

CITY OF MIDDLETOWN, OHIO

Schedule of Expenditures of Federal Awards
And Other OMB Circular A-133 Reports

Year Ended December 31, 2006



Mary Taylor, CPA
Auditor of State

Mayor and Members of City Council
City of Middletown
One Donham Place
Middletown, Ohio 45042-1901

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 27, 2007

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CITY OF MIDDLETOWN, OHIO

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**CITY OF MIDDLETOWN
BUTLER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Community Development Block Grant Entitlements	N/A	14.218	\$ 856,590
Housing Assistance for Low Income Families - Section 8	N/A	14.856	8,543,936
<i>Passed Through Butler County Department of Community Development Home Program - Investment Partnership Program</i>	N/A	14.239	506,944
Total U.S. Department of Housing and Urban Development			<u>9,907,470</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Local Law Enforcement Block Grant - 2004	N/A	16.592	6,779
Public Safety Partnership and Community Policing Grant (COPS)	N/A	16.710	95,175
Total U.S. Department of Justice			<u>101,954</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Public Transportation for Urbanized Areas			
Operating Assistance	N/A	20.507	260,821
Capital Assistance	N/A	20.507	124,149
Paratransit Grant	N/A	20.507	121,235
Planning Grant	N/A	20.507	28,817
Total Public Transportation of Urbanized Areas			<u>535,022</u>
<i>Passed through Ohio Department of Transportation</i>			
Highway Planning and Construction		20.205	416,551
Federal Aviation Administration (FAA)	03-1809	20.106	171,724
Total U.S. Department of Transportation			<u>1,123,297</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<i>Passed through the Ohio Department of Health Passed through the City of Hamilton, Butler County</i>			
Immunization Action Plan	182-B	93.268	41,919
Public Health Infrastructure		93.283	25,261
Block Grant Maternal and Child Health Services	9-2-01-F-AI-320	93.994	334,048
<i>Passed through Butler County ESC</i>			
Help Me Grow	9-2-001-1-MC-04	93.600	<u>298,187</u>
Total U.S. Department of Health and Human Services			<u>699,415</u>
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>			
<i>Passed Through Ohio Emergency Management Agency</i>			
Public Assistance Grant	FEMA-3198-EM-017-49840	97.036	35,015
Total Federal Emergency Management Agency			<u>35,015</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u>11,867,151</u>



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the City Council
City of Middletown, Ohio:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Middletown, Ohio (the "City") as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2006-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance And Other Matters

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

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, others within the entity, the Ohio Auditor of State and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
June 18, 2007



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
City of Middletown, Ohio:

Compliance

We have audited the compliance of City of Middletown, Ohio (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of and for the year ended December 31, 2006, and have issued our report thereon dated June 18, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City's management, the Ohio Auditor of State and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
June 18, 2007

CITY OF MIDDLETOWN, OHIO

Schedule of Findings and Questioned Costs

Year Ended December 31, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	yes
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	no
Identification of major programs:	
<i>CFDA 14.218 – Community Development Block Grants/Entitlement Grants;</i>	
<i>CFDA 14.856 – Housing Assistance for Low Income Families – Section 8;</i>	
<i>CFDA 20.205 – Highway Planning and Construction;</i>	
<i>CFDA 14.239 – HOME Program – Investment Partnership Program.</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$356,015
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

Finding 2006-1 – Audit Adjustments

During the course of our audit, we identified a number of material misstatements in the financial statements for the year under audit that were not initially identified by the City's internal control. Throughout the year, the City maintains its books and records on the cash-basis of accounting and converts its financial statements at year-end to generally accepted accounting principles. The audit adjustments were necessary to correct errors in the City's conversion process. A description of each adjustment follows:

- **Income Taxes.** An audit adjustment was necessary to correct income tax receivables in the financial statements. Income tax receivables reported at December 31, 2006 were understated by \$634,023.
- **Intergovernmental Revenue.** An audit adjustment of \$637,173 was made to reclassify intergovernmental revenue from the State of Ohio that was posted to an expense account thereby netting expenses rather than as revenue.
- **Grant Revenue.** An audit adjustment was necessary to correct the City's intergovernmental revenue and expenditures to include funds paid on the City's behalf money by the Ohio Public Works Commission (OPWC) in the amount of \$697,697.

Management response: Management concurs with the finding.

Section III – Federal Award Findings and Questioned Costs

None

Section IV – Summary of Prior Audit Findings and Questioned Costs

The prior audit disclosed no instances of noncompliance that were required to be reported in accordance with *Government Auditing Standards* or noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over financial reporting or internal controls over compliance were reported in the prior year.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended December 31, 2006



CITY OF MIDDLETOWN, OHIO

CITY OF MIDDLETOWN, OHIO
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the year ended December 31, 2006

Prepared by
Finance Department

John T. Lyons
Finance Director



**CITY OF MIDDLETOWN, OHIO
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For the year ended December 31, 2005**

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INTRODUCTORY SECTION

June 20, 2007

To Citizens of the City of Middletown, Ohio:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) for Middletown, Ohio. This report, for the year ended December 31, 2006, contains the financial statements and other financial and statistical data that provide a complete and full disclosure of all material financial aspects of the City. The responsibility for the accuracy of all data presented its completeness and fairness of presentation rests with the City of Middletown.

The report presents the financial activity of the City in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources, and is consistent with the new reporting model as promulgated by GASB Statement No. 34.

The CAFR is organized in three sections: the Introductory Section, the Financial Section and the Statistical Section. The Introductory Section contains a table of contents, letter of transmittal, organization chart, list of elected officials and a Certificate of Achievement for Excellence in Financial Reporting for the 2006 CAFR. The Financial Section includes the Independent Auditors' Report, Management's Discussion and Analysis, the Basic Financial Statements and Notes that provide an overview of the City's financial position and operating results, required supplemental information, the Combining Statements for non major funds and other schedules that provide detailed information relative to the Basic Financial Statements. The Statistical Section provides selected financial, economic and demographic information which may be used to indicate trends for comparative fiscal periods.

The City of Middletown is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984, the Single Audit Act Amendments of 1996 and the U. S. Office of Management and Budget's Circular A-133, Audits of State and Local Governments. Information related to this single audit, including a schedule of federal financial assistance, the independent auditors' reports on internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs are included in a separately issued single audit report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Middletown's MD&A can be found immediately following the independent auditors' report.

MIDDLETOWN

Situated on the banks of the Great Miami River in Southwestern Ohio, Middletown is within easy driving distance of both Cincinnati and Dayton. Middletown is a vibrant, dynamic community of approximately 52,000 people, positioned near the major metropolitan areas of Cincinnati and Dayton.

Strategically situated on Interstate-75 between Cincinnati and Dayton, a Middletown address affords companies the opportunity for service to both cities. The City's location is within 600 miles of more than 60 percent of the nation's purchasing power, making the city a magnet for companies that need access to these important markets.

More than 100 attractions are available within minutes of Middletown. They cover a wide variety of interests, from amusement parks for the whole family to Broadway quality stage shows and international festivals. Middfest International is held the first weekend of each October, celebrating a different country each year. Entertainers and diplomats travel to Middletown to perform and educate. Great ethnic food is available along with many artisans displaying their creations.

Recreation and Shopping

Several golf courses are located within or near the City of Middletown. The city-owned Weatherwax Golf Course, recently refurbished, offers championship-length play on a nationally ranked 36-hole course good enough for the pros. Additionally, several other public golf courses are located in the surrounding communities. Three private courses operate in the Middletown area: Brown's Run, Wildwood and Forest Hills Country Clubs.

Thirty-six parks throughout the City provide casual enjoyment, sports and recreation. Additionally, several state parks are within easy driving distance, including Hueston Woods, Caesar's Creek, and Germantown Dam. A bikeway for the avid biker begins just north of Middletown, running almost to Dayton, a distance of approximately 20 miles.

Shoppers can browse through a variety of stores in the Towne Mall of Middletown. Also located within close proximity to the City are several additional shopping malls, as well as numerous specialized stores.

Education

Middletown's Blueprint for the Future is the community's effort to develop a well-formulated strategy for educating all of its citizens. The Blueprint was developed by schoolteachers and administrators, business leaders and key representatives of important community organizations. These individuals have also committed to work together during the remainder of the decade to assure ongoing improvement of the community's education system.

- The Blueprint's five-year strategic plan addresses the challenges of today (and tomorrow), shaping new approaches to education and learning. Key components include staff development, innovative programs, technology, business-education partnerships, and other programs.
- The Effective Schools Program encourages site-based decision-making that allows teachers to design specially tailored programs for the students they teach. The success of this creative program is due to dedication and effort on everyone's part - parents, teachers, and school administrators.
- The Blueprint ensures ongoing, long-range, educational planning that reflects the community's needs. Yet the focus remains the same: Prepare all students to produce a level of quality in their school work and to cultivate a set of accompanying skills and talents that will assure their future employment or education.
- In November 2004, Middletown voters approved a \$75.8 million bond issue to replace all of Middletown's elementary schools with eight new school buildings. In May 2005, voters again approved a \$14.3 million school property tax levy to pay for the operations of the Middletown school system.

Post-Secondary Education

Miami University Middletown, an integral component of our educational system, offers associate degree programs and continuing education opportunities, including custom-designed training programs for Middletown-area business and industry. A variety of post-secondary vocational opportunities are also offered at Butler County Vocational.

The Southwestern Ohio and Northern Kentucky region is home to more than ten other highly rated colleges and universities.

Health Care

A range of health services including family counseling, services for the handicapped and developmentally disabled, a hospice, nursing homes and retirement centers are available throughout the community.

Middletown Regional Hospital, the City's second-largest employer, is a modern, 310-bed facility. The Hospital is accredited at the highest possible level, and offers a full range of medical services including cardiology, surgery, comprehensive cancer care, sports medicine, pediatrics, mental health care, a family birth center, and an alcohol and drug treatment program.

Economic Outlook

The City of Middletown continues to have a strong economic base in the steel and paper industries. The City's largest employer, AK Steel, employs approximately 3,000 employees. Wausau Paper and Altiivity (formerly Smurfit Stone) are the city's two largest paper manufacturers and collectively have about 500 employees.

In 2006, Middletown Regional Hospital began construction on its new location at SR 122 and Union Road, just east of Interstate 75. The new Atrium Medical Center will part of the 190-acre Premier Health Campus – Middletown. The hospital plans to relocate to the facility in late 2007. The hospital expects to add nearly 1,000 jobs to the 1,900 it already employs over the next 10 years.

The City is also focused on the area immediately surrounding the new health campus and the Renaissance residential development. Middletown has engaged the services of Al. Neyer, Inc., a major Cincinnati-area developer, to help master plan the 2,000 acre area know as the East End/Renaissance Area. The planning for the development of this area was highlighted in the City's 2005-2010 Master Plan as one of nine Development Opportunity Areas. The City expects the year-long planning process to focus on identifying major economic development opportunities along the fast-growing Cincinnati-Dayton corridor.

In its efforts to work cooperatively with its surrounding communities, the City of Middletown entered into a Joint Economic Development District (JEDD) with Liberty Township in Butler County and the City of Mason. The Liberty Township JEDD promises additional revenue opportunities for the City as development around the proposed Cincinnati Children's Hospital facility occurs.

On the residential side, development in the Renaissance continues as Great Midwest Development finalizes its plans for Phase II of its single-family project on SR 122 in the East End/Renaissance Area. With the expected completion of Renaissance Boulevard in 2007, the company will begin construction of the condominium portion of the site. This part of the site is expected to see more than 400 residential units as well as several dozen office condominiums.

Profile of the Government

The City of Middletown is a home-rule municipal corporation created by the laws of the State of Ohio. The City operates under its own charter which provides for a Council-Manager form of government.

The City Council is responsible for all policy matters including enactment of ordinances and resolutions to conduct City business. The City Council adopts the annual appropriation authorizing the expenditure of all City funds.

Four of the seven-member Council are elected by voting district and three are elected City-wide. Council members serve four year terms and the Mayor and the Vice-mayor are selected by the City Council from among its members. The City Council appoints the City Manager who is responsible for recommending all other City staff members for City Council approval. The City Manager is also responsible for implementing all City Council policies and for the day-to-day administration of the City government.

CITY SERVICES/INITIATIVES

Present

The City of Middletown provides traditional municipal services including police and fire protection, street maintenance, parks and recreation and a municipal court. The City also operates thirty-six hole golf course. The City's water and sewer utilities serve the City and several townships adjacent to Middletown.

The City's 2006 initiatives emphasized capital improvements in the City.

MIDDLETOWN REGIONAL HOSPITAL

The City of Middletown signed an agreement in December 2002 obligating it to expend \$5.5 million to acquire land for Middletown Regional Hospital which planned to relocate in the eastern edge of Middletown. In December 2003, Middletown issued general obligation bonds in the amount of \$5,640,00 to acquire land for the future Hospital. This land was acquired in January 2004. The general obligation bonds will be retired over twenty years with property taxes and local income tax revenues generated by the Hospital's \$100-\$150 million medical campus project. Construction for this project began in mid 2005. The project will be completed in 2007.

LAND PURCHASE

In mid 2005, the City of Middletown purchased 30 acres of land in the vicinity of the location of the New Middletown Regional Hospital. This land will be marketed through the City's new community improvement corporation, Middletown Moving

Forward. The plan is to sell the land, which is adjacent to I-75 for a suitable economic development project.

Property Taxes/Local Income Taxes

The two local revenues that support most of the City’s non-business type operations are the property tax and the local income tax.

The City’s property tax rate is 5.90 mils or \$5.90 per \$1,000 of taxable valuation. Real property is assessed at 35% of market value. Tangible personal property (i.e. equipment and inventory) is valued at 25% of market value. Public utility property is valued at 88% of actual value. Most property tax revenues are used by the City’s General Fund.

Assessed values for the past five years are as follows:

<u>Levy Year</u>	<u>Collection Year</u>	<u>Assessed Value</u>	<u>Property Tax Revenues (cash basis)</u>
2002	2003	\$1,040,477,065	\$ 5,021,099
2003	2004	\$1,045,301,496	\$ 5,679,391
2004	2005	\$1,044,098,574	\$ 5,903,584
2005	2006	\$1,052,059,851	\$ 5,919,731

The City of Middletown also levies a 1.5% local earnings tax on all persons employed in the City of Middletown. All business operating in the City also pay a 1.5% on their earnings attributed to their Middletown facility. Local income receipts for the past five years are:

<u>Local Income Tax Receipts (Cash Basis)</u>	
2002	\$17,904,919
2003	\$17,347,220
2004	\$18,208,511
2005	\$17,949,152
2006	\$17,011,791

FINANCIAL INFORMATION

Accounting Controls

The City’s budgetary accounting system was designed to provide reasonable, but not absolute, assurances that:

1. The City’s assets are protected against loss and unauthorized use or disposition; and
2. Reliable financial reports for preparing financial statements and providing accountability for assets are maintained.

The concept of reasonable assurance states that internal controls should be evaluated using the following criteria:

1. The expense associated with providing the internal controls should not exceed the benefits likely to be derived from their implementation; and
2. The evaluation of the offsetting costs and benefits involves estimates and judgment by the members of the Finance Department.

All internal control evaluations occur within this framework. It is the belief of the administrative and financial management personnel that the City's financial controls adequately safeguard existing assets and provide reasonable assurance of the proper recording of financial transactions.

Budgetary Controls

Detailed provisions for the City's budget, tax levies, and appropriations are set forth in the Ohio Revised Code and the City Charter. The City Manager, with the assistance of the Finance Director, is required to submit to Council a tax budget of estimated revenues and expenditures for all funds, except agency funds, for the succeeding fiscal year by the first council meeting in July. The budget is required to be adopted by the legislative body by July 15 and to be submitted to the County Budget Commission by July 20 of each year. City Council is required by Charter to adopt a permanent appropriation measure for the ensuing fiscal year no later than January 1st. On December 6, 2005, City Council adopted the 2006 fiscal year permanent appropriation measure.

The City maintains budgetary control on a non-GAAP budgetary basis by division (the legal level of control). Management further monitors budgetary performance by establishing lower levels of budgetary control within each fund by department at major object levels, which include personal services, contractual services, commodities, other expenditures, capital outlay, debt service and operating transfers.

Budgetary control is maintained by an encumbrance of purchase commitment amounts prior to the release of purchase orders to vendors. Requisitions for the expenditure of monies are submitted to the Finance Director for certification of funds and preparation of purchase order after approval of the appropriate Department Director. The purchase order is reviewed for the availability of funds and the estimate authorizes additional appropriations. Unencumbered appropriations lapse at the end of each year.

The City's Treasury Division monitors year-to-date expenditures plus encumbrances versus the original appropriations plus any additional appropriations made to date. This permits the Finance Director and other City officials to ascertain the status of each department's appropriations at any time during the year. A description of the various funds and the basis of accounting are included in Note 1 to the basic financial statements.

Cash Management

Cash management is an integral component of the City's overall financial plan. The City attempts to earn a market rate of return consistent with providing the liquidity needed to pay obligations on a timely basis. The use of short-term investments allows the City to earn interest on all funds.

The City's investments comply with Section 135.14 of the Ohio Revised Code and the maximum maturity is limited to five years. Most investments mature within the current fiscal year. Interest earnings are allocated to funds based on the requirements of the Ohio Constitutions, Codified City Ordinance 165.01, the City Charter and ordinances. As required by law, all deposits are covered by eligible collateral, while investment securities (treasuries and agency/instrumentality issues) are specifically permitted by the Ohio Revised Code and the City's investment policy.

Authorized investments are described in detail in Note 3 of the footnotes to the basic financial statements included with the financial section of this comprehensive annual financial report.

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the varying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, Municipal Corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority.

The primary objectives of the City's investment program, in order of priority, are as follows:

1. Safety – The safety of principal balances is the City's foremost objective and all investments are undertaken in a manner to insure the preservation of capital.
2. Liquidity – All investments should be sufficiently liquid to meet all operating requirements that can be reasonably anticipated. Since all possible cash demands cannot be anticipated, the investment portfolio should consist of securities with active resale markets.
3. Yield – Return on investment is of least importance compared to the safety and liquidity objectives described above. Investments are limited to low risk securities with the expectation of earning market value.

Risk Management

The City of Middletown is a local government in the State of Ohio and retains only limited tort immunity by statute and court decision. Beyond potential tort liabilities, the City is liable for Worker's Compensation claims as well as the risk of casualty loss to real personal property owed by the City.

The proactive approach that the administration employs in addressing its ongoing operations is reflected in the composition of the City's insurance protection package and its very favorable loss experience. The City reduces exposure to risk through several initiatives. They include insurance coverage for vehicles, general liability, inland marine, building and contents, computer insurance, public officials and law enforcement liability coverage and boiler and machinery coverage. The City maintains comprehensive insurance coverage with a local government insurance pool for the fleet and general liability coverage. The City also carries police professional and public officials' liability insurance. The City also maintains coverage through the Ohio Bureau of Worker's Compensation to mitigate job related illness and injury.

The City is self insured for medical claims by its employees. A stop loss policy pays all claims in excess of \$100,000 submitted by any person covered by the City. The policy also covers the City if total claims exceed \$4.1 million. The City Plan is administered by Anthem of Ohio.

Other Information

Independent Audit

The State of Ohio requires an annual audit by either the Auditor of State or by an independent public accounting firm. Clark, Schaefer, Hackett & Co. performed the City's 2006 audit. The Independent Auditors' Report on the City's basic financial statements is included in the financial section of this Comprehensive Annual Financial Report.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Middletown for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2005.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the content of which conforms to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for a certificate.

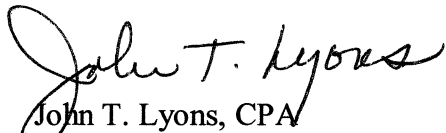
Acknowledgements

The 2006 Comprehensive Annual Financial Report of the City of Middletown is the result of the combined efforts of the City's Finance Department and Clark, Schaefer, Hackett & Co., which was the City's auditor.

The support of the Middletown City Council was essential in the successful preparation and issuance of this report.

Respectfully submitted,

DEPARTMENT OF FINANCE


John T. Lyons, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Middletown
Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



CITY OF MIDDLETOWN, OHIO

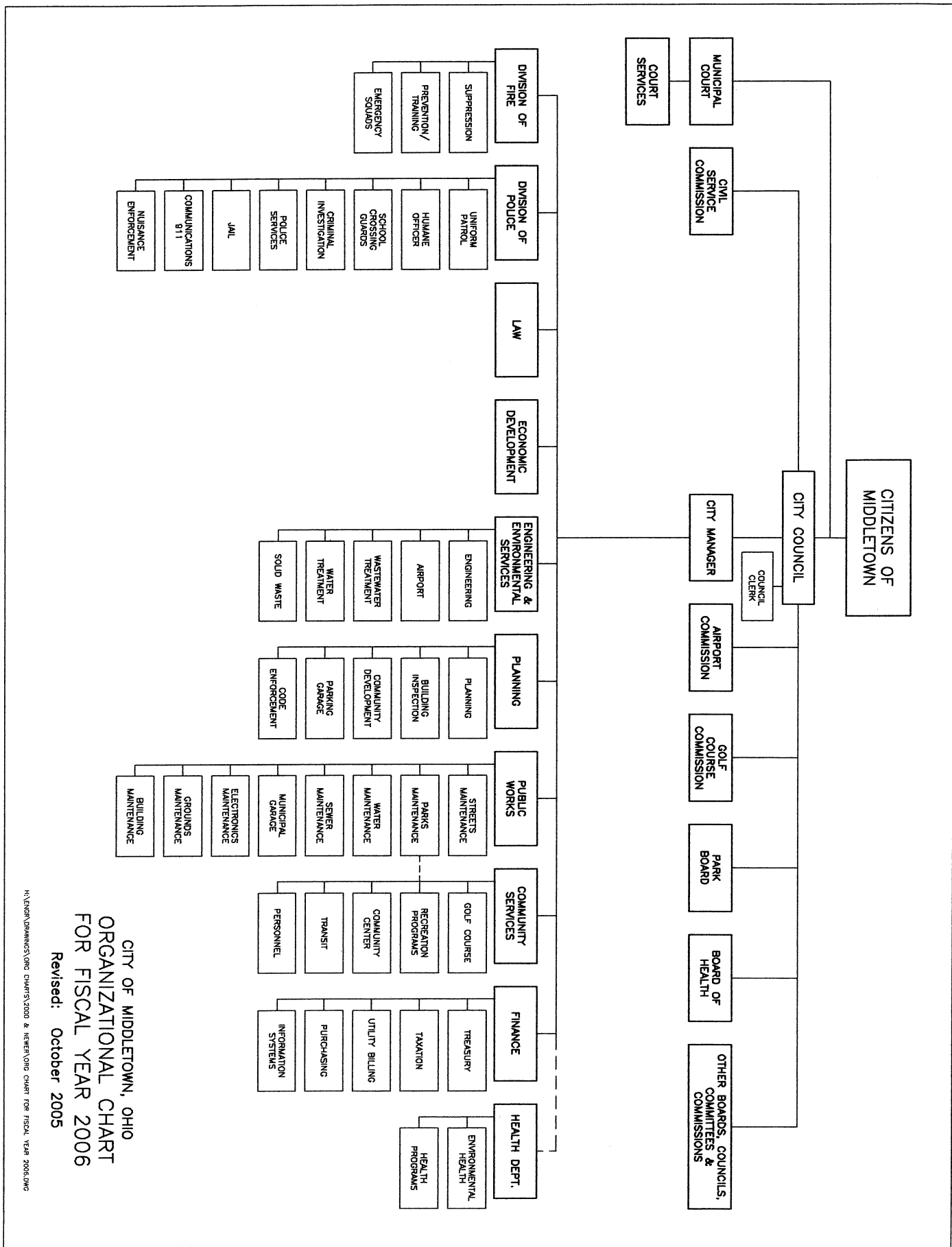
**Principal Officials
December 31, 2006**

Legislative

Mayor **Robert R. Wells**
Council Member **Christopher K. Amburgey**
Council Member **James Armbruster**
Council Member **Anthony Marconi**
Council Member **Lawrence P. Mulligan, Jr.**
Council Member **David Schiavone**
Council Member **Laura Williams**

Executive/Administrative

City Manager **William A. Becker**
Chief of Police..... **Michael R. Bruck**
Community Services Director **Verlena L. Stewart**
Director of Court Services..... **Louis A. Rossi, Jr.**
Economic Development Director **William P. Murphy**
Engineering & Environmental Services Director **David J. Duritsch, Jr.**
Finance Director **John T. Lyons**
Fire Chief **John J. Sauter**
Health Commissioner **David Winfough**
Law Director **Leslie S. Landen**
Planning Director..... **Martin D. Kohler**
Public Works Director **Ginger L. Smith**



CITY OF MIDDLETOWN, OHIO
 ORGANIZATIONAL CHART
 FOR FISCAL YEAR 2006
 Revised: October 2005

H:\ENGR\DRAWINGS\ORG CHARTS\2000 & NEWER\ORG CHART FOR FISCAL YEAR 2006.DWG

FINANCIAL SECTION



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Middletown, Ohio:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Middletown, Ohio as of and for the year ended December 31, 2006, which collectively comprise the City of Middletown, Ohio's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Middletown, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2007, on our consideration of the City of Middletown, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the budgetary comparison information on pages 3-16 and 67-72, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Middletown, Ohio's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
June 18, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED

This discussion and analysis provides key information from management highlighting the overall financial performance of the City of Middletown for the year ended December 31, 2006. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the transmittal letter on page i, and the City's financial statements, which begin on page 18.

I. USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements.

The Basic Financial Statements

- Financial Statements for the City as Whole. The Statement of Net Assets and the Statement of Activities (pages 18 and 19) provide information about the activities of the City as a whole and present a longer-term view of the City's finances.
- Individual Fund Financial Statements. Fund financial statements also reflect the City's operations in more detail than the government-wide financial statements by providing information about the City's major funds. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. These statements begin on page 20.
- Fiduciary Financial Statements. The fiduciary statements (page 36) provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.
- Notes to the Basic Financial Statements. The Notes provide helpful information explaining the City's significant accounting procedures and providing greater detail regarding financial statement components.

Required Supplementary Information

- Schedules of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - Budget (Non-GAAP) Basis. Schedules (pages 67 to 72) are presented for the General Fund and major special revenue funds that compare actual results to the original and final budgets for those funds.

Supplementary Information

- Combining Financial Statements. These statements (starting on page 78) provide financial information regarding non-major individual funds, which have been aggregated in the basic financial statements.
- Schedules of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - Budget (Non-GAAP) Basis. These schedules compare actual results to the original and final budgets for the major and non-major governmental funds. These schedules begin on page 88.
- Capital Asset Schedules. Schedules (pages 149-151) showing information regarding the City's investment in capital assets.

A. Reporting the City as a Whole

Government-wide statements

The analysis of the City as a whole begins on page 6. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about 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. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in these assets. The City's net assets – the difference between assets and liabilities - is one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. One should consider other nonfinancial factors; however, such as changes in the City's property tax base and the City's employment base, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities – City service departments reported here include the Police and Fire Divisions, the Municipal Court, the Public Works Department, the Planning Department, general government support departments and the City Health Department. Local income taxes, property taxes, and state and federal grants finance most of these activities.
- Business-type activities - The City of Middletown provides water, sewer and refuse services to its customers and charges fees to cover the costs of these operations. Other city business-type activities which are financed with fees are the City parking garage, the City airport, the Middletown transit system and Weatherwax Golf Course.

B. Reporting the City's Most Significant Funds

Fund financial statements

The City accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the fund financial statements that begin on page 20. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the City as a whole. Some funds are required to be established by State Law. However, the City Council establishes many other funds to help it control and manage money for particular purposes, like water, sewer, and solid waste activities. City Council may also establish separate funds to show that it is meeting legal responsibilities for using certain taxes, grants, or other money, like grants received for community and economic development. The City's two kinds of funds –*governmental and proprietary* - use different accounting methods.

- Governmental funds - Most of the City's basic services are reported in governmental funds. The fund statements present how cash flows into and out of those funds, and show the balances remaining at year-end that are available for future 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. *Information in governmental fund statements helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.* The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The government-wide financials, as previously described, present the government funds on the whole using the full accrual accounting basis. The differences between governmental activities as reported in the government-wide financial statements and as reported in the fund statements are presented in reconciliation on the right-hand side of the fund financial statements.
- Proprietary funds – There are two types of proprietary funds, enterprise funds and internal service funds. Proprietary funds are reported using the full accrual accounting basis. When the City charges customers for the services it provides with the intention that the charges will fully cover the cost of the services, these activities are reported in enterprise funds. Enterprise funds are generally reported in the same way that all activities are reported in the government-wide Statements of Net Assets and Statement of Activities. In fact, the City's enterprise funds are the same funds as we report in the combined business-type activities column in the government-wide statements. The individual fund statements for enterprise funds provide more detail and additional information, such as cash flows. Internal service funds are used to report activities within the government that are centralized for efficiency in separate funds in order to provide supplies and services to the other City programs and activities. The City has two separate funds: the Municipal Garage Fund and the Employee Benefits Fund. These internal service funds are combined and shown in a separate column in the proprietary funds statements. In the government-wide financials, their activities are consolidated into the governmental and business-type activities.

C. The City as Fiscal Agent

Reporting the City's Fiduciary Responsibilities

The City is responsible in a fiduciary capacity for other assets that can only be used for designated beneficiaries. The financial statements for these funds are reported beginning on page 36. The City has three agency funds. The Conservancy fund records the city property tax levy which is collected on the behalf of the Miami Conservancy District. The Payroll Clearing fund accounts for the employee payroll withholdings due to other agencies and private businesses. The Municipal Court fund accounts for the activities of the Municipal Court collections which are due to other agencies and to certain individuals. The City acts as the collection agent for these separate activities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations.

II. THE CITY AS A WHOLE

A. Net assets at year-end

The following table presents a condensed summary of the City's overall financial position at December 31, 2006 (in thousands):

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 54,596	52,403	19,505	15,819	74,101	68,222
Capital assets	<u>86,719</u>	<u>94,062</u>	<u>56,986</u>	<u>50,217</u>	<u>143,705</u>	<u>144,279</u>
Total assets	141,315	146,465	76,491	66,036	217,806	212,051
Long-term debt outstanding	30,573	32,267	15,342	8,717	44,605	40,984
Other liabilities	<u>15,925</u>	<u>14,223</u>	<u>3,911</u>	<u>2,938</u>	<u>21,288</u>	<u>17,161</u>
Total liabilities	46,498	46,490	19,253	11,655	65,893	58,145
Net assets:						
Invested in capital assets, net of debt	62,823	68,722	40,483	41,012	103,306	109,734
Restricted	27,064	27,448	1,105	711	28,169	28,159
Unrestricted	<u>4,930</u>	<u>3,605</u>	<u>15,650</u>	<u>12,658</u>	<u>20,438</u>	<u>16,263</u>
Total net assets	94,817	99,775	57,238	54,381	151,913	154,156
Beginning net assets	99,775	48,840	54,381	53,465	154,156	102,305
Capital assets adjustment	0	44,776	0	0	0	44,776
Net increase (decrease)	<u>(4,958)</u>	<u>6,159</u>	<u>2,857</u>	<u>916</u>	<u>(2,101)</u>	<u>7,075</u>
Ending net assets	\$ <u>94,817</u>	<u>99,775</u>	<u>57,238</u>	<u>54,381</u>	<u>152,055</u>	<u>154,156</u>

Net assets at year end decreased by \$4,958 (i.e. 5.1%) versus an increase of \$6,159 in 2005 in the Governmental activities area. This change is a result of a \$5,500 decrease in capital assets (i.e. land). City owned land was donated to Middletown Regional Hospital.

Business type activities net assets grew by \$2,857 (i.e. 5.25%). Most of this increase came from the receipts collected by the new Storm Water Fund established in 2006. Water Fund and Sewer Fund net assets also grew by about \$1,568 in 2006.

B. Governmental and Business-type Activities during 2006

The following table (in thousands) presents a condensed summary of the City's activities during 2006 and the resulting changes in net assets. Of the total General Government revenues of \$52,886, \$20,972 (40%) was from program revenue. This means that the government relied on tax revenues and unrestricted grants to fund 60% of its public safety, public works, and other services. Local income and property taxes totaled \$26,615 in 2006. This was about 84% of the City's general revenues.

For business type activities, revenues increased by \$5,414 in 2006. There were several reasons for this increase. The newly established Storm Water Fund collected fees which totaled \$1,575; the Water Fund received \$1,868 in grants from the State of Ohio; and the Sewer Fund operating revenues grew by \$1,548 due to a 2006 rate increase.

Table 2
Changes in Net Assets

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
<u>Program revenues:</u>						
Charges for services	\$ 5,684	6,165	20,327	16,666	26,011	22,831
Operating grants & contributions	12,241	14,421	2,639	1,139	14,880	15,560
Capital grants and contributions	<u>3,047</u>	<u>1,560</u>	<u>172</u>	<u>151</u>	<u>3,219</u>	<u>1,711</u>
Total program revenues	20,972	22,146	23,138	17,956	44,110	40,102
<u>General revenues:</u>						
Income taxes	17,695	18,009	270	338	17,965	18,347
Property taxes	5,920	5,941	-	-	5,920	5,941
Other taxes	3,382	3,046	-	-	3,382	3,046
Grants and contributions not restricted	807	6	-	-	807	6
Investment earnings	967	485	591	291	1,558	776
Other	<u>3,143</u>	<u>3,196</u>	<u>-</u>	<u>-</u>	<u>3,143</u>	<u>3,196</u>
Total general revenues	<u>31,914</u>	<u>30,683</u>	<u>861</u>	<u>629</u>	<u>32,775</u>	<u>31,312</u>
Total revenues	52,886	52,829	23,999	18,585	76,885	71,414
Expenses						
Public safety	22,691	22,420	-	-	22,691	22,420
Public health	1,262	1,247	-	-	1,262	1,247
Leisure activities	1,096	1,661	-	-	1,096	1,661
Community environment	11,402	11,022	-	-	11,402	11,022
Highways and streets	8,377	2,560	-	-	8,377	2,560
General government	4,639	4,674	-	-	4,639	4,674
Miscellaneous	1,410	1,636	-	-	1,410	1,636
Interest on long-term debt	1,522	1,506	-	-	1,522	1,506
Water	-	-	8,027	6,002	8,027	6,002
Sewer	-	-	6,928	5,640	6,928	5,640
Transit	-	-	1,284	1,256	1,284	1,256
Golf Course	-	-	1,653	1,881	1,653	1,881
Solid Waste	-	-	2,442	2,280	2,442	2,280
Other business type activities	<u>-</u>	<u>-</u>	<u>753</u>	<u>554</u>	<u>753</u>	<u>554</u>
Total expenses	<u>52,399</u>	<u>46,726</u>	<u>21,087</u>	<u>17,613</u>	<u>73,486</u>	<u>64,339</u>
Increase in net assets before transfers	487	6,103	2,912	972	3,399	7,075
Transfers	55	56	(55)	(56)	-	-
Special item	<u>(5,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,500)</u>	<u>-</u>
Capital assets adjustment	-	44,776	-	-	-	44,776
Increase in net assets	(4,958)	6,159	2,857	916	(2,101)	7,075
Beginning net assets	99,775	48,840	54,381	53,465	154,156	102,305
Ending net assets	\$ <u>94,817</u>	<u>99,775</u>	<u>57,238</u>	<u>54,381</u>	<u>152,055</u>	<u>154,156</u>

1) Governmental activities during 2006

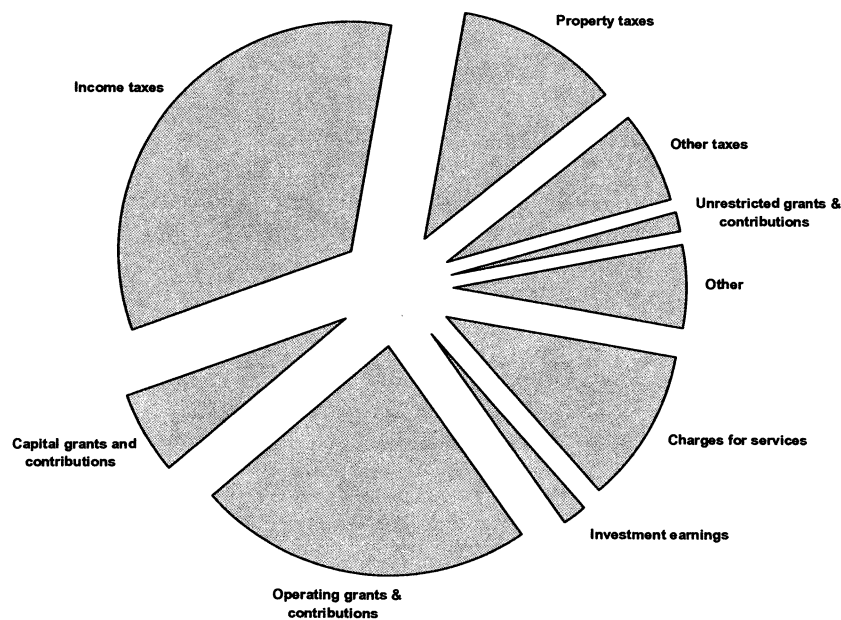
Table 3 presents the total cost of each of the government's primary services and the net cost after deducting the revenues generated by these services. The City recouped about 40% of the cost of its services with program revenues. Public safety, the City's most expensive program, covered about 11% of its costs with program revenues. Local tax receipts were used to fund the remaining costs of this service.

At the same time, Community Environment, which relies heavily upon federal and state grants, covered all of its costs with those program revenues.

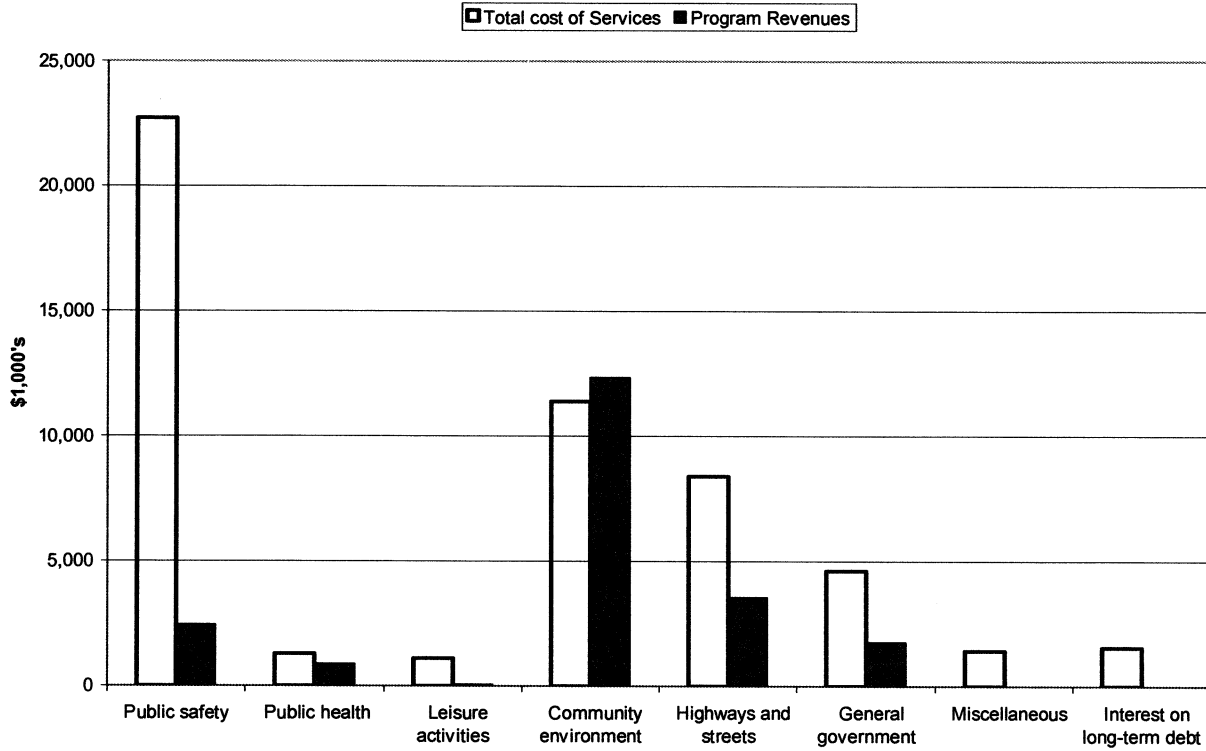
Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Program Revenues</u>	<u>Revenues as a % of Total Costs</u>	<u>Net Cost of Services</u>
Public safety	\$ 22,691	2,428	11%	(20,263)
Public health	1,262	854	68%	(408)
Leisure activities	1,096	45	4%	(1,051)
Community environment	11,402	12,356	108%	954
Highways and streets	8,377	3,544	42%	(4,833)
General government	4,639	1,745	38%	(2,894)
Miscellaneous	1,410	-	0%	(1,410)
Interest on long-term debt	<u>1,522</u>	<u>-</u>	<u>0%</u>	<u>(1,522)</u>
Total	\$ <u>52,399</u>	<u>20,972</u>	<u>40%</u>	<u>(31,427)</u>

Revenues by Source - Governmental Activities



Program Revenues and Expenses - Governmental Activities



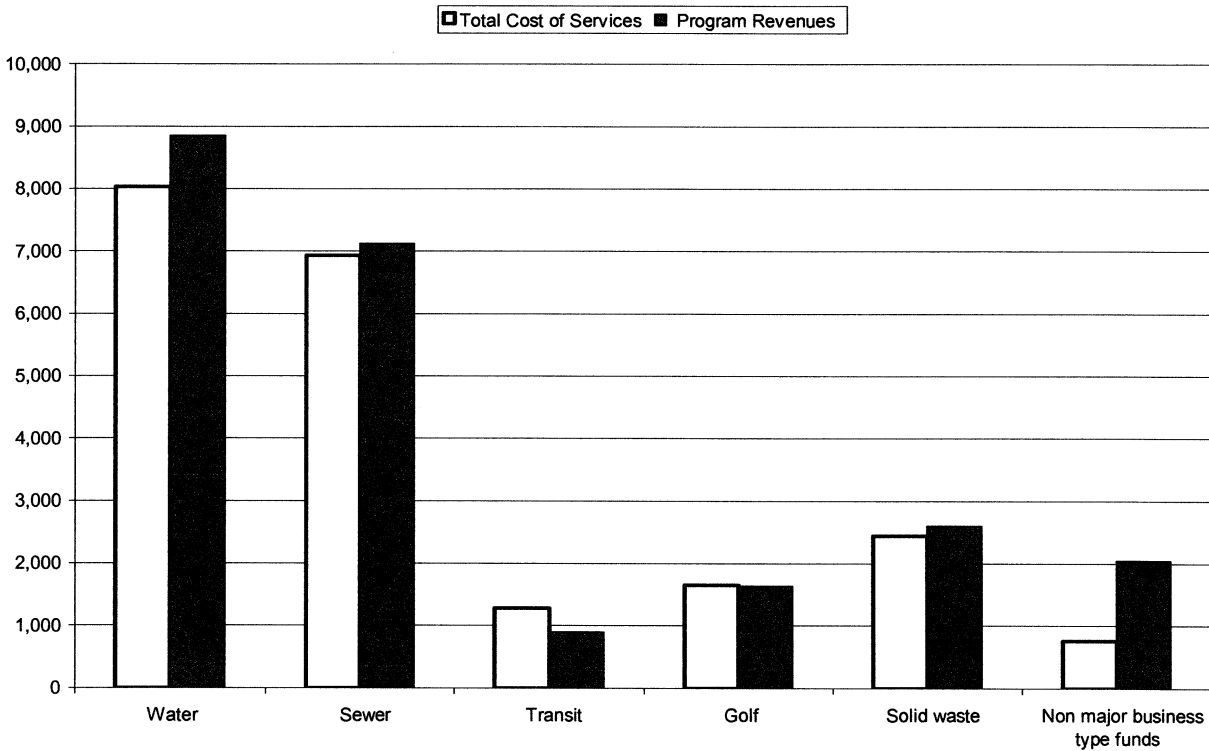
2) Business-type activities during 2006

The following table (in thousands) summarizes the business-type activities during 2006:

**Table 4
Business-type Activities**

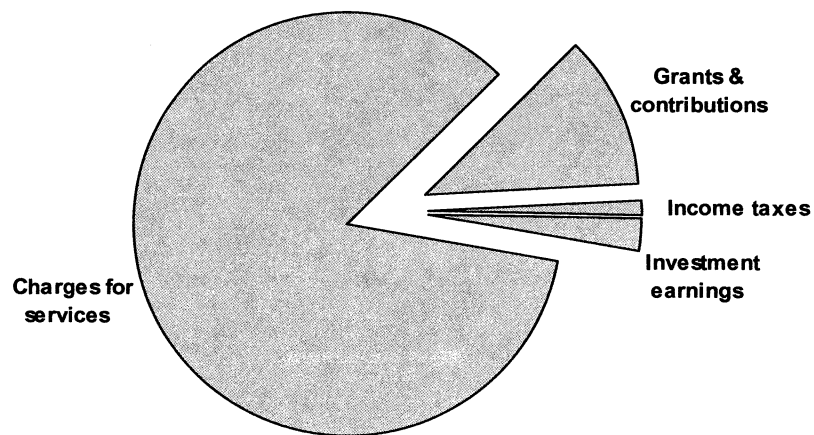
	<u>Total Cost of Services</u>	<u>Program Revenues</u>	<u>Revenues as a % of Total Costs</u>	<u>Net Revenue from Operations</u>
Water	\$ 8,027	8,848	110%	821
Sewer	6,928	7,122	103%	194
Transit	1,284	896	70%	(387)
Golf	1,654	1,635	67%	(18)
Solid waste	2,442	2,596	106%	154
Non major business type funds	<u>753</u>	<u>2,041</u>	<u>271%</u>	<u>1,288</u>
Total	\$ <u>21,088</u>	<u>23,138</u>	<u>110%</u>	<u>2,050</u>

Program Revenues and Expenses - Business-Type Activities



The City attempts to break even on its business-type activities. The Water Fund, Sewer Fund, and the Storm Water Fund had operating surpluses in 2006 to accumulate earnings for future capital investments. The Transit Fund deficit was covered by state and federal grants.

Revenues by Source - Business-Type Activities



III. THE CITY’S INDIVIDUAL FUNDS

A. Governmental funds

The financial statements for the City’s governmental funds, accounted for under the modified accrual basis of accounting, are presented beginning on page 20. The City has thirty-six governmental funds, seven of which are considered major funds. Assets of those seven funds comprise (82%) of the total governmental funds’ assets of \$53,346,627. The following table (rounded to nearest thousand) summarizes the activities of these seven major funds.

