Corporation.

Basis of Accounting

The Mt. Healthy Community Improvement Corporation prepares financial statements on the accrual basis of accounting in conformity with generally accepted accounting principles.