**Table 5
Financial Highlights
Major Governmental Funds**

	<u>General Fund</u>	<u>Housing Assistance</u>	<u>Community Development Escrow</u>	<u>Special Assessment Debt Service</u>	<u>Capital Improvements</u>	<u>East End Development</u>	<u>Downtown Improvements</u>
Total assets	\$ 16,605,631	12,725,679	2,760,673	5,036,340	2,544,119	2,168,350	2,615,112
Total liabilities	<u>9,585,002</u>	<u>10,092,581</u>	<u>72,057</u>	<u>5,008,929</u>	<u>1,024,372</u>	<u>1,284,763</u>	<u>2,560,208</u>
Fund balance	<u>7,020,629</u>	<u>2,633,098</u>	<u>2,688,616</u>	<u>27,411</u>	<u>1,519,747</u>	<u>883,587</u>	<u>54,904</u>
Unreserved fund balance	\$ <u>6,791,745</u>	<u>2,633,098</u>	<u>1,050,160</u>	<u>27,411</u>	<u>660,550</u>	<u>(594,942)</u>	<u>40,372</u>
Revenues	\$ 24,955,341	9,718,213	101,206	495,329	1,759,436	1,974,121	97,275
Expenditures	25,024,491	8,488,787	101,261	480,148	2,134,422	2,824,037	448,502
Other financing sources/uses	<u>(169,138)</u>	-	-	<u>(402)</u>	<u>(200,000)</u>	-	-
Net change in fund balance	\$ <u>(238,288)</u>	<u>1,229,426</u>	<u>(55)</u>	<u>14,779</u>	<u>(574,986)</u>	<u>(849,916)</u>	<u>(351,227)</u>

General Fund. Fund balance at the end of 2006 was \$7,020,629, including \$6,791,745 of unreserved fund balance. This is 27% of 2006 expenditures. The General Fund’s balance decreased by \$238,000 in 2006. The unreserved fund balance is a “rainy day fund” and will be used to cover expenditures during economic downturns.

Housing Assistance Fund. This fund records the activities of the City’s Section 8 Program and is funded entirely by a federal grant from the Department of Housing and Urban Development. At the end of 2006, there were 1,698 Section 8 units in the City of Middletown.

Community Development Escrow Fund. This fund issues home repair loans to lower income residents. At the end of 2006, the fund balance of \$1,050,000 was available for loans to qualified property owners residing in Middletown.

Special Assessment Debt Service Fund. The Special Assessment Debt Service fund receives special assessment payments from Middletown property owners and passes the payments along to the owner of the City’s special assessment bonds.

Capital Improvements Fund. The \$660,550 unreserved fund balance in the Capital Improvements Fund will be used for future general improvements to streets, parks, and publicly owned buildings.

East End Development Fund. The \$594,000 deficit in this fund will be eliminated in 2009 when permanent financing is arranged for the Union Road Improvement Project which is recorded in this fund.

Downtown Improvements Fund. The \$2,550,000 note payable in the Downtown Improvements Fund was used for investment in economic development land in the City of Middletown. A private developer plans to construct an office building on this land and will pay the City \$2,550,000 for the land in 2009. The sale proceeds will retire this \$2,550,000 note due in full in 2010.

B. Proprietary funds

1) Enterprise funds

The following table provides financial highlights of the City’s major enterprise funds. This information does not include the consolidation of internal service fund activity.

**Table 6
Financial Highlights
Enterprise Funds**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Transit Fund</u>	<u>Golf Fund</u>	<u>Solid Waste Fund</u>
Total assets	\$ 31,297,000	30,471,000	1,646,000	5,453,000	476,000
Total liabilities	<u>8,673,000</u>	<u>4,783,000</u>	<u>322,000</u>	<u>2,339,000</u>	<u>1,645,000</u>
Total net assets	<u>22,624,000</u>	<u>25,688,000</u>	<u>1,324,000</u>	<u>3,114,000</u>	<u>(1,169,000)</u>
Unrestricted net assets	<u>6,600,000</u>	<u>6,558,000</u>	<u>71,000</u>	<u>(390,000)</u>	<u>23,000</u>
Operating revenues	6,980,000	7,122,000	125,000	1,635,000	2,595,000
Operating expenses	7,703,000	6,787,000	1,284,000	1,549,000	2,336,000
Net non-operating revenues	<u>1,790,000</u>	<u>165,000</u>	<u>946,000</u>	<u>(104,000)</u>	<u>(70,000)</u>
Net change in net assets	\$ <u>1,040,000</u>	<u>472,000</u>	<u>(213,000)</u>	<u>(18,000)</u>	<u>189,000</u>

Water Fund. The Water Fund rates are set to cover the fund's operating cost and to accumulate cash resources for future capital expenditures. The Water Fund received operating grants of \$1,868,000 from the State of Ohio in 2006.

Sewer Fund. The Sewer Fund ended 2006 with a cash balance of \$6,426,000. This money was saved in anticipation of large capital needs in the next few years.

Transit Fund. The Transit Fund's cash flow is close to break even because federal and state grants cover 80% of this funds operating cost.

Golf Fund. The City Golf Fund lost \$18,000 in 2006. This fund owed the City's General Fund \$350,000 at the end of 2006 for a working capital loan. The plan is to repay this debt over the next few years.

Solid Waste Fund. The Solid Waste charges to Middletown customers are set to cover the cost of the refuse contract with a private hauler and the annual debt service of \$287,000 on a landfill closure bond. At the end of 2006, the balance owed on this 1994 bond issue was \$1,610,000. The Solid Waste Fund carries a \$1,359,000 fund deficit because of this large debt liability.

2) Internal service funds

Net assets at year-end and 2006 activity in the City's two internal service funds, are shown on page 29.

The City's Employee Benefits Fund made \$166,000 in 2006 and ended the year with net assets of \$305,000. The rising cost of health insurance puts a burden on the City's budget. Employer contributions to this fund have increased 8% in 2006. Future budget will allow for continuing annual cost increases.

The other City internal service fund, the Municipal Garage Fund, ended the year with net assets of \$4,427,000. Money is being set aside for future vehicle purchases according to a multi-year plan developed by the Municipal Garage fleet managers. The Municipal Garage Fund cash balance at the end of 2006 was \$1,525,000.

IV. BUDGETED ACTIVITY AND ACTUAL RESULTS

The schedules comparing the City's original and final General Fund budgets to actual expenditures begin on page 68. The General Fund's original 2006 appropriation was increased during the year by \$1,271,001 and at year end, the General Fund's actual expenditures on a cash basis (budget basis) were \$2,037,000 (8%) under the amended budget.

V. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital assets

Detailed information on the City's capital assets is found in the notes to the Financial Statements on pages 52 and 53 and in the Supplemental Section on pages 149-151.

The City had \$143,706,000 in net capital assets ranging from fire and police vehicles and equipment to water and sewer lines.

The City has implemented the retroactive capitalization of general government infrastructure as part of the conversion to GASB Statement 34. The notes to the financial statements contain detailed information of Middletown's capital assets.

Table 7
Capital Assets at Year-End
(Net of Depreciation)

	Governmental	Business-	
	Activities	Type	Total
	Activities	Activities	
Land	\$ 11,862,000	6,841,000	18,703,000
Land improvements	491,000	1,320,000	1,811,000
Buildings	11,544,000	18,614,000	30,158,000
Equipment	4,281,000	8,392,000	12,673,000
Infrastructure	0	21,820,000	21,820,000
General infrastructure	<u>58,541,000</u>	<u>0</u>	<u>58,541,000</u>
Total	\$ <u>86,719,000</u>	<u>56,987,000</u>	<u>143,706,000</u>

The major capital assets activity during 2006 included the following:

- Donated land for economic development in the amount of \$5,500,000.
- Spent \$5,800,000+ for street, curb, and gutter improvements City wide.

B. Debt

The City issued \$212,261 in special assessment bonds in 2006. The City also entered into an eleven year, \$8,023,623 lease agreement with Chase Bank to finance the change out of 18,000 water meters. Water and sewer revenues will be used to pay the monthly lease obligation.

VI. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

AK Steel, which is the city's largest employer, will be relocating its Middletown corporate headquarters to suburban Cincinnati in August 2007. This loss of three hundred Middletown jobs will reduce Middletown's local income tax revenues by \$150,000 in 2007 and by about \$400,000 in 2008.

The City has budgeted conservatively for 2007. Non-organized employees were not awarded a pay increase. Revenues were forecast to increase by about 2% and expenditure increases were held to the same percentage. No new programs were begun and the selective hiring freeze program, which began in 2002, was continued in 2007.

The City's Employee Benefits Fund, which pays for the employee health costs, has become an expensive budgetary item. Medical costs have increased substantially over the last three year period and future budgets and the City's three-year financial plan assume that the costs will continue to escalate at 8-10% annually.

VII. REQUESTS FOR ADDITIONAL INFORMATION

This financial report is issued to provide Middletown's residents, Middletown businesses, investors and creditors with a general overview of the City's finances. The report shows where the money, which the City receives, goes. Please contact the City Finance Department at One Donham Plaza, Middletown, Ohio 45042 for additional information.

John T. Lyons, CPA
Finance Director



**CITY OF MIDDLETOWN, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and equity in pooled cash, deposits and investments	\$ 21,921,245	14,079,496	36,000,741
Cash with fiscal and escrow agent	966,741	-	966,741
Receivables (net of allowance for uncollectibles):			
Income taxes	3,871,003	-	3,871,003
Property taxes	5,469,800	-	5,469,800
Estate taxes	457,682	-	457,682
Accounts	705,782	2,726,351	3,432,133
Loans	1,956,296	537,796	2,494,092
Special assessments	5,008,929	-	5,008,929
Due from other governments	14,318,966	808,159	15,127,125
Inventory of supplies	779,178	493,106	1,272,284
Internal balances	(859,587)	859,587	-
Capital assets, net			
Non-depreciable	11,862,365	6,840,571	18,702,936
Depreciable	74,856,451	50,145,502	125,001,953
Total assets	<u>141,314,851</u>	<u>76,490,568</u>	<u>217,805,419</u>
Liabilities			
Accounts payable and other current liabilities	1,684,035	970,839	2,654,874
Accrued wages and benefits	1,569,916	345,996	1,915,912
Accrued interest payable	165,711	73,837	239,548
Due to other governments	36,031	3,507	39,538
Unearned revenue	5,469,800	887,363	6,357,163
Notes payable	3,815,000	1,630,000	5,445,000
Non current liabilities:			
Due within one year	3,184,722	1,340,718	4,525,440
Due in more than one year	30,572,874	14,000,789	44,573,663
Total liabilities	<u>46,498,089</u>	<u>19,253,049</u>	<u>65,751,138</u>
Net Assets			
Invested in capital assets, net of related debt	62,823,123	40,482,450	103,305,573
Restricted for capital projects	4,228,965	-	4,228,965
Restricted for debt service	2,466,108	-	2,466,108
Restricted for housing assistance	12,608,098	-	12,608,098
Restricted for community development	2,688,616	-	2,688,616
Restricted for other purposes	5,071,873	1,104,769	6,176,642
Unrestricted	4,929,979	15,650,300	20,580,279
Total net assets	<u>\$ 94,816,762</u>	<u>57,237,519</u>	<u>152,054,281</u>

See accompanying notes to the basic financial statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Public safety	\$ 22,690,928	2,296,692	131,604	-	(20,262,632)		(20,262,632)
Public health and welfare	1,261,954	204,124	649,621	-	(408,209)		(408,209)
Leisure time activities	1,095,931	44,614	-	-	(1,051,317)		(1,051,317)
Community environment	11,402,487	896,308	11,459,611	-	953,432		953,432
Highways and streets	8,376,550	497,630	-	3,046,831	(4,832,089)		(4,832,089)
General government	4,639,031	1,744,559	-	-	(2,894,472)		(2,894,472)
Miscellaneous	1,410,000	-	-	-	(1,410,000)		(1,410,000)
Interest on long-term debt	1,522,245	-	-	-	(1,522,245)		(1,522,245)
Total governmental activities	52,399,126	5,683,927	12,240,836	3,046,831	(31,427,532)		(31,427,532)
Business-type activities:							
Water	8,027,292	6,980,129	1,867,687	-	820,524		820,524
Sewer	6,927,674	7,121,745	-	-	194,071		194,071
Transit	1,283,746	125,003	771,719	-	(387,024)		(387,024)
Golf Course	1,653,356	1,635,372	-	-	(17,984)		(17,984)
Solid Waste	2,442,369	2,595,636	-	-	153,267		153,267
Other	753,088	1,869,098	-	171,724	1,287,734		1,287,734
Total business-type activities	21,087,525	20,326,983	2,639,406	171,724	2,050,588		2,050,588
Total	\$ 73,486,651	26,010,910	14,880,242	3,218,555	(31,427,532)	2,050,588	(29,376,944)
		General revenues:					
		Taxes:					
		Income taxes			17,695,422		17,695,422
		Property taxes			5,919,731	270,300	5,919,731
		Other taxes			3,381,591	-	3,381,591
		Grants and contributions not restricted to specific programs			806,629	-	806,629
		Investment earnings			967,246	590,927	1,558,173
		Miscellaneous			3,143,577	-	3,143,577
		Transfers			54,800	(54,800)	-
		Total general revenues and transfers			31,968,996	806,427	32,775,423
		Special item			(5,500,000)	-	(5,500,000)
		Change in net assets			(4,958,536)	2,857,015	(2,101,521)
		Net assets beginning of year, restated			99,775,298	54,380,504	154,155,802
		Net assets end of year			94,816,762	57,237,519	152,054,281

See accompanying notes to the basic financial statements.

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

	General	Housing Assistance	Community Development Escrow
ASSETS:			
Cash and equity in pooled cash, deposits and investments	\$ 5,873,761	\$ 2,700,679	\$ 196,159
Cash with fiscal and escrow agent	-	-	926,058
Receivables (net of allowance for uncollectibles):			
Income taxes	3,871,003	-	-
Property taxes	3,975,000	-	-
Estate taxes	457,682	-	-
Accounts	557,736	-	-
Loans	-	-	1,638,456
Special assessments	-	-	-
Due from other funds	450,000	50,000	-
Due from other governments	1,409,411	9,975,000	-
Inventory of supplies	11,038	-	-
Total assets	\$ 16,605,631	\$ 12,725,679	\$ 2,760,673
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 181,373	\$ -	\$ -
Accrued wages and benefits	1,379,988	-	-
Other accrued liabilities	341,130	-	-
Accrued interest payable	-	-	-
Due to other funds	111,211	-	-
Due to other governments	410	-	-
Due to individuals	8,054	117,581	72,057
Matured bonds and interest	-	-	-
Notes payable	-	-	-
Deferred revenue	7,562,836	9,975,000	-
Total liabilities	9,585,002	10,092,581	72,057
Fund balances:			
Reserved for encumbrances	217,846	-	-
Reserved for inventory	11,038	-	-
Reserved for loans	-	-	1,638,456
Unreserved, reported in:			
General Fund	6,791,745	-	-
Special Revenue Funds	-	2,633,098	1,050,160
Debt Service Funds	-	-	-
Capital Project Funds	-	-	-
Total fund balances	7,020,629	2,633,098	2,688,616
Total liabilities and fund balances	\$ 16,605,631	\$ 12,725,679	\$ 2,760,673

The notes to the financial statements are an integral part of this statement.

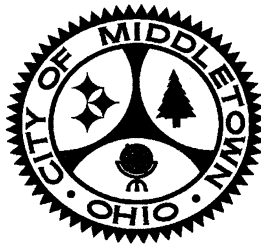
Special Assessment Debt Service	Capital Improvements	East End Development	Downtown Improvements	Non Major Governmental Funds	Total Governmental Funds
\$ 27,411	\$ 1,629,319	\$ 2,168,350	\$ 2,615,112	\$ 4,300,899	\$ 19,511,690
-	-	-	-	40,683	966,741
-	-	-	-	-	3,871,003
-	914,800	-	-	580,000	5,469,800
-	-	-	-	-	457,682
-	-	-	-	125,281	683,017
-	-	-	-	317,840	1,956,296
5,008,929	-	-	-	-	5,008,929
-	-	-	-	3,109	503,109
-	-	-	-	2,934,555	14,318,966
-	-	-	-	588,356	599,394
\$ 5,036,340	\$ 2,544,119	\$ 2,168,350	\$ 2,615,112	\$ 8,890,723	\$ 53,346,627

\$ -	\$ 84,342	\$ 11,662	\$ -	\$ 180,278	\$ 457,655
-	-	-	-	164,202	1,544,190
-	-	-	-	54,884	396,014
-	-	8,101	10,208	-	18,309
-	-	-	-	195,416	306,627
-	-	-	-	35,621	36,031
-	25,230	-	-	-	222,922
-	-	-	-	40,683	40,683
-	-	1,265,000	2,550,000	-	3,815,000
5,008,929	914,800	-	-	3,162,617	26,624,182
5,008,929	1,024,372	1,284,763	2,560,208	3,833,701	33,461,613

-	859,197	1,478,529	14,532	240,430	2,810,534
-	-	-	-	588,356	599,394
-	-	-	-	317,840	1,956,296
-	-	-	-	-	6,791,745
-	-	-	-	1,757,224	5,440,482
27,411	-	-	-	435,786	463,197
-	660,550	(594,942)	40,372	1,717,386	1,823,366
27,411	1,519,747	883,587	54,904	5,057,022	19,885,014
\$ 5,036,340	\$ 2,544,119	\$ 2,168,350	\$ 2,615,112	\$ 8,890,723	\$ 53,346,627

**CITY OF MIDDLETOWN, OHIO
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Total governmental fund balances	\$ 19,885,014
<i>Amounts reported for governmental activities in the statement of activities are different due to the following:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	86,718,816
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	2,108,879
Income taxes receivable	19,045,503
Intergovernmental and other receivables	
Internal service funds are used to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	843,700
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
General obligation bonds	(23,500,000)
Special assessment bonds	(3,325,266)
Compensated absences	(4,200,859)
Pension obligation payable	(2,652,306)
Accrued interest on long-term debt	(106,719)
Net assets of governmental activities	<u>\$ 94,816,762</u>



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

	General	Housing Assistance	Community Development Escrow
Revenues:			
Property taxes	\$ 4,237,268	\$ -	\$ -
Municipal income taxes	11,985,506	-	-
Intergovernmental revenues	3,420,631	9,684,761	-
Charges for services	3,038,111	-	-
Fees, licenses, and permits	416,770	-	-
Fines and forfeits	135,282	-	-
Special assessments	-	-	-
Interest earnings	450,862	21,394	45,240
Increase in investment Fair Value	58,633	-	-
Miscellaneous	1,212,278	12,058	55,966
Total revenues	24,955,341	9,718,213	101,206
Expenditures:			
Current			
Public safety	17,855,386	-	-
Public health and welfare	-	-	-
Leisure time activities	991,858	-	-
Community environment	1,059,688	8,488,787	-
Highways and streets	-	-	-
General government	3,974,969	-	-
Miscellaneous	1,142,590	-	101,261
Debt service			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	25,024,491	8,488,787	101,261
Excess of revenues over (under) expenditures	(69,150)	1,229,426	(55)
Other financing sources (uses):			
Transfers-in	35,015	-	-
Transfers-out	(204,153)	-	-
Other uses	-	-	-
Issuance of bonds	-	-	-
Total other financing sources (uses)	(169,138)	-	-
Net change in fund balances	(238,288)	1,229,426	(55)
Fund balance, beginning of year	7,258,917	1,403,672	2,688,671
Fund balance, end of year	\$ 7,020,629	\$ 2,633,098	\$ 2,688,616

The notes to the financial statements are an integral part of this statement.

Special Assessment Debt Service	Capital Improvements	East End Development	Downtown Improvements	Non Major Governmental Funds	Total Governmental Funds
\$ -	\$ 889,626	\$ -	\$ -	\$ 792,837	\$ 5,919,731
-	-	-	-	5,075,893	17,061,399
-	705,803	697,697	-	4,650,004	19,158,896
-	31,411	-	-	216,624	3,286,146
-	-	-	-	-	416,770
-	-	-	-	1,348,099	1,483,381
495,117	-	-	-	2,513	497,630
-	76,104	108,583	97,275	62,030	861,488
-	-	-	-	-	58,633
212	56,492	1,167,841	-	821,612	3,326,459
495,329	1,759,436	1,974,121	97,275	12,969,612	52,070,533
-	135,554	-	-	5,799,750	23,790,690
-	7,675	-	-	1,212,729	1,220,404
-	31,525	-	-	40,614	1,063,997
-	23,197	-	340,586	1,464,952	11,377,210
-	1,849,856	2,748,996	-	1,987,826	6,586,678
-	86,615	-	-	244,349	4,305,933
-	-	-	-	166,148	1,409,999
326,294	-	-	-	1,335,000	1,661,294
153,854	-	75,041	107,916	1,190,438	1,527,249
480,148	2,134,422	2,824,037	448,502	13,441,806	52,943,454
15,181	(374,986)	(849,916)	(351,227)	(472,194)	(872,921)
2,881	-	-	-	458,953	496,849
-	(200,000)	-	-	(37,896)	(442,049)
(3,283)	-	-	-	(25,919)	(29,202)
-	-	-	-	58,580	58,580
(402)	(200,000)	-	-	453,718	84,178
14,779	(574,986)	(849,916)	(351,227)	(18,476)	(788,743)
12,632	2,094,733	1,733,503	406,131	5,075,498	20,673,757
\$ 27,411	\$ 1,519,747	\$ 883,587	\$ 54,904	\$ 5,057,022	\$ 19,885,014

**CITY OF MIDDLETOWN, OHIO
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2006**

Net change in fund balances - total governmental funds	\$ (788,743)
<i>Amounts reported for governmental activities in the statement of activities are different due to the following:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlay	5,234,571
Depreciation expense	(6,744,646)
Revenue in the statement of activities that do not provide current financial resources are reported as revenues in the funds:	
Income taxes	634,023
Intergovernmental and other revenue	316,991
Repayment of bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets.	1,661,294
Special item for transfer of land	(5,500,000)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	5,004
The issuance of long-term debt provides current financial resources to governmental funds but increases long-term liabilities in the statement of net assets.	(212,261)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	411,122
Internal service funds are used to charge the costs of certain activities to individual funds. The net revenue (expenses) of the internal service funds is reported with governmental activities.	<u>24,109</u>
Change in net assets of governmental activities	<u>\$ (4,958,536)</u>



**CITY OF MIDDLETOWN, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2006**

Business Type Activities - Enterprise Funds

	Water	Sewer	Transit System
Assets:			
Current assets			
Equity in pooled cash and investments	\$ 6,024,226	\$ 6,426,330	\$ 96,759
Receivables			
Accounts	1,357,467	1,178,373	-
Loans	537,796	-	-
Due from other funds	-	-	1,485
Intergovernmental	361,547	-	295,116
Inventory of supplies	297,549	137,093	-
Total current assets	8,578,585	7,741,796	393,360
Capital assets:			
Land	1,152,665	152,500	-
Land Improvements	5,875	-	-
Infrastructure assets	24,965,130	27,707,296	-
Buildings	11,325,203	12,179,422	1,227,000
Equipment	5,164,779	9,366,339	1,613,793
Less: Accumulated depreciation	(19,894,634)	(26,676,445)	(1,588,515)
Net capital assets	22,719,018	22,729,112	1,252,278
Total assets	31,297,603	30,470,908	1,645,638
Liabilities			
Current liabilities			
Accounts payable	50,325	407,828	5,696
Accrued wages and benefits	130,139	148,151	35,705
Other accrued liabilities	31,235	32,208	11,195
Accrued interest payable	16,217	-	-
Due to other funds	11,954	8,849	22,934
Due to other governments	528	-	-
Due to individuals	327,457	-	-
General obligation bonds payable	280,000	-	-
Lease obligation payable	280,929	280,930	-
Unearned Revenue	537,796	-	198,071
Notes payable	-	-	-
Compensated absences (short term portion)	61,498	59,140	16,451
Total current liabilities	1,728,078	937,106	290,052
Long-term liabilities			
General obligation bonds payable	3,095,000	-	-
Lease obligation	3,730,882	3,730,882	-
Compensated absences	119,378	114,801	31,934
Total long-term liabilities	6,945,260	3,845,683	31,934
Total liabilities	8,673,337	4,782,789	321,986
Net Assets			
Invested in capital assests, net of related debt	15,332,207	18,717,300	1,252,278
Restricted for debt service	692,384	412,385	-
Unrestricted	6,599,675	6,558,434	71,374
Total net assets	\$ 22,624,266	\$ 25,688,119	\$ 1,323,652

The notes to the financial statements are an integral part of this statement.

					Governmental Activities -	
Golf Course	Solid Waste Disposal	Non Major Enterprise Funds	Totals	Internal Service Funds		
\$ 19,440	\$ 55,525	\$ 1,457,216	\$ 14,079,496	\$ 2,409,555		
5,708	3,188	181,615	2,726,351	22,765		
-	-	-	537,796	-		
-	-	-	1,485	201,286		
-	-	151,496	808,159	-		
58,464	-	-	493,106	179,784		
83,612	58,713	1,790,327	18,646,393	2,813,390		
3,611,550	382,600	1,541,256	6,840,571	195,750		
2,483,945	-	247,524	2,737,344	-		
-	-	67,410	52,739,836	-		
710,031	74,652	4,541,785	30,058,093	363,139		
283,124	-	600,927	17,028,962	9,224,843		
(1,719,156)	(39,815)	(2,500,168)	(52,418,733)	(7,148,699)		
5,369,494	417,437	4,498,734	56,986,073	2,635,033		
5,453,106	476,150	6,289,061	75,632,466	5,448,423		
4,181	27,561	57,982	553,573	597,317		
29,991	-	2,010	345,996	25,726		
14,567	-	604	89,809	10,127		
8,139	8,083	41,398	73,837	-		
350,000	-	922	394,659	4,594		
2,979	-	-	3,507	-		
-	-	-	327,457	-		
145,000	195,000	-	620,000	-		
-	-	-	561,859	-		
-	-	151,496	887,363	-		
-	-	1,630,000	1,630,000	-		
21,771	-	-	158,859	-		
576,628	230,644	1,884,412	5,646,919	637,764		
1,720,000	1,415,000	-	6,230,000	-		
-	-	-	7,461,764	-		
42,261	-	651	309,025	79,165		
1,762,261	1,415,000	651	14,000,789	79,165		
2,338,889	1,645,644	1,885,063	19,647,708	716,929		
3,504,494	(1,192,563)	2,868,734	40,482,450	2,635,033		
-	-	-	1,104,769	-		
(390,277)	23,069	1,535,264	14,397,539	2,096,461		
\$ 3,114,217	\$ (1,169,494)	\$ 4,403,998	\$ 55,984,758	\$ 4,731,494		

Adjustment to reflect the consolidation of internal service fund activities

Total net assets from above

Net assets of business-type activities

1,252,761
55,984,758
\$ 57,237,519

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES OF NET ASSETS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Business Type Activities - Enterprise Funds			
	Water	Sewer	Transit System
Operating revenues:			
Charges for services	\$ 6,940,476	\$ 6,930,487	\$ 123,653
Other operating revenue	39,653	191,258	1,350
Total operating revenues	6,980,129	7,121,745	125,003
Operating expenses:			
Personal services	1,980,761	2,033,259	663,560
Contractual services	3,312,757	2,057,871	320,220
Commodities	598,296	411,283	2,949
Depreciation	1,077,566	1,216,927	296,993
Other operating expenses	733,369	1,068,117	24
Total operating expenses	7,702,749	6,787,457	1,283,746
Operating income (loss)	(722,620)	334,288	(1,158,743)
Non-operating revenues (expenses):			
Interest revenue	253,238	305,805	-
Interest expense and fiscal charges	(330,570)	(140,217)	-
Operating grants	1,867,687	-	771,719
Income taxes	-	-	173,800
Loss on sale or disposal of capital assets	-	-	-
Total non-operating revenues (expenses)	1,790,355	165,588	945,519
Income (loss) before contributions and transfers	1,067,735	499,876	(213,224)
Transfers-out	(27,400)	(27,400)	-
Change in net assets	1,040,335	472,476	(213,224)
Total net assets, beginning of year	21,583,931	25,215,643	1,536,876
Total net assets, end of year	\$ 22,624,266	\$ 25,688,119	\$ 1,323,652

The notes to the financial statements are an integral part of this statement.

Business Type Activities - Enterprise Funds					Governmental Activities -	
Golf Course	Solid Waste Disposal	Non Major Enterprise Funds	Totals	Internal Service Funds		
\$ 1,624,630	\$ 2,577,025	\$ 1,616,856	\$ 19,813,127	\$ 6,889,851		
10,742	18,611	252,242	513,856	59,931		
1,635,372	2,595,636	1,869,098	20,326,983	6,949,782		
786,384	-	31,639	5,495,603	631,617		
107,986	2,334,360	367,058	8,500,252	4,577,111		
468,753	-	7,731	1,489,012	848,070		
172,835	1,659	175,584	2,941,564	681,207		
13,341	-	99,662	1,914,513	245,987		
1,549,299	2,336,019	681,674	20,340,944	6,983,992		
86,073	259,617	1,187,424	(13,961)	(34,210)		
-	-	31,884	590,927	47,125		
(104,057)	(106,350)	(71,414)	(752,608)	-		
-	-	171,724	2,811,130	-		
-	36,000	60,500	270,300	-		
-	-	-	-	17,221		
(104,057)	(70,350)	192,694	2,919,749	64,346		
(17,984)	189,267	1,380,118	2,905,788	30,136		
-	-	-	(54,800)	-		
(17,984)	189,267	1,380,118	2,850,988	30,136		
3,132,201	(1,358,761)	3,023,880	53,133,770	4,701,358		
\$ 3,114,217	\$ (1,169,494)	\$ 4,403,998	\$ 55,984,758	\$ 4,731,494		

Adjustment to reflect the consolidation of Internal Service Funds activities \$ 6,027

Changes in net assets of business-type activities from above 2,850,988

Changes in net assets of business-type activities \$ 2,857,015

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

Business Type Activities - Enterprise Funds

	Water	Sewer	Transit System
Cash flows from operating activities:			
Cash received from customers	\$ 6,097,363	\$ 6,430,842	\$ 125,003
Cash payments to suppliers for goods and services	(3,132,086)	(1,770,573)	(27,941)
Cash payments to employees for services	(1,638,917)	(1,689,793)	(586,857)
Miscellaneous revenues	67,632	-	-
Miscellaneous expenses	-	-	-
Cash received from interfund services provided	-	-	-
Cash payments for interfund services used	(1,266,451)	(1,221,859)	(362,962)
Deposits and collections for other governments	42,026	-	-
Net cash provided (used) by operating activities	169,567	1,748,617	(852,757)
Cash flows from non-capital financing activities:			
Operating grants	1,506,140	-	639,431
Transfers-out to other funds	(27,400)	(27,400)	-
Income taxes received	-	-	173,800
Net cash provided (used) by non-capital financing activities	1,478,740	(27,400)	813,231
Cash flows from capital and related financing activities:			
Sale of capital assets	-	-	-
Purchase of capital assets	(4,490,178)	(4,921,250)	-
Interest expense	(331,746)	(141,276)	-
Repayment of debt principal	(265,000)	(225,000)	-
Lease proceeds	4,011,811	4,011,812	-
Note proceeds	-	-	-
Net cash used by capital and related financing activities	(1,075,113)	(1,275,714)	0
Cash flows from investing activities:			
Interest income	253,238	305,805	-
Net cash provided by investing activities	253,238	305,805	-
Net change in cash and cash equivalents	826,432	751,308	(39,526)
Cash and pooled investments, beginning of year	5,197,794	5,675,022	136,285
Cash and pooled investments, end of year	\$ 6,024,226	\$ 6,426,330	\$ 96,759

Business Type Activities - Enterprise Funds					Governmental
					Activities -
					Internal
					Service
					Funds
Golf Course	Solid Waste	Non Major	Enterprise	Totals	
	Disposal	Funds			
\$ 1,620,113	\$ 2,592,448	\$ 1,435,241	\$ 18,301,010	\$ -	
(576,022)	(2,479,730)	(463,006)	(8,449,358)	(5,638,577)	
(765,222)	-	(31,417)	(4,712,206)	(535,667)	
9,551	-	252,242	329,425	-	
-	-	-	-	37,166	
-	-	-	-	6,891,569	
(56,445)	-	-	(2,907,717)	(106,312)	
565	-	-	42,591	-	
232,540	112,718	1,193,060	2,603,745	648,179	
-	-	171,724	2,317,295	-	
-	-	-	(54,800)	-	
-	36,000	60,500	270,300	-	
-	36,000	232,224	2,532,795	-	
-	-	-	-	83,519	
-	-	(299,366)	(9,710,794)	(414,317)	
(104,555)	(107,200)	(69,781)	(754,558)	-	
(130,000)	(180,000)	(1,555,000)	(2,355,000)	-	
-	-	-	8,023,623	-	
-	-	1,635,404	1,635,404	-	
(234,555)	(287,200)	(288,743)	(3,161,325)	(330,798)	
-	-	26,480	585,523	47,125	
-	-	26,480	585,523	47,125	
(2,015)	(138,482)	1,163,021	2,560,738	364,506	
21,455	194,007	294,195	11,518,758	2,045,049	
\$ 19,440	\$ 55,525	\$ 1,457,216	\$ 14,079,496	\$ 2,409,555	

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

Business Type Activities - Enterprise Funds

	Water	Sewer	Transit System
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (722,620)	\$ 334,288	\$ (1,158,743)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	1,077,566	1,216,927	296,993
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable (net)	(377,113)	(133,421)	-
Increase (decrease) in inventory of supplies	102,495	(7,322)	-
Increase (decrease) in accounts payable	(11,360)	274,249	4,644
Increase (decrease) in accrued wages and benefits	35,932	50,572	674
Increase (decrease) in other accrued liabilities	4,117	6,286	2,119
Increase (decrease) in due to other funds	7,983	(2,042)	5,098
Decrease (increase) in compensated absences payable	10,541	9,080	(3,542)
Increase (decrease) in due to other governments	146	-	-
Increase (decrease) in due to individuals	41,880	-	-
Total adjustments	892,187	1,414,329	305,986
Net cash provided (used) by operating activities	\$ 169,567	\$ 1,748,617	\$ (852,757)

The notes to the financial statements are an integral part of this statement.

Business Type Activities - Enterprise Funds				Governmental Activities -	
Golf Course	Solid Waste Disposal	Non Major Enterprise Funds	Totals	Internal Service Funds	
\$ 86,073	\$ 259,617	\$ 1,187,424	\$ (13,961)	\$ (34,210)	
172,835	1,659	175,584	2,941,564	681,207	
(5,708)	(3,188)	(181,615)	(701,045)	(17,270)	
14,339	-	-	109,512	56,177	
(3,226)	(145,370)	10,882	129,819	(31,606)	
(12,215)	-	(112)	74,851	(3,231)	
487	-	94	13,103	1,502	
-	-	563	11,602	(3,777)	
(20,610)	-	240	(4,291)	(613)	
565	-	-	711	-	
-	-	-	41,880	-	
146,467	(146,899)	5,636	2,617,706	\$ 682,389	
\$ 232,540	\$ 112,718	\$ 1,193,060	\$ 2,603,745	\$ 648,179	

**CITY OF MIDDLETOWN, OHIO
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	Total Agency Funds
Assets:	
Cash and equity in pooled cash, deposits and investments	\$ 74,793
Cash with fiscal and escrow agent	202,185
Property taxes receivable	154,375
Total assets	<u>\$ 431,353</u>
Liabilities:	
Due to other governments	\$ 344,528
Due to individuals	28,204
Unapportioned monies	58,621
Total liabilities	<u>\$ 431,353</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Middletown, Ohio, was incorporated as a City in 1837 under the laws of the State of Ohio. The City operates under a Council-Manager form of government and provides the following services as authorized by its Charter: Public Safety (police and fire), Human Resources (social services), Planning and Development, Public Works (maintenance and construction of public improvements), Recreation (swimming pools and golf course), Public Utilities (water and sewer service) Public Health Services, Municipal Court Services, and General Government Services. The financial statements of the City of Middletown, Ohio, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City follows Financial Accounting Standards Board (FASB) standards of accounting and financial reporting issued on or before November 30, 1989 in its government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict GASB guidance. The City has elected not to follow subsequent FASB guidance. The significant accounting policies used in the preparation of these financial statements are summarized below.

A. REPORTING ENTITY

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government (The City of Middletown as legally defined). Potential component units were considered for inclusion in the financial reporting entity. Component units are separate organizations for which the elected officials of the primary government would be financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will be by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. A component unit which is fiscally dependent upon the primary government even when the primary government does not have a voting majority of the component unit's board is also to be included in the statements of the primary government.

Blended Component Unit

This component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate funds.

Discretely Presented Component Units

Discretely presented component units are entities that are legally separate from the City, but for which the City is financially accountable, or whose relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete.

The City of Middletown does not have any component units to be included in its financial report.

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Related Organization

The City is associated with the Middletown Public Library, which is a related organization. The library is presented in Note 17 to the basic financial statements.

Included within the reporting entity:

Among activities and services provided by the City are a police force, a fire-fighting force, a municipal court system, a sewage treatment plant, a water treatment plant, an airport, a street maintenance force, a park and recreation system, and a staff to provide the necessary support to these service providers. Each of these activities and services is under the direct control of the City Council, which appropriates for and finances its operation and is not legally separable. Each is, therefore, included as part of the reporting entity.

B. BASIS OF PRESENTATION

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. The statements distinguish between those activities that are governmental in nature, which are normally supported by taxes and intergovernmental revenues; and business-type activities, which rely to a significant extent upon fees and charges for support. Interfund and internal service fund activities are generally eliminated to avoid the "doubling-up" effect on revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of expenses with program revenues identifies the extent to which each governmental function or business-type segment is self-financing or relies upon general revenues of the City.

The caption "Capital assets, net of related debt" consists of capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Net assets are reported as restricted when constraints placed upon their use are either: 1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or

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enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restriction on their net asset use. When both restricted and non-restricted resources are available for use, it is the City's policy to use non-restricted resources first, and then restricted resources, as they are needed.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. All other funds are aggregated and reported as non-major governmental or non-major proprietary funds. The effect of inter-fund activity has been eliminated from the government-wide financial statements.

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's major governmental funds:

General Fund - The General Fund 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 and the Charter of the City.

Housing Assistance Fund - To account for monies received from the Department of Housing and Urban Development for the City's Section 8 Housing Program.

Community Development Act Escrow Fund - To account for federal monies received through the City's Community Development block grants for providing low interest rehabilitation loans to property owners in targeted areas.

Special Assessment Debt Service Fund - To accumulate special assessment revenues collected by the County and remitted to the City for the payment of special assessment bonds.

Capital Improvement Fund - To account for construction costs for the City's self-funded capital projects.

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East End Development Fund - To accumulate costs for improvements in the City's east end area adjacent to Interstate 75.

Downtown Improvements Fund - To account for the costs of the demolition of the City Centre Mall and the construction of infrastructure in the former mall area.

Proprietary funds are used to account for the City's ongoing activities that are similar to those found in the private sector where the intent of the governing body is that the cost of providing goods and services to the general public be financed or recovered primarily through user charges. The following are the City's major proprietary funds:

Water Fund - Accounts for the provision of water treatment and distribution to the residents and commercial users of the City.

Sewer Fund - Accounts for the City's provision of sanitary sewer services to the residents and commercial users of the City.

Transit System - Accounts for the operation of the City's public bus line system.

Golf Course - Accounts for the operation of the City's public golf course.

Solid Waste Disposal Fund - Accounts for the City's refuse pickup charges and the cost of the City's refuse hauling contract. The annual principal and interest payments on the \$3.3 million 1994 bond issue in connection with the closing of the City landfill are made by this fund.

Internal Service Funds - Accounts for employee health benefits costs and for vehicle purchases and maintenance costs to other departments of the City on a cost-reimbursement basis.

Fiduciary Funds. The City's only fiduciary funds are agency funds which are custodial and account for assets held on behalf of others.

C. BASIS OF ACCOUNTING

Governmental funds. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current financial resources.

All governmental fund types are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both

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measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The available period for the City is thirty-one days after year-end. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest earnings, state-levied locally shared taxes (including gasoline tax), fines and forfeitures, grants, and municipal income tax.

The City reports deferred revenues on its governmental funds' balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Current and delinquent property taxes measurable as of December 31, 2006, whose availability is indeterminable and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside the available period, the entire amount has been deferred.

Since governmental funds' financial statements use a different measurement focus and basis of accounting than the government-wide statements, governmental funds' financial statements include reconciliations to the government-wide statements.

Proprietary Funds. All proprietary funds - enterprise funds and internal service funds - are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet.

Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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The accrual basis of accounting is utilized by the proprietary fund types. Under this method, revenues are recognized when they are earned, and expenses are recognized at the time liabilities are incurred.

Fiduciary Funds. The City's only fiduciary funds are agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds are accounted for using the accrual basis of accounting.

D. CASH, DEPOSITS, AND INVESTMENTS

Cash resources of individual funds, except for petty cash and specific accounts used to administer various activities are combined to form a pool of cash, deposits, and investments which is managed by the City Treasurer. Deposits and investments in the pool consist of certificates of deposit, investments in the State of Ohio STAROhio Investment Pool, purchases of the City's notes and special assessment bonds, U. S. Treasury and agency securities, and money market funds containing only U. S. Treasury and agency securities. Investments in bonds, U.S. Treasury and agency securities, and money market funds are reported at fair value, which is based on quoted market prices. Interest earned on pooled cash, deposits, and investments is distributed to the City's General Fund except as stipulated by ordinance or statute.

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

For purposes of the statements of cash flows, the City of Middletown considers the Proprietary Fund types equity in pooled cash, deposits, and investments to be highly liquid because those funds are able to withdraw (expend) cash at any time without prior notice or penalty. Restricted cash is not considered to be cash equivalents because these investments have a maturity of over three months when purchased.

E. CASH WITH FISCAL AND ESCROW AGENT

Money held on behalf of the City by a fiscal or escrow agent represents either money earmarked for the payment of debt, payroll withholdings, or retained by agents administering loan programs.

F. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables and short-term interfund loans are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any

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

G. INVENTORY OF SUPPLIES

Inventory is recorded at cost (first-in, first-out). Inventory in the Governmental Funds consists of expendable items and is recorded on a consumption basis. "Consumption basis" means that the expenditure is recorded when the inventory is consumed. Recorded inventories in the Governmental Fund types are offset equally by fund balance reserves, which indicate that they do not constitute "available spendable resources."

H. CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Also included in capital assets are infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks, drainage systems and similar items) constructed or acquired on or after January 1, 1980. This is the first year that the City of Middletown has accounted for its infrastructure assets constructed between 1980 and 2001. The January 1, 2006 governmental activities capital assets were increased as follows:

Capital assets (historical costs)	\$ 128,138,533
Accumulated depreciation (1/1/06)	<u>(83,362,339)</u>
Net increase in capital assets	<u>\$ 44,776,194</u>

The City defines capital assets as those with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. All capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair value on the date received. Interest on constructed capital assets is capitalized for business-type activities.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Depreciation is determined by allocating the cost of capital assets over the estimated useful lives of the assets on a straight-line basis. The estimated lives are as follows:

Equipment	6 to 20 Years
Land Improvements	20 Years
Infrastructure Assets	45 Years
Buildings	45 Years
Streets and Highways	20 Years

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I. CAPITALIZATION OF INTEREST

The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the construction project and the interest earned from the temporary investment of the debt proceeds. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2006, interest costs incurred on construction projects were not material.

J. RESERVATIONS AND DESIGNATIONS OF FUND EQUITY

Reserves and designations indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved or designated for inventory of supplies and materials, encumbrances, and loans.

K. INTERFUND TRANSACTIONS

During the normal course of operations, the City has numerous transactions between funds. These transactions include charges for services provided by an Internal Service Fund to other funds, interfund reimbursements, and interfund transfers.

During the year, the City records local income tax receipts and the subsequent distribution of these receipts to the appropriate City funds in the City Income Tax Fund. The income tax distributions are made by the Income Tax Fund based upon the City's appropriation resolutions and are recorded as transfers. On the year-end financial statements, all transfers of income tax revenues are classified as municipal income revenue of the appropriate funds and, therefore, do not appear in this report as transfers. Funds receiving municipal income tax revenue are the General Fund, the Auto & Gas Tax Fund, the Termination Pay Fund, the Municipal Court Fund, the Health Fund, the Police Pension Fund, the Fire Pension Fund, the General Obligation Debt Service Fund, the Computer Replacement Fund, the Transit Fund, and the Parking Fund.

The Internal Service Fund records charges for services to all City funds, departments and other governmental units as operating revenue. Both Governmental and Proprietary Funds record these payments to the Internal Service Fund as operating expenditures/expenses.

Transactions that constitute reimbursements of a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures or expenses, as appropriate, in the reimbursing fund and as reductions of the expenditure/expense in the fund that is reimbursed.

Transfers represent transfers of resources from a fund receiving revenue to a fund through which those resources will be expended. They are recorded as other financing sources (uses) in Governmental Funds and as transfers-in (out) in Proprietary Funds. A summary of transfers by fund type follows:

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INTERFUND TRANSFERS

Governmental Funds	Transfers In	Transfers Out
General Fund	\$ 35,015	\$ 204,153
Capital Improvements Fund	0	200,000
Special Assessment Debt Service Fund	2,881	0
Non Major Governmental Funds	<u>458,953</u>	<u>37,896</u>
Total	\$ 496,849	\$ 442,049

Proprietary Funds	Transfers In	Transfers Out
Water Fund	\$ 0	\$ 27,400
Sewer Fund	<u>0</u>	<u>27,400</u>
Total	\$ 0	\$ 54,800

The City's General Fund received \$35,015 in inter-fund transfers in 2006 from the FEMA Fund. The General Fund transferred out (\$198,903) to the Computer Replacement Fund to accumulate money for future computer purchases and \$5,250 to the Municipal Court Fund to help cover that fund's expenditures. The \$200,000 transfer out made by the Capital Improvements Fund was for debt service.

The City's non-major governmental funds received \$458,953 in 2006. Most of these transfers were for debt service (\$200,000) and to accumulate money for future computer purchases (\$253,703).

The City's business type funds transferred out \$54,800 to accumulate money for future computer purchases.

L. INTERGOVERNMENTAL REVENUES

In Governmental Funds, Federal grants awarded on non-reimbursement basis, and Federal entitlements are recorded as intergovernmental receivables and revenues when entitlement occurs. Federal grants awarded on a reimbursement basis are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

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M. COMPENSATED ABSENCES

The City's sick leave liability was calculated using the vesting method.

Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance. The City accrues unused portions of vacation pay in the period earned.

Accumulated Unpaid Sick Leave

All City employees (except firefighters), earn sick leave at the rate of ten hours per calendar month of service. Firefighters earn sick leave at the rate of thirteen and one-half hours per calendar month of service. Sick leave usage is recorded for all employees at the time it is used.

Upon retirement from the City, non-fire employees with twenty-five years of service are paid for one-half their accumulated unused sick leave up to a maximum of 424 hours. Employees who are eligible to retire, but do not have twenty-five years of service, are paid for one-third of their sick leave up to a maximum of 264 hours. All other employees who leave City employment receive payment for one-third of the accumulated sick leave over 280 hours up to a maximum of 264 hours.

Firefighters are paid for their accumulated sick leave upon retirement according to the IAFF labor contract with the City. The contract specifies a maximum accumulated sick leave retirement payment of 500 hours.

At December 31, 2006, the total liability of the City for compensated absences was \$4,747,908.

N. SPECIAL ITEM

Net assets at year end decreased by \$4,958,536 (i.e. 5.1%) versus an increase of \$6,158,612 in 2005 in the Governmental activities area. This change is a result of a \$5,500,000 decrease in capital assets (i.e. land). City owned land was donated to Middletown Regional Hospital.

O. RESTATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES

Ending governmental activities net assets at December 31, 2005 are re-stated because the City included all streets and appurtenances (general infrastructure) constructed between 1980 through 2001 in its financial statements for the first time. Net assets were increased as follows:

(Previously reported) Ending Net Assets 12/31/05	\$54,999,104
Net Assets Constructed 1980-2001	\$44,776,194
(Restated) Ending Net Assets 12/31/05	\$99,775,298

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

An annual appropriation budget is prepared on the cash basis for all funds of the City except Agency Funds. The following are the procedures used by the City for establishing the budgetary data reported in the basic financial statements. The procedures are listed in the order in which they occur during each fiscal year as required by the State of Ohio. The budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

BUDGETARY PROCEDURES

Budget

A tax budget of estimated revenues and expenditures for all funds other than Agency Funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized tax rates and reviews revenue estimates. The Budget Commission certifies its action to the City by September 1. As part of this certification, the City receives the Official Certificate of Estimated Resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the Certificate of Estimated Resources. On or about January 1, the certificate is amended to include any unencumbered balances from the preceding year. The revised budget then serves as the basis for the appropriation measure. The Certificate of Estimated Resources may be further amended during the year if a new source of revenue is identified or actual revenue exceeds current estimates. The amounts reported on the budgetary statement reflect the amounts in the final Amended Certificate of Estimated Resources issued for 2006.

Appropriations

An appropriation measure to control expenditures is passed on or about January 1 of each year for the period from January 1 to December 31. The appropriation resolution may be adjusted and/or supplemented during the year by action of City Council as new information becomes available, but fund appropriations may not exceed estimated resources. Supplemental appropriation measures enacted during 2006 decreased the original 2006 Appropriation Resolution by \$4,203,247 for all budgeted funds.

Budgeted Level of Expenditures

Appropriations are made by fund and department. The legal level of control is the department within each fund. City Council may alter amounts allocated to various funds during the year as the need arises by adopting modification to the appropriation measure. Management may make appropriation transfers within individual departments. Amounts shown in the budgetary financial statements represent the final amounts appropriated for 2006, including all supplemental appropriations and modifications.

**CITY OF MIDDLETOWN
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Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated. However, the budgetary statements for funds that had outstanding encumbrances at December 31, 2005, reflect an "Appropriation for prior year encumbrances."

**NOTE 3 - CASH AND EQUITY IN POOLED CASH, DEPOSITS AND INVESTMENTS,
CASH WITH FISCAL AGENTS AND RESTRICTED CASH AND INVESTMENTS**

The City follows the practice of pooling cash and investments with the City Treasurer except for the cash of certain accounts maintained by the Municipal Court Fund, Housing Assistance Fund, Sewer Fund, and the Community Development Escrow Fund.

Cash deposits and investments of the City as of December 31, 2006, are comprised of the following:

Deposits	
Petty Cash	\$ 5,725
Demand deposit accounts	4,738,152
Subtotal deposits	<u>\$4,743,877</u>
Investments	
Money Market Funds	114,384
U.S. Gov't and Agency Securities	28,887,876
STAR Ohio	<u>3,498,323</u>
Subtotal investments	<u>\$32,500,583</u>
Total	<u>\$37,244,460</u>

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures"

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Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's custodial credit risk policy requires that deposits be collateralized as required by ORC Chapter 135. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year-end, \$4,902,605 of the City's bank balance of \$5,202,605 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Investments

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

	<u>Fair Value</u>	<u>Average Maturity Years</u>
FHLB	\$ 1,117,972	0.41
US Treasury Bills	4,680,433	0.31
US Treasury Notes	23,089,471	1.90
Star Ohio	3,498,323	n/a
US Money Market Funds	<u>114,384</u>	n/a
	<u>\$ 32,500,583</u>	

Credit Risk

It is the City's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The City's

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investments in FHLB securities were rated AAA by Standard & Poor's and AAA by Moody's. The City's investments in the U.S. Money Market Funds were rated AAA by Standard & Poor's. Investments in STAR Ohio were rated AAA by Standard & Poor's.

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City is required to disclose the amount of investments with any one issuer that represent five percent or more of total investments. Investments issued by the U.S. government, and investments in external investment pools are excluded from this requirement. At December 31, 2006, over 96% of the City's investments are in these excluded categories.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment securities are registered in the name of the City.

Interest Rate Risk

In accordance with the investment policy, the City manages its exposure to declines in fair value by limiting the maximum maturity of investments in its portfolio to five years.

NOTE 4 - FUND BALANCE/NET ASSETS DEFICITS

At December 31, 2006, the following funds had fund balance/net assets deficits:

Special Revenue Funds

- *Municipal Court Fund*
The \$2,288 deficit in the Municipal Court Fund will be corrected in 2007 by receipt of fines levied to reimburse the city for Municipal Court costs.

Enterprise Funds

- *Solid Waste Fund*
The \$1,169,494 deficit in this fund is the result of a 1994 bond issue to finance the closure of the City landfill. The deficit will be corrected when the bonds are fully retired.

NOTE 5 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible (used in business) property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law

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at 35 per cent of appraised market value. Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 50 per cent of cost). Tangible personal property taxes attach as a lien and are levied on January 1 of the current year. Tangible personal property assessments are 25 per cent of true value. The assessed value upon which the 2006 taxes were collected was \$1,052,059,851. The full tax rate for all City operations for the fiscal year ended December 31, 2006, was \$5.90 per \$1,000 of assessed valuation.

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

Tangible personal property taxes are also payable 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 October 9. Multi-county corporations may pay the entire tax due in one payment by October 9.

The County Treasurer collects property tax on behalf of all taxing districts within Butler County and Warren County. The auditor periodically remits these property tax receipts to the City.

Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies that are measurable as of December 31, 2006. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2006 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE 6 - INCOME TAX

The City levies an income tax of 1.50 percent on substantially all earned income arising from employment, residency, or business activities inside the City. Employers within the City are required to withhold income tax on employee compensation and remit it to the City at least quarterly. Corporations and certain individual taxpayers are required to pay quarterly estimates.

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NOTE 7 - CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES				
<u>Capital Asset</u>	<u>Adjusted Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Land	\$17,362,365	\$ 0	\$ (5,500,000)	\$11,862,365
Land improvements	749,923	0	0	749,923
Buildings	23,875,888	18,931	0	23,894,819
Equipment	14,711,304	1,655,860	(501,162)	15,866,002
General infrastructure	<u>146,538,968</u>	<u>3,974,097</u>	<u>0</u>	<u>150,513,065</u>
Total at Historical Cost	203,238,448	5,648,888	(6,001,162)	202,886,174
Less accumulated depreciation:				
Land improvements	224,174	35,237	0	259,411
Buildings	11,778,376	572,728	0	12,351,104
Equipment	10,988,488	1,031,135	(434,864)	11,584,759
General infrastructure	<u>86,185,331</u>	<u>5,786,753</u>	<u>0</u>	<u>91,972,084</u>
Total depreciation	109,176,369	7,425,853	(434,864)	116,167,358
Capital Assets, Net	\$ 94,062,079	\$(1,776,965)	\$(5,566,298)	\$ 86,718,816

Depreciation was charged to governmental functions as follows:

General government	\$ 1,023,425
Leisure	150,778
Public health and welfare	38,873
Community environment	0
Public safety	439,596
Streets and highways	<u>5,773,181</u>
Total	\$7,425,853

**CITY OF MIDDLETOWN
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<i>BUSINESS-TYPE ACTIVITIES</i>				
<i>Capital Asset</i>	<i>Beginning Balance</i>	<i>Increase</i>	<i>Decrease</i>	<i>Ending Balance</i>
Capital assets, not being depreciated:				
<i>Land</i>	\$6,840,571	\$0	\$0	\$6,840,571
Capital assets, being depreciated:				
Land improvements	2,647,050	90,294	0	2,737,344
Buildings	29,027,837	1,030,256	0	30,058,093
Equipment	9,093,235	7,935,727	0	17,028,962
Infrastructure	<u>52,085,319</u>	<u>654,517</u>	<u>0</u>	<u>52,739,836</u>
<i>Total capital asset, being depreciated</i>	<i>92,853,441</i>	<i>9,710,794</i>	<i>0</i>	<i>102,564,235</i>
<i>Totals at Historical Cost</i>	<i>99,694,012</i>	<i>9,710,794</i>	<i>0</i>	<i>109,404,806</i>
Less accumulated depreciation:				
Land improvements	1,264,284	153,134	0	1,417,418
Buildings	10,648,960	795,243	0	11,444,203
Equipment	7,451,310	1,185,731	0	8,637,041
General infrastructure	<u>30,112,615</u>	<u>807,456</u>	<u>0</u>	<u>30,920,071</u>
<i>Total depreciation</i>	<i>49,477,169</i>	<i>2,941,564</i>	<i>0</i>	<i>52,418,733</i>
<i>Total capital assets, being depreciated, net</i>	<i>43,376,272</i>	<i>6,769,230</i>	<i>0</i>	<i>50,145,502</i>
Capital Assets, Net	\$ 50,216,843	\$ 6,769,230	\$ 0	\$ 56,986,073

Depreciation was charged to business-type activities as follows:

Water	\$ 1,077,566
Sewer	1,216,927
Transit	296,993
Golf	172,835
Solid Waste	1,659
Non major funds	<u>175,584</u>
Total	\$2,941,564

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 8 - PENSION PLANS

Eligible employees of the City of Middletown are covered by either the Ohio Public Employees Retirement System (OPERS) of Ohio or the Police and Firemen's Disability and Pension Fund (PFDPF) of the State of Ohio.

A. Public Employees Retirement System of Ohio

Ohio Public Employees Retirement System of Ohio (OPERS) administers three separate pension plans as described below:

- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
- 3) The Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701, or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate for employees other than law enforcement is 9.0%. For 2006, member and employer contributions were consistent across all three plans. Separate divisions for law enforcement and public safety exist only with the traditional pension plan. The 2006 employer contribution rate for local government employer units was 13.70% of covered payroll. The City of Middletown's contribution to OPERS for the years ending December 31, 2004, 2005, and 2006 were \$1,721,927, \$1,729,334, and \$1,714,160 respectively, equal to the required contributions billed to the City by OPERS.

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
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B. The Police and Firemen's Disability and Pension Fund

The City of Middletown contributes to the Police and Firemen's Disability and Pension Fund, a cost sharing, multiple-employer, defined benefit pension plan. PFDPF provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to Plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The PFDPF 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 PFDPF, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. Middletown's contributions for the years ending December 31, 2004, 2005, and 2006 were \$2,320,382, \$2,264,891, and \$2,298,262 respectively, equal to the required contribution for each year.

NOTE 9 - INCURRED BUT NOT REPORTED CLAIMS - HEALTH PLAN

The City of Middletown has a self-insured health plan that is accounted for in the Employee Benefits Fund. All full-time employees of the City are eligible to enroll in this plan which is administered by an independent Third Party Plan Administration Company. Claims incurred but not reported as of December 31, 2006, were calculated by the Plan Administrator based upon the City's claims experience over the past twelve months. The accounts payable liability recorded in the Employee Benefits Fund at year-end for claims incurred but not reported was \$584,285. See Note 15 for additional information on claims incurred but not reported.

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 10 - LONG-TERM OBLIGATIONS

Long-term obligation of the City as of December, 31, 2006, are as follows:

A. GOVERNMENTAL ACTIVITIES

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
<i>Special Assessment Bonds:</i>					
1986 Street Improvements	20,000	0	20,000	0	0
1988 Street Improvements	8,000	0	2,000	6,000	3,000
1990 Street Improvements	60,000	0	12,000	48,000	12,000
1991 Street Improvements	125,000	0	20,000	105,000	20,000
1992 Street Improvements	14,000	0	2,000	12,000	2,000
1993 Street Improvements	56,000	0	7,000	49,000	7,000
1994 Street Improvements	45,000	0	5,000	40,000	5,000
1995-1 Street Improvements	105,000	0	10,000	95,000	10,000
1995-2 Street Improvements	65,000	0	5,000	60,000	5,000
1996 Street Improvements	135,000	0	10,000	125,000	10,000
1996 Sewer Imp.-Dick's Creek	108,934	0	9,078	99,856	9,078
1996 Sewer Imp.-Cin/Dayton Rd.	11,066	0	922	10,144	922
1997 Sophie Street Improvements	160,000	0	10,000	150,000	10,000
1997 Dix Road Improvements	136,295	0	6,295	130,000	10,000
1998 Lewis Street Improvements	62,000	0	4,000	58,000	4,000
1999 Marshall Road Improvements	360,000	0	20,000	340,000	20,000
2000 Burbank Street Improvements	160,000	0	5,000	155,000	5,000
2001 Sidewalk, Curb (2000)	25,000	0	25,000	0	0
2001 Illinois/Longfellow Improve.	184,497	0	8,139	176,358	8,139
2001 Dick's Creek	95,679	0	4,221	91,458	4,221
2001 Oxford State Rd Water Line	59,828	0	2,639	57,189	2,639
2001 Oxford State Rd Intersection	53,000	0	3,000	50,000	3,000
2001 Sidewalk, Curb (2001)	35,000	0	35,000	0	0
2002 Sidewalk, Curb	135,000	0	45,000	90,000	45,000
2003 Sidewalk, Curb	115,000	0	25,000	90,000	30,000
2005 Roosevelt Ave. Improvements	565,000	0	20,000	545,000	20,000
2005 Towne Blvd. Improvements	540,000	0	10,000	530,000	10,000
2006 Breiel/Fiesta Sidewalk, Curb	0	52,637	0	52,637	9,637
2006 Cincinnati Dayton Rd Sewer	0	153,681	0	153,681	4,681
2006 Fiesta Storm Sewer	0	5,943	0	5,943	500
Total Special Assessment Bonds	3,439,299	212,261	326,294	3,325,266	270,817

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
<i>General Obligation Bonds:</i>					
1994 Transportation	2,055,000	0	215,000	1,840,000	225,000
1994 Recreation	355,000	0	40,000	315,000	40,000
1996 Street Improvements	1,395,000	0	95,000	1,300,000	100,000
1996 Energy Savings Improvements	60,000	0	60,000	0	0
1999 Downtown Improvements	8,380,000	0	420,000	7,960,000	440,000
2003 Court of Appeals	3,720,000	0	160,000	3,560,000	160,000
2004 MRH Land	5,095,000	0	215,000	4,880,000	220,000
2005 Towne Blvd. Extension	3,775,000	0	130,000	3,645,000	165,000
Total General Obligation Bonds	24,835,000	0	1,335,000	23,500,000	1,350,000
Compensated Absences	4,594,018	0	313,994	4,280,024	1,466,164
Police & Fire Pension					
Unfunded Accrued Liability	2,750,047	0	97,741	2,652,306	97,741
Total Governmental Activities	\$35,618,364	\$212,261	\$2,103,029	\$33,757,596	\$3,184,722

In prior years, assets of the City's General Fund, Health Fund, and Auto and Gas Tax Fund have been used to liquidate the City's liability for compensated absences.

B. BUSINESS TYPE ACTIVITIES

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
<i>General Obligation Bonds:</i>					
1994 Landfill "A"	\$1,620,000	\$0	\$165,000	\$1,455,000	\$175,000
1994 Landfill "B"	170,000	0	15,000	155,000	20,000
1994 Water	1,620,000	0	165,000	1,455,000	175,000
1996 Golf Course	1,560,000	0	105,000	1,455,000	115,000
1994 Sewer	225,000	0	225,000	0	0
1999 Water	2,020,000	0	100,000	1,920,000	105,000
2003 Golf	435,000	0	25,000	410,000	30,000
Total General Obligation Bonds					
Payable by Business Type Activities	7,650,000	0	800,000	6,850,000	620,000
Lease Obligation	0	8,023,623	0	8,023,623	561,859
Compensated Absences	472,175	0	4,291	467,884	158,859
Total Business Type Activities	\$8,122,175	\$8,023,623	\$804,291	\$15,341,507	\$1,340,718

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
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Business type activity bonds payable are General Obligation Bonds paid from revenues of the enterprise operation for which the improvements were made. All other General Obligation Bond Issues will be paid through the Debt Service Fund from income and property tax revenues.

LEASE OBLIGATION

The City entered into a \$8,023,623 eleven-year lease obligation in February 2006. The lease proceeds were used to replace almost all of the 18,000 commercial and residential water meters in Middletown. The monthly lease payments due are split evenly between the City's Water and Sewer Funds.

The Lease agreement requires the City to pay interest only for the first twelve months of the lease period with principal payments beginning in March 2007. The interest rate on this lease is 3.68%.

The City's legal debt margin was approximately \$94,800,468 at December 31, 2006. Principal and interest requirements to retire the long-term obligations outstanding at December 31, 2006 are as follows:

Police and Fire Pension Debt Schedule – 12/31/06			
	<u>Police</u>	<u>Fire</u>	<u>Total</u>
2007	52,217	45,524	97,741
2008	52,217	45,524	97,741
2009	52,217	45,524	97,741
2010	52,217	45,524	97,741
2011	52,217	45,524	97,741
2012-2016	261,085	227,620	488,705
2017-2021	261,085	227,620	488,705
2022-2026	261,085	227,620	488,705
2027-2031	261,085	227,620	488,705
2032-2035	111,583	97,198	208,781
Total	\$ 1,417,008	\$ 1,235,298	\$ 2,652,306

General Obligation and Assessment Bonds Schedule – 12/31/06						
	<i>General Obligation Bonds</i>			<i>Assessment Bonds</i>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	1,350,000	1,105,900	2,455,900	270,817	174,727	445,544
2008	1,400,000	1,051,074	2,451,074	276,399	160,751	437,150
2009	1,470,000	990,926	2,460,926	229,899	148,196	378,095
2010	1,530,000	921,427	2,451,427	203,499	135,876	339,375
2011	1,595,000	851,474	2,446,474	217,300	123,688	340,988
2012-2016	7,970,000	3,083,515	11,053,515	985,343	457,540	1,442,883
2017-2021	6,495,000	1,186,650	7,681,650	667,000	216,791	883,791
2022-2026	1,690,000	119,002	1,809,002	475,009	61,653	536,662
Total	\$23,500,000	\$9,309,968	\$ 32,809,968	\$ 3,325,266	\$ 1,479,222	\$ 4,804,488

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

BUSINESS TYPE FUNDS – General Obligation Bonds Schedule 12/31/06			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	620,000	389,259	1,009,259
2008	650,000	356,139	1,006,139
2009	680,000	319,790	999,790
2010	720,000	280,374	1,000,374
2011	765,000	239,317	1,004,317
2012-2016	2,765,000	580,106	3,345,106
2017-2019	650,000	72,360	722,360
Total	\$6,850,000	\$2,237,345	\$9,087,345

BUSINESS TYPE FUNDS – Lease Obligation Schedule 12/31/06			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	561,859	287,559	849,418
2008	697,338	262,909	960,247
2009	723,438	236,810	960,248
2010	750,514	209,734	960,248
2011	778,603	181,644	960,247
2012-2016	4,352,564	448,673	4,801,237
2017	159,308	733	160,041
Total	\$8,023,624	\$1,628,062	\$9,651,686

The Ohio Revised Code specifies that all special assessment debt is general obligation debt. All special assessment bond issues are, therefore, backed by the full faith and credit of the City.

The primary responsibility for the annual payments to special assessment bondholders is with the property owners on whose behalf the City has issued special assessment debt. The special assessments, which cover both principal and interest due, are collected by the Butler County Treasurer each year with the property owners' property tax payments. The collections are then sent to the City, which pays the principal and interest due. In the event of default, a lien is put on the property and it is eventually sold by the county at a tax sale. The City is then reimbursed for any special assessment bond payments it made. The City, therefore, does not maintain a reserve or sinking fund to meet its special assessment bond obligations. The police and fire pension unfunded accrued liability represents the City's portion of the unfunded prior service cost of the fund which existed at the time the fund was established in 1967 as determined by actuarial evaluation. This accrued liability has and will continue to be paid over a term of sixty-seven years in annual installments which began in 1969 and which will end in 2036. The police and fire pension liability is paid through the police pension and fire pension Special Revenue Funds using unvoted general property tax revenue and income tax revenues.

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 11 - SHORT-TERM OBLIGATIONS

Short-term obligation of the City consists of the following:

- a) A \$1,630,000 note bearing an interest rate of 4.50% for the purchase of the Municipal Airport buildings was outstanding on December 31, 2006. The note matures on June 5, 2007.
- b) A \$1,265,000 note bearing interest of 4.25% for the Union Road Improvements was outstanding on December 31, 2006. The note matures on November 1, 2007.
- c) A three-year \$2,550,000 note for land purchase bearing interest equal to the sum of the LIBOR rate for a Three-Month LIBOR Period multiplied by 0.76 plus 0.50% per year.

General Obligation Notes

<i>Issue</i>	<i>Beginning Balance 1/1/06</i>	<i>Note Retirement</i>	<i>Note Issue</i>	<i>Ending Balance 12/31/06</i>
Airport Facilities	\$1,555,000	\$1,555,000	\$1,630,000	\$1,630,000
Union Road Improvements	\$1,885,000	\$1,885,000	\$1,265,000	\$1,265,000
Land Purchase Note	0	0	\$2,550,000	\$2,550,000
Total	\$ 3,440,000	\$ 3,440,000	\$ 5,445,000	\$ 5,445,000

NOTE 12 - INTERFUND RECEIVABLES AND PAYABLES

The City's interfund receivables and payables at the end of 2006 were comprised of operating advances from the General Fund to other operating funds (\$450,000); payments to the Municipal Garage Fund by the City operating funds for December 2006 services (\$201,286); payments due to operating funds by the Municipal Garage Fund for overpayments (\$4,594); and operating advances from the Housing Assistance Fund to the Home Fund (\$50,000).

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
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Inter-fund receivables and payables balances as of December 31, 2006, follow:

Fund	Receivables	Payables
Governmental Funds:		
General fund	\$450,000	\$111,211
Housing assistance	50,000	0
Non major government funds	3,109	195,416
Total governmental funds	503,109	306,627
Business-type Activities:		
Water	0	11,954
Sewer	0	8,849
Transit	1,485	22,934
Golf	0	350,000
Non major business type activities	0	922
Total business-type activities	1,485	394,659
Governmental Activities - Internal Service Funds		
Internal service funds	201,286	4,594
Total internal service funds	201,286	4,594
Total all funds	\$705,880	\$705,880

NOTE 13 - CONTINGENT LIABILITY

The City is a defendant in a number of claims and lawsuits in the normal course of operations. The impact of the claims and lawsuits cannot presently be determined; however, City management is of the opinion the ultimate settlement of these claims will not result in a material adverse effect on the City's financial position.

NOTE 14 - POST EMPLOYMENT BENEFITS

The City provides death benefits to its employees who retire voluntarily or who are forced to retire due to a disability. A life insurance policy with a face value of \$5,000 is paid for by the City for all employees who retire. As of December 31, 2006, the City had 342 policies with a total value of \$1,701,000 in force for its retired employees.

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
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The City records its monthly premium expenditures for these policies as a current General Fund expenditure in the general government category. The approximate cost of these policies in 2006 was \$20,085.

PUBLIC EMPLOYEES RETIREMENT SYSTEM

- A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For local government employer units, the rate was 13.70% of covered payroll, and 4.50% was used to fund health care for the year.

- B. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

- C. Summary of Assumptions:

Actuarial Review. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2005.

Funding Method. The individual entry age actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

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

**CITY OF MIDDLETOWN
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Investment Return. The investment assumption rate for 2005 was 6.5%.

Active Employee Total Payroll. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.50% to 6.30%.

Health Care. Health care costs were assumed to increase annually at the projected wage inflation rate plus an additional factor ranging from 0.5% to 6% for the next nine years. In subsequent years (ten and beyond), health care costs were assumed to increase at 4% (the projected wage inflation rate).

D. OPEB's are advance-funded on an actuarially determined basis.

1. At year-end 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The number of active contributing participants for both plans used on the December 31, 2005 actuarial valuation was 358,804.
2. The rates stated in paragraph A are the actuarially determined contribution requirements for OPERS. The portion of the City's contribution that was used to fund health care benefits was \$754,979.
3. \$11.1 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2005.
4. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively as of December 31, 2005.

E. OPERS Retirement Board Adopts Health Care Preservation Plan

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

OP & F

The Ohio Revised Code provides the statutory authority allowing OP & F's Board of Trustees to provide health care coverage to all eligible individuals. The OP & F provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The Ohio Revised Code provides that OP & F health care cost paid from the funds of the OP & F shall be

**CITY OF MIDDLETOWN
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included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter's employer contribution rate is 24% of covered payroll.

The OP & F health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2005 and in 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of participants eligible to receive health care benefits as January 1, 2006, is 13,922 for police and 10,537 for firefighters. For the year ended December 31, 2006, the City's contribution to fund OPEB was \$406,874 for police and \$401,545 for firefighters. The OP & F's total health care expenses as of December 31, 2005, were \$108,039,449, which was net of member contributions of \$55,271,881.

NOTE 15 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In December of 1987, the City joined together with other public entities of the state in a pool formed as a common risk management and self-insurance mechanism. The City's agreement with the Public Entities Pool of Ohio (PEP) covers its general liability, public officials' liability, police professional liability, and automobile liability exposures. The Intergovernment Agreement of PEP provides that PEP will be self-sustaining through member contributions. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member political subdivisions pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures casualty claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. If losses exhaust PEP's net assets, APEEP covers PEP's retained casualty risk up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000. Local political subdivisions can elect additional coverage, up to a total limit of \$12,000,000 from the General Reinsurance Corporation.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 in any one occurrence. APEEP reinsures property losses that are greater than \$100,000 up to \$500 million per occurrence. The Travelers Indemnity Company reinsures losses exceeding \$250,000 up to \$600,000,000 per occurrence. The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective local government. The City of Middletown does not have property coverage with PEP.

**CITY OF MIDDLETOWN
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The City's property is insured by Indiana Insurance Company up to a total replacement cost of \$114,520,850.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets and liabilities at December 31, 2005:

<u>Casualty Coverage</u>	<u>2005</u>	<u>Property Coverage</u>	<u>2005</u>
Assets	\$29,719,675	Assets	\$4,443,332
Liabilities	(15,994,168)	Liabilities	(1,068,245)
Retained Earnings	<u>\$13,725,507</u>	Retained Earnings	<u>\$3,375,087</u>

In 1986, the City set up an internal service fund to account for employee health insurance. All funds pay a "premium" for each employee into the internal service fund on a monthly basis. This charge considers recent trends in actual claims experience and is adjusted on an annual basis. Catastrophic losses are provided for by having stop loss insurance for individual claims over \$100,000 or an aggregate loss of \$4,008,000.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic social factors.

Year	Beginning of Fiscal Year Liability	Current Year Claims & Changes In Estimate	Claims Payments	Balance At Fiscal Year End
2005	\$458,384	\$4,140,199	\$3,998,789	\$599,794
2006	\$599,794	\$4,193,558	\$4,209,067	\$584,285

The City purchases commercial insurance for all other risks of loss. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 16 - SIGNIFICANT CONTRACTUAL OBLIGATIONS

As of December 31, 2006, the City of Middletown has entered into the following contracts to be paid from the City's Capital Project and Enterprise Funds:

**CITY OF MIDDLETOWN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

Vendor	Purpose	Amount Remaining
Sunesis Construction Co.	Cincinnati-Dayton Rd. widening	\$1,158,991
SRW Environmental Svcs.	Aeronca project	\$993,860
Johnson Controls, Inc.	Water meter change-out	478,775
Malcolm Pirnie Inc.	Brownfields assessment	340,700
Brown & Caldwell Ohio LLC	Sewer long term control plan	288,756
Camp Dress & McKee, Inc.	Sludge management	229,425
S & K Construction	Sewer repairs	<u>175,000</u>
	Total	<u>\$3,665,507</u>

NOTE 17 - RELATED ORGANIZATION

The Middletown Public Library is a distinct political subdivision of the State of Ohio created under the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the City of Middletown. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the City for operational subsidies. Although the City does serve as the taxing authority and has issued tax-related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Middletown Public Library at 125 South Broad Street, Middletown, Ohio 45044.

NOTE 18 – LOAN RECEIVABLE

The City of Middletown entered into an agreement in 1997 with the City of Monroe to share the cost of a 1.5 million gallon water storage tank that would deliver water to the residents of both cities. Upon completion of the tank construction, the City of Monroe was to pay one third of the cost of construction to Middletown over a twenty-year period. Construction of the tank was completed in late 2001. Monroe is paying \$675,908 to Middletown over a twenty-year period at an interest rate of 5.09%.

NOTE 19 – CONDUIT DEBT

The City of Middletown authorized the issuance of \$80,000,000 in hospital facilities revenue bonds in late November. These bonds were used to finance the construction and the equipping of the new Middletown Regional Hospital. The hospital is scheduled to open in late 2008. Middletown Regional Hospital will repay this debt; the City of Middletown is not obligated for this debt.

City of Middletown conduit debt issues outstanding at December 31, 2006 include:

- \$12,250,000 demand revenue bonds issued on behalf of Fenwick High School in 2003,
- \$85,000,000 hospital facilities revenue bonds issued on behalf of Middletown Regional Hospital in 2005, and
- \$80,000,000 hospital facilities bonds issued on behalf of Middletown Regional Hospital in 2006.

CITY OF MIDDLETOWN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2006

BUDGETARY ACCOUNTING

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual (Non-GAAP Basis) - All Governmental Fund Types and Expendable Trust Funds; and the Combined Statement of Revenues, Expenses, and Changes in fund balances, Budget and Actual (Non-GAAP Basis) - all Proprietary Fund Types and similar Trust Funds, are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- i) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- ii) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- iii) Outstanding year-end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- iv) Receipt and payment of year-end interfund loans are treated as other sources or uses (budget basis) rather than an increase or decrease in an asset or liability account (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budgetary (cash) basis for the General Fund and major Special Revenue Funds are as follows:

	General Fund	Housing Assistance	CD Escrow
GAAP basis (as reported)	(\$69,150)	\$1,229,426	(\$55)
Adjustments: revenue and other source accruals	(155,923)	2,203	0
Expenditures, encumbrances and other use accruals	(219,170)	(55,149)	(55,199)
Budget basis	(\$444,243)	\$1,176,480	(\$55,254)

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property taxes	\$ 4,220,730	\$ 4,220,730	\$ 4,232,974	\$ 12,244
Municipal income taxes	13,027,944	12,747,694	12,046,027	(701,667)
Intergovernmental revenue	2,778,221	2,978,221	3,331,333	353,112
Charges for services	3,738,709	3,438,709	3,190,905	(247,804)
Fees, licenses, and permits	345,829	345,829	412,870	67,041
Fines and forfeits	116,000	116,000	135,282	19,282
Interest earnings	275,703	332,759	450,861	118,102
Miscellaneous	785,224	885,224	916,181	30,984
Total revenues	25,288,360	25,065,166	24,716,433	(348,706)
Expenditures:				
Current				
Public Safety				
Fire administration	293,154	293,154	242,419	50,735
Fire operations	6,525,372	6,524,590	6,300,701	223,889
Fire prevention/training	335,894	335,894	323,892	12,002
Police administration	295,936	295,709	282,232	13,477
Criminal investigation	1,710,437	1,710,437	1,653,873	56,564
Uniform patrol	5,299,276	5,300,497	4,895,315	405,182
Police services	560,322	560,322	539,028	21,294
Police and fire dispatch	1,125,726	1,125,726	1,037,443	88,283
Humane officer	85,578	85,578	83,745	1,833
Jail management	1,108,757	1,108,757	1,039,415	69,342
School crossing guards	36,235	38,735	26,304	12,431
Citizen service center	312,990	312,990	227,940	85,050
Building inspection and services	434,708	434,708	430,789	3,919
Building maintenance	708,281	797,280	761,685	35,595
Total public safety	17,706,940	18,924,377	17,844,781	991,313
Leisure Activities				
Community services administration	156,001	156,001	140,574	15,427
Community center	195,065	208,715	160,212	48,503
Recreation	201,551	255,974	238,791	17,183
Parks maintenance	482,844	520,827	495,589	25,238
Total leisure activities	1,035,461	1,141,517	1,035,166	106,351

continued

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Community Environment				
Planning administration	174,371	174,371	170,035	4,336
Community development	429,147	429,147	393,870	35,277
Street lighting	584,928	584,928	560,674	24,254
Total community environment	1,188,446	1,188,446	1,124,579	63,867
General Government				
City council	177,220	177,220	158,146	19,074
City manager	309,968	309,968	231,160	78,808
Finance administration	212,140	212,140	203,435	8,705
Treasurer	236,161	236,161	208,325	27,836
Taxation	489,544	516,544	501,216	15,328
Information systems	945,232	943,778	771,056	172,722
Personnel	435,660	435,660	291,147	144,513
Law	537,839	537,839	444,899	92,940
Purchasing	85,172	85,172	82,969	2,203
Planning	340,721	340,721	247,046	93,675
Economic development	150,000	162,000	150,055	
Engineering	818,627	817,216	711,600	105,616
Total general government	4,738,284	4,774,419	4,001,054	761,420
Miscellaneous				
Non-departmental	1,079,790	1,049,963	1,035,896	14,067
Total miscellaneous	1,079,790	1,049,963	1,035,896	14,067
Total expenditures	25,807,721	27,078,722	25,041,476	2,037,246
Excess of revenues over (under) expenditures	(519,361)	(2,013,556)	(325,043)	1,688,540

continued

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Other financing sources (uses)				
Transfers-in	40,800	-	-	-
Transfers-out	(198,903)	(207,153)	(204,153)	3,000
Other sources	-	-	118,000	118,000
Other uses	-	-	(33,047)	(33,047)
Total other financing sources (uses)	(158,103)	(207,153)	(119,200)	87,953
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(677,464)	(2,220,709)	(444,243)	1,776,493
Fund balance, beginning of year	5,652,718	5,652,718	5,652,718	-
Appropriation for prior year encumbrances	414,254	414,254	414,254	-
Fund balance, end of the year	\$ 5,389,508	\$ 3,846,263	\$ 5,622,729	\$ 1,776,493

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
HOUSING ASSISTANCE FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Intergovernmental revenue	\$ 10,247,000	\$ 10,247,000	\$ 9,684,761	\$ (562,239)
Interest earnings	8,000	8,000	21,394	13,394
Miscellaneous	70,000	70,000	12,058	(57,942)
Total revenues	10,325,000	10,325,000	9,718,213	(606,787)
Expenditures:				
Current				
Community Environment	11,526,763	11,526,763	8,543,936	2,982,827
Total expenditures	11,526,763	11,526,763	8,543,936	2,982,827
Excess of revenues over (under) expenditures	(1,201,763)	(1,201,763)	1,174,277	2,376,040
Other financing sources (uses):				
Other sources	-	-	2,203	2,203
Total other financing sources	-	-	2,203	2,203
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(1,201,763)	(1,201,763)	1,176,480	2,378,243
Fund balance, beginning of the year	1,513,902	1,513,902	1,513,902	-
Appropriation for prior year encumbrances	5,149	5,149	5,149	-
Fund balance, end of the year	\$ 317,288	\$ 317,288	\$ 2,695,531	\$ 2,378,243

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
COMMUNITY DEVELOPMENT ESCROW
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Interest earnings	\$ 121,200	\$ 121,200	\$ 45,240	\$ (75,960)
Miscellaneous	560,000	560,000	55,966	(504,034)
Total revenues	681,200	681,200	101,206	(579,994)
Expenditures:				
Current				
Community Environment	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over (under) expenditures	681,200	681,200	101,206	(579,994)
Other financing sources (uses):				
Other uses	(360,000)	(360,000)	(156,460)	203,540
Total other financing uses	(360,000)	(360,000)	(156,460)	203,540
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	321,200	321,200	(55,254)	(376,454)
Fund balance, beginning of the year	1,177,471	1,177,471	1,177,471	-
Fund balance, end of the year	\$ 1,498,671	\$ 1,498,671	\$ 1,122,217	\$ (376,454)

SUPPLEMENTAL SECTION

SPECIAL REVENUE FUNDS

Special Revenues Funds account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted for specific purposes.

Non Major Special Revenue Funds:

AUTO AND GAS TAX FUND

To account for state-levied and controlled gasoline tax and county vehicle license fees, which are remitted to the City for routine street maintenance and traffic control.

ACQUISITION FOR PARKS FUND

To account for monies received for split-lot fees charged in local subdivisions.

HEALTH FUND

To account for grant money received from the State for the City's public health subsidy, and to account for the activities of the City Health Department.

EMERGENCY MEDICAL SERVICES FUND (EMS)

To account for a portion of the City's ambulance service revenues. Fire capital needs are paid for by this fund.

TAX INCREMENT EQUIVALENT FUND

To account for the tax increment equivalent tax collected by the county for City Centre Mall property.

URBAN DEVELOPMENT ACTION GRANT (UDAG) FUND

To account for the Urban Development Action Grant loans to local businesses.

FEMA GRANT FUND

To account for federal grant monies received through the Ohio Emergency Management Agency for approved projects under the Public Assistance Grant Program

LAW ENFORCEMENT FUND

To account for revenues resulting from the sale of property seized by the Middletown Police Division in the course of its criminal investigations.

MANDATORY DRUG FINE FUND

To account for drug fines received from the Court of Common Pleas and police division drug investigation expenditures.

PROBATION SERVICES FUND

To account for probation fees levied by the Middletown Municipal Court.

TERMINATION PAY FUND

To account for the expenditures resulting from the retirement or resignation of City employees.

INDIGENT DRIVER ALCOHOL TREATMENT FUND

To account for fines collected by the Municipal Court to be used for treatment of indigent drivers convicted of driving under the influence.

ENFORCEMENT/EDUCATION FUND

To account for fines collected by the Municipal Court to be used by the Court and Police for traffic education and enforcement.

CIVIC DEVELOPMENT FUND

To account for the City lodging tax receipts which are to be used for civic development purposes.

MUNICIPAL COURT FUND

To account for fines and court costs levied by the City's Municipal Court, and to account for the operations of the Middletown Municipal Court.

POLICE GRANT FUND

To account for Federal grant money awarded to the Police Division.

COURT SPECIAL PROJECTS FUND

To accumulate funds for projects designated by the Municipal Court.

HOME PROGRAM FUND

To account for funds received from the Department of Housing and Urban Development for home purchase assistance.

COMMUNITY DEVELOPMENT FUND

To account for monies received from the Department of Housing and Urban Development for the City's community development block grant.

POLICE PENSION FUND

To accumulate property taxes levied for the partial payment of the current and accrued liability for police disability and pension.

FIRE PENSION FUND

To accumulate property taxes levied for the partial payment of the current and accrued liability for fire disability and pension.

DEBT SERVICE FUNDS

Debt Service Funds account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Major Debt Service Fund:

SPECIAL ASSESSMENT DEBT SERVICE FUND

To accumulate special assessment revenues collected by the county and remitted to the City for the payment of special assessment bonds.

Non Major Debt Service Funds:

GENERAL OBLIGATION DEBT SERVICE FUND

To account for the accumulation of resources for, and the payment of general long-term debt principal and interest. Revenues are comprised of transfers from other funds and expenditures are for annual bond principal and interest payments due.

TOWNE BOULEVARD TAX INCREMENT FINANCING DISTRICT FUND

To account for the tax increment payments used to retire debt on the Towne Boulevard Extension project. The Towne Boulevard Tax Increment Financing District was established in 2001 and expires in 2021.

DOWNTOWN TAX INCREMENT FINANCING DISTRICT FUND

To account for the tax increment payments used to retire debt for the removal of the City Centre Mall in the downtown area. The Downtown Tax Increment Financing District was established in 2000 and expires in 2020.

CAPITAL PROJECT FUNDS

Capital Project Funds account for financial resources to be used for the construction or acquisition of major capital facilities.

Major Capital Project Funds:

CAPITAL IMPROVEMENTS FUND

To accumulate construction costs for the City's self-funded capital projects

EAST END DEVELOPMENT FUND

To accumulate costs for improvements in the City's recently annexed East End area adjacent to Interstate 75.

DOWNTOWN IMPROVEMENTS FUND

To account for improvement projects in the downtown area.

Non Major Capital Project Funds:

COMPUTER REPLACEMENT FUND

To accumulate funds for the future purchase of a new mainframe computer for the City.

PROPERTY DEVELOPMENT FUND

To account for operating and development costs associated with the Leeds Farm property owned by the City.

2004 SIDEWALK, CURB, & GUTTER FUND

To accumulate costs for the improvement to various sidewalks, curbs, and gutters in Middletown. Property owners will be assessed for part of the cost of this project.

BREIEL BLVD. RESURFACING FUND

To accumulate costs for Breiel Boulevard resurfacing and related improvements. Property owners will be partially assessed for this project.

**CITY OF MIDDLETOWN, OHIO
 COMBINING BALANCE SHEET
 NON MAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2006**

	Non Major Special Revenue Funds	Non Major Debt Service Funds	Non Major Capital Project Funds	Total Non Major Governmental Funds
Assets:				
Cash and equity in pooled cash, deposits and investments	\$ 2,094,386	\$ 435,786	\$ 1,770,727	\$ 4,300,899
Cash with fiscal and escrow agent	-	40,683	-	40,683
Receivables (net of allowance for uncollectibles):				
Property taxes	580,000	-	-	580,000
Accounts	125,281	-	-	125,281
Loans	317,840	-	-	317,840
Due from other funds	3,109	-	-	3,109
Due from other governments	2,934,555	-	-	2,934,555
Inventory of supplies	588,356	-	-	588,356
Total assets	6,643,527	476,469	1,770,727	8,890,723
Liabilities:				
Accounts payable	180,278	-	-	180,278
Accrued wages and benefits	164,202	-	-	164,202
Other accrued liabilities	54,884	-	-	54,884
Due to other funds	195,416	-	-	195,416
Due to other governments	35,621	-	-	35,621
Matured bonds and interest	-	40,683	-	40,683
Deferred revenue	3,162,617	-	-	3,162,617
Total liabilities	3,793,018	40,683	-	3,833,701
Fund balances:				
Reserved for encumbrances	187,089	-	53,341	240,430
Reserved for inventory	588,356	-	-	588,356
Reserved for loans	317,840	-	-	317,840
Unreserved and undesignated	1,757,224	435,786	1,717,386	3,910,396
Total fund balances	2,850,509	435,786	1,770,727	5,057,022
Total liabilities and fund balances	\$ 6,643,527	\$ 476,469	\$ 1,770,727	\$ 8,890,723

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON MAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

	Non Major Special Revenue Funds	Non Major Debt Service Funds	Non Major Capital Project Funds	Total Non Major Governmental Funds
Revenues:				
Property taxes	\$ 575,328	\$ 217,509	\$ -	\$ 792,837
Municipal income taxes	3,116,250	1,951,643	8,000	5,075,893
Special assessments	-	-	2,513	2,513
Intergovernmental revenues	4,650,004	-	-	4,650,004
Charges for services	216,624	-	-	216,624
Fines and forfeits	1,348,099	-	-	1,348,099
Interest earnings	22,616	-	39,414	62,030
Miscellaneous	373,899	290,238	157,475	821,612
Total revenues	10,302,820	2,459,390	207,402	\$ 12,969,612
Expenditures:				
Current				
Public safety	5,799,750	-	-	5,799,750
Public health and welfare	1,212,729	-	-	1,212,729
Leisure time activities	40,614	-	-	40,614
Community environment	1,440,934	-	24,018	1,464,952
Highways and streets	1,987,826	-	-	1,987,826
General government	4,850	-	239,499	244,349
Miscellaneous	166,149	-	-	166,149
Debt service				
Principal retirement	-	1,335,000	-	1,335,000
Interest and fiscal charges	-	1,190,438	-	1,190,438
Total expenditures	10,652,852	2,525,438	263,517	13,441,807
Excess of revenues over (under) expenditures	(350,032)	(66,048)	(56,115)	(472,195)
Other financing sources (uses):				
Transfers-in	5,250	200,000	253,703	458,953
Transfers-out	(35,015)	-	(2,880)	(37,895)
Other uses	(22,990)	(2,929)	-	(25,919)
Issuance of bonds	-	-	58,580	58,580
Total other financing sources (uses)	(52,755)	197,071	309,403	453,719
Net change in fund balances	(402,787)	131,023	253,288	(18,476)
Fund balance, beginning of year	3,253,296	304,763	1,517,439	5,075,498
Fund balance, end of the year	\$ 2,850,509	\$ 435,786	\$ 1,770,727	\$ 5,057,022

**CITY OF MIDDLETOWN, OHIO
 COMBINING BALANCE SHEET
 NON MAJOR SPECIAL REVENUE FUNDS
 DECEMBER 31, 2006**

	Auto & Gas Tax	Acquisition for Parks	Health Fund	Emergency Medical Services
Assets:				
Cash and equity in pooled cash, deposits and investments	\$ 290,058	\$ 62,292	\$ 140,237	\$ 565,091
Receivables (net of allowance for uncollectibles):				
Property taxes	-	-	-	-
Accounts	-	-	-	-
Loans	-	-	-	-
Due from other funds	-	-	3,109	-
Due from other governments	1,083,997	-	437,704	-
Inventory of supplies	588,356	-	-	-
Total assets	1,962,411	62,292	581,050	565,091
Liabilities:				
Accounts payable	49,449	-	18,046	6,395
Accrued wages and benefits	47,142	-	47,947	-
Other accrued liabilities	18,646	-	14,714	-
Due to other funds	43,689	-	707	-
Due to other governments	-	-	35,621	-
Deferred revenue	921,159	-	263,238	-
Total liabilities	1,080,085	-	380,273	6,395
Fund balances:				
Reserved for encumbrances	137,903	-	-	4,050
Reserved for inventory	588,356	-	-	-
Reserved for loans	-	-	-	-
Unreserved and undesignated	156,067	62,292	200,777	554,646
Total fund balances	882,326	62,292	200,777	558,696
Total liabilities and fund balances	\$ 1,962,411	\$ 62,292	\$ 581,050	\$ 565,091

Tax Increment Equivalent	Urban Development Action Grant	FEMA Grant	Law Enforcement	Mandatory Drug Fine	Probation Services	Termination Pay
\$ -	\$ 284,208	\$ -	\$ 120,307	\$ 39,243	\$ 99,379	\$ 39,167
-	-	-	-	-	-	-
-	194,880	-	-	2,373	6,050	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	479,088	-	120,307	41,616	105,429	39,167
-	-	-	-	-	25	-
-	-	-	-	-	1,955	-
-	-	-	-	-	36	-
-	-	-	243	-	-	-
-	-	-	-	-	-	-
-	-	-	243	-	2,016	-
-	-	-	-	-	-	-
-	194,880	-	-	-	-	-
-	284,208	-	120,064	41,616	103,413	39,167
-	479,088	-	120,064	41,616	103,413	39,167
\$ -	\$ 479,088	\$ -	\$ 120,307	\$ 41,616	\$ 105,429	\$ 39,167

(continued)

**CITY OF MIDDLETOWN, OHIO
 COMBINING BALANCE SHEET
 NON MAJOR SPECIAL REVENUE FUNDS
 DECEMBER 31, 2006**

	Indigent Driver Alcohol Treatment	Enforcement Education	Civic Develop- ment	Municipal Court	Police Grant
Assets:					
Cash and equity in pooled cash, deposits and investments	\$ 12,619	\$ 16,335	\$ 41,669	\$ 18,900	\$ 64,619
Receivables (net of allowance for uncollectibles):					
Property taxes	-	-	-	-	-
Accounts	599	365	35,608	70,953	-
Loans	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	44,940
Inventory of supplies	-	-	-	-	-
Total assets	13,218	16,700	77,277	89,853	109,559
Liabilities:					
Accounts payable	-	-	42,122	7,576	2,163
Accrued wages and benefits	-	-	-	63,499	-
Other accrued liabilities	-	-	-	20,289	106
Due to other funds	-	-	-	777	-
Due to other governments	-	-	-	-	-
Deferred revenue	-	-	-	-	44,940
Total liabilities	-	-	42,122	92,141	47,209
Fund balances:					
Reserved for encumbrances	-	-	-	-	45,136
Reserved for inventory	-	-	-	-	-
Reserved for loans	-	-	-	-	-
Unreserved and undesignated	13,218	16,700	35,155	(2,288)	17,214
Total fund balances	13,218	16,700	35,155	(2,288)	62,350
Total liabilities and fund balances	\$ 13,218	\$ 16,700	\$ 77,277	\$ 89,853	\$ 109,559

Court Special Projects	Home Program	Community Development	Police Pension	Fire Pension	Totals
\$ 92,882	\$ 51,663	\$ 34,153	\$ 62,722	\$ 58,842	\$ 2,094,386
-	-	-	290,000	290,000	580,000
9,333	-	-	-	-	125,281
-	-	122,960	-	-	317,840
-	-	-	-	-	3,109
-	715,488	652,426	-	-	2,934,555
-	-	-	-	-	588,356
102,215	767,151	809,539	352,722	348,842	6,643,527
3,225	15,033	36,244	-	-	180,278
3,659	-	-	-	-	164,202
1,093	-	-	-	-	54,884
-	50,000	100,000	-	-	195,416
-	-	-	-	-	35,621
-	700,854	652,426	290,000	290,000	3,162,617
7,977	765,887	788,670	290,000	290,000	3,793,018
-	-	-	-	-	187,089
-	-	-	-	-	588,356
-	-	122,960	-	-	317,840
94,238	1,264	(102,091)	62,722	58,842	1,757,224
94,238	1,264	20,869	62,722	58,842	2,850,509
\$ 102,215	\$ 767,151	\$ 809,539	\$ 352,722	\$ 348,842	\$ 6,643,527

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006**

	Auto & Gas Tax	Acquisition for Parks	Health Fund	Emergency Medical Services
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Municipal income taxes	455,000	-	264,000	-
Intergovernmental revenues	2,272,824	-	846,951	-
Charges for services	-	12,500	204,124	-
Fines and forfeits	-	-	-	-
Interest earnings	4,087	-	-	-
Miscellaneous	136,781	-	-	-
Total revenues	2,868,692	12,500	1,315,075	-
Expenditures:				
Current				
Public safety	653,309	-	-	622,388
Public health and welfare	-	-	1,207,285	-
Leisure time activities	-	-	-	-
Community environment	-	-	-	-
Highways and streets	1,977,205	-	-	-
General government	-	-	-	-
Miscellaneous	-	-	-	-
Total expenditures	2,630,514	-	1,207,285	622,388
Excess of revenues over (under) expenditures	238,178	12,500	107,790	(622,388)
Other financing sources (uses):				
Transfers-in	-	-	-	-
Transfers-out	-	-	-	-
Other uses	-	-	(22,990)	-
Total other financing sources (uses)	-	-	(22,990)	-
Net change in fund balances	238,178	12,500	84,800	(622,388)
Fund balance, beginning of year	644,148	49,792	115,977	1,181,084
Fund balance, end of the year	\$ 882,326	\$ 62,292	\$ 200,777	\$ 558,696

Tax Increment Equivalent	Urban Development Action Grant	FEMA Grant	Law Enforcement	Mandatory Drug Fine	Probation Services	Termination Pay
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	350,000
-	-	35,015	-	-	-	-
-	-	-	-	-	-	-
-	-	-	107,143	27,873	68,459	-
-	15,605	-	-	-	-	-
-	-	-	-	-	-	-
-	15,605	35,015	107,143	27,873	68,459	350,000
-	-	-	92,738	24,682	29,159	459,430
-	-	-	-	-	-	5,444
-	-	-	-	-	-	40,614
22,160	93	-	-	-	-	3,785
-	-	-	-	-	-	10,621
-	-	-	-	-	-	4,850
-	-	-	-	-	-	-
22,160	93	-	92,738	24,682	29,159	524,744
(22,160)	15,512	35,015	14,405	3,191	39,300	(174,744)
-	-	-	-	-	-	-
-	-	(35,015)	-	-	-	-
-	-	-	-	-	-	-
-	-	(35,015)	-	-	-	-
(22,160)	15,512	-	14,405	3,191	39,300	(174,744)
22,160	463,576	-	105,659	38,425	64,113	213,911
\$ -	\$ 479,088	\$ -	\$ 120,064	\$ 41,616	\$ 103,413	\$ 39,167

(continued)

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NON MAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006**

	Indigent Driver Alcohol Treatment	Enforce-ment Education	Civic Develop- ment	Municipal Court
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Municipal income taxes	-	-	-	396,250
Intergovernmental revenues	-	-	-	-
Charges for services	-	-	-	-
Fines and forfeits	18,639	7,825	-	978,477
Interest earnings	-	-	-	-
Miscellaneous	-	-	201,304	9,243
Total revenues	18,639	7,825	201,304	1,383,970
Expenditures:				
Current				
Public safety	23,120	500	-	1,398,898
Public health and welfare	-	-	-	-
Leisure time activities	-	-	-	-
Community environment	-	-	-	-
Highways and streets	-	-	-	-
General government	-	-	-	-
Miscellaneous	-	-	166,149	-
Total expenditures	23,120	500	166,149	1,398,898
Excess of revenues over (under) expenditures	(4,481)	7,325	35,155	(14,928)
Other financing sources (uses):				
Transfers-in	-	-	-	5,250
Transfers-out	-	-	-	-
Other uses	-	-	-	-
Total other financing sources (uses)	-	-	-	5,250
Net change in fund balances	(4,481)	7,325	35,155	(9,678)
Fund balance, beginning of year	17,699	9,375	-	7,390
Fund balance, end of the year	\$ 13,218	\$ 16,700	\$ 35,155	\$ (2,288)

Police Grant	Court Special Projects	Home Program	Community Development	Police Pension	Fire Pension	Totals
\$ -	\$ -	\$ -	\$ -	\$ 287,664	\$ 287,664	\$ 575,328
-	-	-	-	732,000	919,000	3,116,250
201,989	-	464,109	749,032	40,042	40,042	4,650,004
-	-	-	-	-	-	216,624
-	139,683	-	-	-	-	1,348,099
1,134	-	-	1,790	-	-	22,616
16,331	-	-	10,240	-	-	373,899
219,454	139,683	464,109	761,062	1,059,706	1,246,706	\$ 10,302,820
127,911	140,305	-	-	1,024,871	1,202,439	5,799,750
-	-	-	-	-	-	1,212,729
-	-	-	-	-	-	40,614
-	-	504,697	910,199	-	-	1,440,934
-	-	-	-	-	-	1,987,826
-	-	-	-	-	-	4,850
-	-	-	-	-	-	166,149
127,911	140,305	504,697	910,199	1,024,871	1,202,439	10,652,852
91,543	(622)	(40,588)	(149,137)	34,835	44,267	(350,032)
-	-	-	-	-	-	5,250
-	-	-	-	-	-	(35,015)
-	-	-	-	-	-	(22,990)
-	-	-	-	-	-	(52,755)
91,543	(622)	(40,588)	(149,137)	34,835	44,267	(402,787)
(29,193)	94,860	41,852	170,006	27,887	14,575	3,253,296
\$ 62,350	\$ 94,238	\$ 1,264	\$ 20,869	\$ 62,722	\$ 58,842	\$ 2,850,509

CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
AUTO AND GAS TAX FUND
FOR YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Municipal income tax	\$ 455,000	\$ 455,000	\$ 455,000	\$ -
Intergovernmental revenue	2,490,312	2,490,312	2,399,315	(90,997)
Interest earnings	1,786	1,786	4,087	2,301
Miscellaneous	240,850	240,850	136,781	(104,069)
Total revenues	3,187,948	3,187,948	2,995,183	(192,765)
Expenditures:				
Current				
Public safety:				
Electronic Maintenance	679,618	679,618	674,802	4,816
Total public safety	679,618	679,618	674,802	4,816
Highways and streets:				
Street Maintenance	1,929,259	1,929,127	1,601,406	327,721
Grounds Maintenance	619,545	657,545	604,813	52,732
Total highways and streets	2,548,804	2,586,672	2,206,219	380,453
Total expenditures	3,228,422	3,266,290	2,881,021	385,269
Excess of revenues over (under) expenditures	(40,474)	(78,342)	114,162	192,504
Other financing sources (uses):				
Other uses	-	-	(20,000)	(20,000)
Total other financing sources (uses)	-	-	(20,000)	(20,000)
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(40,474)	(78,342)	94,162	172,504
Fund balance, beginning of the year	(77,766)	(77,766)	(77,766)	-
Appropriation for prior year encumbrances	90,046	90,046	90,046	-
Fund balance, end of the year	\$ (28,194)	\$ (66,062)	\$ 106,442	\$ 172,504

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ACQUISITION FOR PARKS FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Charges for services	\$ 15,000	\$ 15,000	\$ 12,500	\$ (2,500)
Total revenues	15,000	15,000	12,500	(2,500)
Expenditures:				
Current				
Leisure activities	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over expenditures	15,000	15,000	12,500	(2,500)
Fund balance, beginning of the year	49,795	49,795	49,795	-
Fund balance, end of the year	\$ 64,795	\$ 64,795	\$ 62,295	\$ (2,500)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
FEMA GRANT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Intergovernmental	\$ -	\$ 35,015	\$ 35,015	\$ -
Total revenues	-	35,015	35,015	-
Expenditures:				
Current				
Public safety	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues over expenditures	-	35,015	35,015	-
Other financing sources (uses):				
Transfers-out	-	(35,015)	(35,015)	-
Total other financing sources (uses)	-	(35,015)	(35,015)	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	-	-
Fund balance, beginning of the year	-	-	-	-
Fund balance, end of the year	\$ -	\$ -	\$ -	\$ -

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

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Municipal income taxes	\$ 264,000	\$ 264,000	\$ 264,000	\$ -
Intergovernmental revenue	795,476	795,476	716,788	(78,688)
Charges for services	198,498	198,498	204,124	5,626
Total revenues	1,257,974	1,257,974	1,184,912	(73,062)
Expenditures:				
Current				
Public health and welfare:				
Health State Subsidy	15,706	16,006	15,740	266
Immunization Action Plan	41,919	41,919	41,919	-
Public Health Infranstructure	29,423	29,423	25,261	4,162
Child & Family Services	178,572	185,072	182,490	2,582
Help Me Grow	375,381	375,381	298,187	77,194
OIMRI Grant Program	148,475	151,975	151,558	417
Health/Evironment Admin.	534,278	534,278	497,877	36,401
Total expenditures	1,323,754	1,334,054	1,213,032	121,022
Excess of revenues under expenditures	(65,780)	(76,080)	(28,120)	47,960
Other financing sources uses:				
Other uses	-	-	(11,495)	(11,495)
Total other financing uses	-	-	(11,495)	(11,495)
Excess of revenues and other financing sources under expenditures and other financing uses	(65,780)	(76,080)	(39,615)	36,465
Fund balance, beginning of the year	177,192	177,192	177,192	-
Fund balance, end of the year	\$ 111,412	\$ 101,112	\$ 137,577	\$ 36,465

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

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Miscellaneous	\$ 6,000	\$ 6,000	\$ -	\$ (6,000)
Total revenues	6,000	6,000	-	(6,000)
Expenditures:				
Current				
Public safety	849,686	846,102	648,336	197,766
Total expenditures	849,686	846,102	648,336	197,766
Excess of revenues over (under) expenditures	(843,686)	(840,102)	(648,336)	191,766
Fund balance, beginning of the year	650,010	650,010	650,010	-
Appropriation for prior year encumbrances	552,974	552,974	552,974	-
Fund balance, end of the year	\$ 359,298	\$ 362,882	\$ 554,648	\$ 191,766

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
TAX INCREMENT EQUIVALENT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property taxes	\$ -	\$ -	\$ -	-
Total revenues	-	-	-	-
Expenditures:				
Current				
Miscellaneous	67,000	67,000	26,582	40,418
Total expenditures	67,000	67,000	26,582	40,418
Excess of revenues under expenditures	(67,000)	(67,000)	(26,582)	40,418
Fund balance, beginning of the year	26,582	26,582	26,582	-
Fund balance, end of the year	\$ (40,418)	\$ (40,418)	\$ -	\$ 40,418

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
URBAN DEVELOPMENT ACTION GRANT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Interest earnings	\$ 25,000	\$ 25,000	\$ 15,605	\$ (9,395)
Miscellaneous	-	-	-	-
Total revenues	25,000	25,000	15,605	(9,395)
Expenditures:				
Current				
Community environment:	440,000	440,000	194,972	245,028
Total expenditures	440,000	440,000	194,972	245,028
Excess of revenues under expenditures	(415,000)	(415,000)	(179,367)	235,633
Fund balance, beginning of the year	463,575	463,575	463,575	-
Fund balance, end of the year	\$ 48,575	\$ 48,575	\$ 284,208	\$ 235,633

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
LAW ENFORCEMENT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Fines and forfeits	\$ 50,000	\$ 51,500	\$ 107,143	\$ 55,643
Total revenues	50,000	51,500	107,143	55,643
Expenditures:				
Current				
Public safety:	93,592	93,592	92,735	857
Total expenditures	93,592	93,592	92,735	857
Excess of revenues under expenditures	(43,592)	(42,092)	14,408	56,500
Fund balance, beginning of the year	94,306	94,306	94,306	-
Appropriation for prior year encumbrances	11,592	11,592	11,592	-
Fund balance, end of the year	\$ 62,306	\$ 63,806	\$ 120,306	\$ 56,500

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
MANDATORY DRUG FINE FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Fines and forfeits	\$ 50,000	\$ 50,000	\$ 37,123	\$ (12,877)
Intergovernmental revenue	-	-	34,004	34,004
Total revenues	50,000	50,000	71,127	21,127
Expenditures:				
Current				
Public safety:	25,000	25,000	24,922	78
Total expenditures	25,000	25,000	24,922	78
Excess of revenues over (under) expenditures	25,000	25,000	46,205	21,205
Other financing sources:				
Other uses	-	-	(23,000)	(23,000)
Total other financing sources	-	-	(23,000)	(23,000)
Excess of revenues and other financing sources over expenditures and other financing sources	25,000	25,000	23,205	(1,795)
Fund balance, beginning of the year	16,039	16,039	16,039	-
Fund balance, end of the year	\$ 41,039	\$ 41,039	\$ 39,244	\$ (1,795)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
PROBATION SERVICES FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Fines and forfeits	\$ 80,000	\$ 80,000	\$ 67,466	\$ (12,534)
Total revenues	80,000	80,000	67,466	(12,534)
Expenditures:				
Current				
Public safety	120,000	120,000	27,142	92,858
Total expenditures	120,000	120,000	27,142	92,858
Excess of revenues over expenditures	(40,000)	(40,000)	40,324	80,324
Fund balance, beginning of the year	59,053	59,053	59,053	-
Fund balance, end of the year	\$ 19,053	\$ 19,053	\$ 99,377	\$ 80,324

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
TERMINATION PAY FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Municipal income Tax	\$ 350,000	\$ 350,000	\$ 350,000	\$ -
Total revenues	350,000	350,000	350,000	-
Expenditures:				
Current				
Personal services:				
Public safety	270,000	480,000	456,863	23,137
Public health & welfare	5,000	6,000	5,444	556
Leisure time activities	20,000	21,000	20,846	154
General government	20,000	12,000	11,201	799
Highways & streets	35,000	31,000	30,389	611
Total expenditures	350,000	550,000	524,743	25,257
Excess of revenues over expenditures	-	(200,000)	(174,743)	25,257
Fund balance, beginning of the year	213,912	213,912	213,912	-
Fund balance, end of the year	\$ 213,912	\$ 13,912	\$ 39,169	\$ 25,257

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
INDIGENT DRIVER ALCOHOL TREATMENT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Fines and forfeits	\$ 23,350	\$ 23,350	\$ 18,390	\$ (4,960)
Total revenues	23,350	23,350	18,390	(4,960)
Expenditures:				
Current				
Public safety	25,000	25,000	23,120	1,880
Total expenditures	25,000	25,000	23,120	1,880
Excess of revenues under expenditures	(1,650)	(1,650)	(4,730)	(3,080)
Fund balance, beginning of the year	17,346	17,346	17,346	-
Fund balance, end of the year	\$ 15,696	\$ 15,696	\$ 12,616	\$ (3,080)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ENFORCEMENT/ EDUCATION FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Fines and forfeits	\$ 14,000	\$ 14,000	\$ 8,179	\$ (5,821)
Total revenues	14,000	14,000	8,179	(5,821)
Expenditures:				
Current				
Public Safety	27,350	27,350	20,850	6,500
Total expenditures	27,350	27,350	20,850	6,500
Excess of revenues over (under) expenditures	(13,350)	(13,350)	(12,671)	679
Fund balance, beginning of year	8,660	8,660	8,660	-
Appropriation for prior year encumbrances	20,350	20,350	20,350	-
Fund balance, end of the year	\$ 15,660	\$ 15,660	\$ 16,339	\$ 679

**CITY OF MIDDLETOWN, OHIO
 SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
 CIVIC DEVELOPMENT FUND
 FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Miscellaneous	\$ 161,600	\$ 161,600	\$ 202,421	\$ 40,821
Total revenues	161,600	161,600	202,421	40,821
Expenditures:				
Current				
Miscellaneous	161,600	161,600	161,600	-
Total expenditures	161,600	161,600	161,600	-
Excess of revenues under expenditures	-	-	40,821	40,821
Fund balance, beginning of the year	848	848	848	-
Fund balance, end of the year	\$ 848	\$ 848	\$ 41,669	\$ 40,821

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

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Municipal income tax	\$ 125,000	\$ 396,250	\$ 396,250	\$ -
Fines and forfeits	1,188,467	1,188,467	986,347	(202,120)
Miscellaneous	10,150	10,150	9,244	(906)
Total revenues	1,323,617	1,594,867	1,391,841	(203,026)
Expenditures:				
Current				
Public safety:	1,422,100	1,422,100	1,391,714	30,386
Total expenditures	1,422,100	1,422,100	1,391,714	30,386
Excess of revenues over expenditures	(98,483)	172,767	127	(172,640)
Other financing sources (uses):				
Transfers-in	-	5,250	5,250	-
Total other financing sources (uses)		5,250	5,250	-
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(98,483)	178,017	5,377	(172,640)
Fund balance, beginning of the year	13,345	13,345	13,345	-
Fund balance, end of the year	\$ (85,138)	\$ 191,362	\$ 18,722	\$ (172,640)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
POLICE GRANT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Intergovernmental revenue	\$ 136,009	\$ 136,009	\$ 201,989	\$ 65,980
Interest earnings	735	735	1,134	399
Miscellaneous	-	10,000	16,331	6,331
Total revenues	136,744	146,744	219,454	72,710
Expenditures:				
Current				
Public safety:				
Dare Grant	5,683	5,683	5,682	1
Fingerprint Machine Replacement	39,928	39,928	39,928	-
E911 System Upgrade Grant	23,214	23,214	23,214	-
2002 Cops More Grant	149,551	149,551	95,175	54,376
2004 Federal Block Grant	-	6,779	6,779	-
Total expenditures	218,376	225,155	170,778	54,377
Excess of revenues under expenditures	(81,632)	(78,411)	48,676	127,087
Other financing sources (uses):				
Other uses		-	(30,000)	(30,000)
Total other financing sources (uses)	-	-	(30,000)	(30,000)
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(81,632)	(78,411)	18,676	97,087
Fund balance, beginning of the year	(81,876)	(81,876)	(81,876)	-
Appropriation for prior year encumbrances	82,684	82,684	82,684	-
Fund balance, end of the year	\$ (30,824)	\$ (77,603)	\$ 19,484	\$ 97,087

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
COURT SPECIAL PROJECTS FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Fines & forfeits	\$ 150,000	\$ 150,000	\$ 141,999	\$ (8,001)
Total revenues	150,000	150,000	141,999	(8,001)
Expenditures:				
Current				
Public safety:	234,929	229,223	136,783	92,440
Total expenditures	234,929	229,223	136,783	92,440
Excess of revenues under expenditures	(84,929)	(79,223)	5,216	84,439
Fund balance, beginning of the year	72,735	72,735	72,735	-
Appropriation for prior year encumbrances	14,929	14,929	14,929	-
Fund balance, end of the year	\$ 2,735	\$ 8,441	\$ 92,880	\$ 84,439

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
HOME PROGRAM FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Intergovernmental revenue	\$ 650,000	\$ 650,000	\$ 495,063	\$ (154,937)
Total revenues	650,000	650,000	495,063	(154,937)
Expenditures:				
Current				
Community environment:	657,200	657,200	506,944	150,256
Total expenditures	657,200	657,200	506,944	150,256
Excess of revenues over (under) expenditures	(7,200)	(7,200)	(11,881)	(4,681)
Other financing sources (uses):				
Other sources	-	-	50,000	50,000
Total other financing sources (uses)	-	-	50,000	50,000
Excess of revenues and other financing sources over (under) expenditures and other financing sources (uses)	(7,200)	(7,200)	38,119	45,319
Fund balance, beginning of the year	6,344	6,344	6,344	-
Appropriation for prior year encumbrances	7,200	7,200	7,200	-
Fund balance, end of the year	\$ 6,344	\$ 6,344	\$ 51,663	\$ 45,319

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
COMMUNITY DEVELOPMENT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Intergovernmental revenue	\$ 836,044	\$ 886,044	\$ 749,032	\$ (137,012)
Interest earnings	2,000	2,000	687	(1,313)
Rentals & leases	2,500	2,500	2,200	(300)
Miscellaneous	70,000	70,000	56,590	(13,410)
Total revenues	910,544	960,544	808,509	(152,035)
Expenditures:				
Current				
Community environment:	952,227	897,830	856,590	41,240
Total expenditures	952,227	897,830	856,590	41,240
Excess of revenues over (under) expenditures	(41,683)	62,714	(48,081)	(110,795)
Fund balance, beginning of the year	(33,949)	(33,949)	(33,949)	-
Appropriation for prior year encumbrances	116,183	116,183	116,183	-
Fund balance, end of the year	\$ 40,551	\$ 144,948	\$ 34,153	\$ (110,795)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
POLICE PENSION FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property taxes	\$ 299,282	\$ 299,282	\$ 287,665	\$ (11,617)
Intergovernmental revenue	25,735	25,735	40,042	14,307
Municipal income taxes	732,000	732,000	732,000	-
Total revenues	1,057,017	1,057,017	1,059,707	2,690
Expenditures:				
Current				
Public safety:	1,055,110	1,055,110	1,024,871	30,239
Total expenditures	1,055,110	1,055,110	1,024,871	30,239
Excess of revenues over (under) expenditures	1,907	1,907	34,836	32,929
Fund balance, beginning of the year	27,875	27,875	27,875	-
Fund balance, end of the year	\$ 29,782	\$ 29,782	\$ 62,711	\$ 32,929

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
FIRE PENSION FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property taxes	\$ 299,282	\$ 299,282	\$ 287,665	\$ (11,617)
Intergovernmental revenue	25,735	25,735	40,042	14,307
Municipal income taxes	919,000	919,000	919,000	-
Total revenues	1,244,017	1,244,017	1,246,707	2,690
Expenditures:				
Current				
Public safety:	1,243,152	1,243,152	1,202,439	40,713
Total expenditures	1,243,152	1,243,152	1,202,439	40,713
Excess of revenues over (under) expenditures	865	865	44,268	43,403
Fund balance, beginning of the year	14,570	14,570	14,570	-
Fund balance, end of the year	\$ 15,435	\$ 15,435	\$ 58,838	\$ 43,403

**CITY OF MIDDLETOWN, OHIO
COMBINING BALANCE SHEET
NON MAJOR DEBT SERVICE FUNDS
DECEMBER 31, 2006**

	General Obligation Debt Service	Towne Boulevard Tax Increment Financing District	Downtown Tax Increment Financing District	Totals
Assets				
Cash and equity in pooled cash, deposits and investments	\$ 138,198	\$ 245,985	\$ 51,603	\$ 435,786
Cash with fiscal and escrow agent	40,683	-	-	40,683
Total assets	178,881	245,985	51,603	476,469
Liabilities				
Matured bonds and interest	40,683	-	-	40,683
Total liabilities	40,683	-	-	40,683
Fund balance:				
Unreserved and undesignated	138,198	245,985	51,603	435,786
Total fund balance	138,198	245,985	51,603	435,786
Total liabilities and fund balance	\$ 178,881	\$ 245,985	\$ 51,603	\$ 476,469

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON MAJOR DEBT SERVICE FUNDS
 FOR YEAR ENDED DECEMBER 31, 2006**

	General Obligation Debt Service	Towne Boulevard Tax Increment Financing District	Downtown Tax Increment Financing District	Totals
Revenues				
Municipal income taxes	\$ 1,951,643	\$ -	\$ -	\$ 1,951,643
Property taxes	-	165,906	51,603	217,509
Miscellaneous revenues	290,238	-	-	290,238
Total revenues	2,241,881	165,906	51,603	2,459,390
Expenditures				
Debt service				
Principal retirement	1,285,000	50,000	-	1,335,000
Interest and fiscal charges	1,190,438	-	-	1,190,438
Total expenditures	2,475,438	50,000	-	2,525,438
Excess of revenues over (under) expenditures	(233,557)	115,906	51,603	(66,048)
Other financing sources (uses)				
Transfers-in	200,000	-	-	200,000
Other uses	-	(2,929)	-	(2,929)
Total other financing sources (uses)	200,000	(2,929)	-	197,071
Net change in fund balance	(33,557)	112,977	51,603	131,023
Fund balance, beginning of the year	171,755	133,008	-	304,763
Fund balance, end of the year	\$ 138,198	\$ 245,985	\$ 51,603	\$ 435,786

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
SPECIAL ASSESSMENT DEBT SERVICE FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property and other taxes	\$ 506,533	\$ 506,533	\$ 495,117	\$ (11,416)
Miscellaneous	-	-	211	-
Total revenues	506,533	506,533	495,328	(11,416)
Expenditures:				
Debt service	511,633	511,633	483,431	28,202
Total expenditures	511,633	511,633	483,431	28,202
Excess of revenues over (under) expenditures	(5,100)	(5,100)	11,897	16,786
Other financing sources (uses):				
Transfers-in	-	-	2,881	2,881
Total other financing sources (uses)	-	-	2,881	2,881
Excess of revenues and other financing sources over (under) expenditures	(5,100)	(5,100)	14,778	19,667
Fund balance, beginning of the year	12,633	12,633	12,633	-
Fund balance, end of the year	\$ 7,533	\$ 7,533	\$ 27,411	\$ 19,667

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL OBLIGATION DEBT SERVICE FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Municipal income taxes	\$ 1,951,643	\$ 1,951,643	\$ 1,951,643	\$ -
Miscellaneous	290,238	290,238	290,238	-
Total revenues	2,241,881	2,241,881	2,241,881	-
Expenditures:				
Debt service	2,475,439	2,475,439	2,475,438	1
Total expenditures	2,475,439	2,475,439	2,475,438	1
Excess of revenues under expenditures	(233,558)	(233,558)	(233,557)	1
Other financing sources:				
Transfers-in	200,000	200,000	200,000	-
Total other financing sources	200,000	200,000	200,000	-
Excess of revenues and other financing sources over (under) expenditures	(33,558)	(33,558)	(33,557)	1
Fund balance, beginning of the year	171,755	171,755	171,755	-
Fund balance, end of the year	\$ 138,197	\$ 138,197	\$ 138,198	\$ 1

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
TOWNE BLVD TAX INCREMENT FINANCING FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property and other taxes	\$ 165,000	\$ 165,000	\$ 165,906	\$ 906
Total revenues	165,000	165,000	165,906	906
Expenditures:				
Current				
Debt service	50,000	54,000	52,928	1,072
Total expenditures	50,000	54,000	52,928	1,072
Excess of revenues over expenditures	115,000	111,000	112,978	1,978
Fund balance, beginning of the year	133,008	133,008	133,008	-
Fund balance, end of the year	\$ 248,008	\$ 244,008	\$ 245,986	\$ 1,978

**CITY OF MIDDLETOWN, OHIO
 COMBINING BALANCE SHEET
 NON MAJOR CAPITAL PROJECTS FUNDS
 DECEMBER 31, 2006**

	Computer Replacement	Property Develop- ment	2004 Sidewalk, Curb & Gutter	Breiel Blvd Resurfacing	Totals
Assets					
Cash and equity in pooled cash, deposits and investments	\$ 1,173,147	\$ 597,580	\$ -	\$ -	\$ 1,770,727
Total assets	1,173,147	597,580	-	-	1,770,727
Fund balances:					
Reserved for encumbrances	52,591	750	-	-	53,341
Unreserved and undesignated	1,120,556	596,830	-	-	1,717,386
Total fund balances	1,173,147	597,580	-	-	1,770,727
Total liabilities and fund balances	\$ 1,173,147	\$ 597,580	\$ -	\$ -	\$ 1,770,727

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NON MAJOR CAPITAL PROJECT FUNDS
 FOR YEAR ENDED DECEMBER 31, 2006**

	Computer Replacement	Property Develop- ment	2004 Sidewalk, Curb & Gutter	Briel Blvd Resurfacing	Totals
Revenues					
Municipal income taxes	\$ 8,000	\$ -	\$ -	\$ -	\$ 8,000
Special assessments	-	-	-	2,513	2,513
Interest earnings	39,414	-	-	-	39,414
Miscellaneous	52,800	101,675	-	3,000	157,475
Total revenues	100,214	101,675	-	5,513	207,402
Expenditures					
Current					
Community environment	-	24,018	-	-	24,018
General government	239,499	-	-	-	239,499
Total expenditures	239,499	24,018	-	-	263,517
Excess of revenues over (under) expenditures	(139,285)	77,657	-	5,513	(56,115)
Other financing sources (uses)					
Transfers-in	253,703	-	-	-	253,703
Transfers-out	-	-	(2,558)	(322)	(2,880)
Issuance of bonds	-	-	20,926	37,654	58,580
Total other financing sources (uses)	253,703	-	18,368	37,332	309,403
Net change in fund balances	114,418	77,657	18,368	42,845	253,288
Fund balance, beginning of year	1,058,729	519,923	(18,368)	(42,845)	1,517,439
Fund balance, end of the year	\$ 1,173,147	\$ 597,580	\$ -	\$ -	\$ 1,770,727

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

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Property taxes	\$ 924,500	\$ 924,500	\$ 889,626	\$ (34,874)
Intergovernmental revenue	721,407	71,407	123,679	52,272
Charges for services	20,000	20,000	31,411	11,411
Interest earnings	60,000	60,000	76,104	16,104
Miscellaneous	20,000	568,054	638,616	37,562
Total revenues	1,745,907	1,643,961	1,759,436	82,475
Expenditures:				
Current				
Public safety	750,825	100,825	100,825	-
Public health & welfare	25,000	25,000	12,366	12,634
Leisure time activities	53,186	53,186	9,700	43,486
Community environment	36,042	32,438	32,438	-
Highways and streets	3,560,175	2,892,821	2,676,295	216,526
General government	94,618	94,618	158,359	(63,741)
Total expenditures	4,519,846	3,198,888	2,989,983	208,905
Excess of revenues over (under) expenditures	(2,773,939)	(1,554,927)	(1,230,547)	(324,380)
Other financing sources (uses):				
Transfers-out	(200,000)	(200,000)	(200,000)	-
Other sources	-	-	20,000	20,000
Other uses	-	-	(8,000)	(8,000)
Total other financing sources (uses)	(200,000)	(200,000)	(188,000)	12,000
Excess of revenues and other financing sources over (under) expenditures	(2,973,939)	(1,754,927)	(1,418,547)	(312,380)
Fund balance, beginning of the year	1,189,270	1,189,270	1,189,270	-
Appropriation for prior year encumbrances	919,846	919,846	919,846	-
Fund balance, end of the year	\$ (864,823)	\$ 354,189	\$ 690,569	\$ (312,380)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
EAST END DEVELOPMENT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Interest earnings	\$ 5,000	\$ 5,000	\$ 105,432	\$ 100,432
Intergovernmental revenue	-	-	1,167,841	1,167,841
Total revenues	5,000	5,000	1,273,273	1,268,273
Expenditures:				
Current				
Highways and streets	2,838,098	3,557,134	3,615,829	(58,695)
Debt Service				
Principal retirement	1,949,250	1,949,250	1,885,000	64,250
Interest expense	75,000	75,000	79,890	(4,890)
Total expenditures	5,637,348	5,581,384	5,580,719	665
Excess of revenues under expenditures	(5,632,348)	(5,576,384)	(4,307,446)	1,268,938
Other financing sources:				
Proceeds from notes	-	1,960,000	1,268,150	(691,850)
Proceeds from bonds	1,960,000	-	-	-
Total other financing sources	1,960,000	1,960,000	1,268,150	(691,850)
Excess of revenues and other financing sources under expenditures	(3,672,348)	(3,616,384)	(3,039,296)	577,088
Fund balance, beginning of the year	40,108	40,108	40,108	-
Appropriation for prior year encumbrances	3,677,348	3,677,348	3,677,348	-
Fund balance, end of the year	\$ 45,108	\$ 101,072	\$ 678,160	\$ 577,088

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
DOWNTOWN IMPROVEMENTS FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Interest earnings	\$ 87,286	\$ 87,286	\$ 97,275	\$ 9,989
Total revenues	87,286	87,286	97,275	9,989
Expenditures:				
Current				
Community environment	342,974	464,686	452,826	11,860
Total expenditures	342,974	464,686	452,826	11,860
Excess of revenues under expenditures	(255,688)	(377,400)	(355,551)	21,849
Other financing sources (uses):				
Proceeds from bonds	-	2,550,000	2,550,000	-
Total other financing sources (uses)	-	2,550,000	2,550,000	-
Excess of revenues and other financing sources over(under) expenditures	(255,688)	2,172,600	2,194,449	21,849
Fund balance, beginning of the year	293,157	293,157	293,157	-
Appropriation for prior year encumbrances	112,974	112,974	112,974	-
Fund balance, end of the year	\$ 150,443	\$ 2,578,731	\$ 2,600,580	\$ 21,849

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
COMPUTER REPLACEMENT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Municipal income taxes	\$ 8,000	\$ 8,000	\$ 8,000	\$ -
Interest earnings	23,056	23,056	39,414	16,358
Miscellaneous	45,500	45,500	52,800	7,300
Total revenues	76,556	76,556	100,214	23,658
Expenditures:				
Current				
General government	966,151	959,286	302,864	656,422
Total expenditures	966,151	959,286	302,864	656,422
Excess of revenues under expenditures	(889,595)	(882,730)	(202,650)	680,080
Other financing sources:				
Transfers-in	253,704	253,703	253,703	-
Total other financing sources	253,704	253,703	253,703	-
Excess of revenues and other financing sources under expenditures	(635,891)	(629,027)	51,053	680,080
Fund balance, beginning of the year	828,350	828,350	828,350	-
Appropriation for prior year encumbrances	241,151	241,151	241,151	-
Fund balance, end of the year	\$ 433,610	\$ 440,474	\$ 1,120,554	\$ 680,080

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
PROPERTY DEVELOPMENT FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Miscellaneous	\$ -	\$ 100,000	\$ 101,675	\$ 1,675
Total revenues	-	100,000	101,675	1,675
Expenditures:				
Current				
Community environment	32,750	53,750	24,767	28,983
Total expenditures	32,750	53,750	24,767	28,983
Excess of revenues under expenditures	(32,750)	46,250	76,908	30,658
Fund balance, beginning of the year	519,173	519,173	519,173	-
Appropriation for prior year encumbrances	750	750	750	-
Fund balance, end of the year	\$ 487,173	\$ 566,173	\$ 596,831	\$ 30,658

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
2004 SIDEWALK, CURB & GUTTER FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Special assessments	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Current				
Highways and streets	-	(18,396)	-	(18,396)
Debt Service				
Principal retirement	-	18,396	-	18,396
Total expenditures	-	-	-	-
Excess of revenues under expenditures	-	-	-	-
Other financing sources:				
Transfers-out	-	(2,558)	(2,558)	-
Other uses	-		(20,000)	(20,000)
Proceeds from bonds	18,396	20,926	20,926	-
Total other financing sources	18,396	18,368	(1,632)	(20,000)
Excess of revenues and other financing sources over (under) expenditures	18,396	18,368	(1,632)	(20,000)
Fund balance, beginning of the year	1,632	1,632	1,632	-
Fund balance, end of the year	\$ 20,028	\$ 20,000	\$ -	\$ (20,000)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BASIS)
BREIEL BOULEVARD RESURFACING FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Revenues:				
Special assessments	\$ -	\$ -	\$ 2,513	\$ 2,513
Total revenues	-	-	2,513	2,513
Expenditures:				
Current				
Highways and streets	-	-	-	-
Total expenditures	-	-	-	-
Excess of revenues under expenditures	-	-	2,513	2,513
Other financing sources:				
Transfers-out	-	(323)	(323)	-
Other uses	-	-	(40,000)	(40,000)
Proceeds from bonds	80,000	80,000	37,654	(42,346)
Total other financing sources	80,000	79,677	(2,669)	(82,346)
Excess of revenues and other financing sources over (under) expenditures	80,000	79,677	(156)	(79,833)
Fund balance, beginning of the year	156	156	156	-
Fund balance, end of the year	\$ 80,156	\$ 79,833	\$ -	\$ (79,833)

ENTERPRISE FUNDS

To account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recorded primarily through user charges; or (b) where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purpose.

PARKING GARAGE

To account for the operation of the City's downtown parking garage and parking lot facilities.

WATER

To account for the provision of water treatment and distribution to the residents and commercial users of the City.

STORM SEWER

To account for the City's provision of storm sewer services to the residents and commercial users of the City.

SEWER

To account for the City's provision of sanitary sewer services to the residents and commercial users of the City.

AIRPORT

To account for the operation of the City's airport facility.

TRANSIT SYSTEM

To account for the operation of the City's public bus line system.

GOLF COURSE

To account for the operation of the City's public golf course.

SOLID WASTE DISPOSAL

To account for the City's refuse pickup charges and the cost of the City's refuse hauling contract. The annual principal and interest payments on the \$3.3 million 1994 bond issue in connection with the closing of the City landfill are made by this fund.

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF NET ASSETS
 NON MAJOR ENTERPRISE FUNDS
 DECEMBER 31, 2006**

Business Type Activities - Enterprise Funds

	Parking Garage	Airport	Storm Water	Totals
Assets:				
Current assets				
Equity in pooled cash, deposits and investments	\$ 25,978	\$ 118,394	\$ 1,312,844	\$ 1,457,216
Receivables (net of allowance for uncollectibles):				
Accounts	-	-	181,615	181,615
Due from other governments	-	151,496	-	151,496
Total current assets	25,978	269,890	1,494,459	1,790,327
Capital assets:				
Land	16,900	1,524,356	-	1,541,256
Land Improvements	-	247,524	-	247,524
Infrastructure assets	-	-	67,410	67,410
Buildings	2,738,763	1,803,022	-	4,541,785
Equipment	12,120	588,807	-	600,927
Less: Accumulated depreciation	(1,847,734)	(649,063)	(3,371)	(2,500,168)
Net capital assets	920,049	3,514,646	64,039	4,498,734
Total assets	946,027	3,784,536	1,558,498	6,289,061
Liabilities				
Current liabilities				
Accounts payable	3,464	54,518	-	57,982
Accrued wages and benefits	2,010	-	-	2,010
Other accrued liabilities	604	-	-	604
Accrued interest payable	-	41,398	-	41,398
Due to other funds	150	772	-	922
Deferred Revenue	-	151,496	-	151,496
Notes payable	-	1,630,000	-	1,630,000
Total current liabilities	6,228	1,878,184	-	1,884,412
Long-term liabilities				
Compensated absences payable	651	-	-	651
Total long-term liabilities	651	-	-	651
Total liabilities	6,879	1,878,184	-	1,885,063
Net Assets				
Invested in capital assests, net of related debt	920,049	1,884,646	64,039	2,868,734
Unrestricted	19,099	21,706	1,494,459	1,535,264
Total net assets	\$ 939,148	\$ 1,906,352	\$ 1,558,498	\$ 4,403,998

**CITY OF MIDDLETOWN, OHIO
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
NON MAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Business Type Activities - Enterprise Funds

	Parking Garage	Airport	Storm Water	Totals
Operating revenues:				
Charges for services	\$ 34,308	\$ 7,010	\$ 1,575,538	\$ 1,616,856
Other operating revenue	31,466	220,776	-	252,242
Total operating revenues	65,774	227,786	1,575,538	1,869,098
Operating expenses:				
Personal services	31,639	-	-	31,639
Contractual services	93,728	273,330	-	367,058
Commodities	170	7,561	-	7,731
Depreciation	61,669	110,544	3,371	175,584
Other operating expenses	1,606	57,907	40,149	99,662
Total operating expenses	188,812	449,342	43,520	681,674
Operating income (loss)	(123,038)	(221,556)	1,532,018	1,187,424
Non-operating revenues (expenses):				
Interest revenue	-	5,404	26,480	31,884
Interest expense and fiscal charges	-	(71,414)	-	(71,414)
Operating grants	-	171,724	-	171,724
Income taxes	60,500	-	-	60,500
Total non-operating revenues (expenses)	60,500	105,714	26,480	192,694
Change in net assets	(62,538)	(115,842)	1,558,498	1,380,118
Total net assets, beginning of year	1,001,686	2,022,194	-	3,023,880
Total net assets, end of year	\$ 939,148	\$ 1,906,352	\$ 1,558,498	\$ 4,403,998

**CITY OF MIDDLETOWN, OHIO
COMBINING STATEMENT OF CASH FLOWS
NON MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Business Type Activities - Enterprise Funds

	Parking Garage	Airport	Storm Water	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 34,308	\$ 7,010	\$ 1,393,923	\$ 1,435,241
Cash payments to suppliers for goods and services	(97,237)	(325,620)	(40,149)	(463,006)
Cash payments to employees for services	(31,417)	-	-	(31,417)
Miscellaneous revenues	31,466	220,776	-	252,242
Net cash provided by operating activities	(62,880)	(97,834)	1,353,774	1,193,060
Cash flows from non-capital financing activities:				
Operating grants	-	171,724	-	171,724
Income taxes received	60,500	-	-	60,500
Net cash provided by non-capital financing activities	60,500	171,724	-	232,224
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(231,956)	(67,410)	(299,366)
Interest expense	-	(69,781)	-	(69,781)
Repayment of debt principal	-	(1,555,000)	-	(1,555,000)
Note proceeds	-	1,635,404	-	1,635,404
Net cash provided by capital and related financing activities	-	(221,333)	(67,410)	(288,743)
Cash flows from investing activities:				
Interest income	-	-	26,480	26,480
Net cash provided by investing activities	-	-	26,480	26,480
Net increase in cash and cash equivalents	(2,380)	(147,443)	1,312,844	1,163,021
Cash and cash equivalents, beginning of year	28,358	265,837	-	294,195
Cash and cash equivalents, end of year	\$ 25,978	\$ 118,394	\$ 1,312,844	\$ 1,457,216

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF CASH FLOWS
 NON MAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006**

(continued)	Parking Garage	Airport	Storm Water	Totals
Reconciliation of operating income to net cash provided by operating activities:				
Operating income (loss)	\$ (123,038)	\$ (221,556)	\$ 1,532,018	\$ 1,187,424
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	61,669	110,544	3,371	175,584
Changes in assets and liabilities:				
Decrease (increase) in accounts receivable (net)	-	-	(181,615)	(181,615)
Increase (decrease) in accounts payable	(1,750)	12,632	-	10,882
Decrease (increase) in accrued wages and benefits	(112)	-	-	(112)
Increase (decrease) in other accrued liabilities	94	-	-	94
Increase (decrease) in due to other funds	17	546	-	563
Increase (decrease) in compensated absences payable	240	-	-	240
Total adjustments	60,158	123,722	(178,244)	5,636
Net cash provided (used) by operating activities	\$ (62,880)	\$ (97,834)	\$ 1,353,774	\$ 1,193,060

CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
WATER FUND
FOR YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 6,898,645	\$ 7,048,645	\$ 6,125,341	\$ (923,304)
Other operating revenues	16,225	16,225	67,632	51,407
Total operating revenues	6,914,870	7,064,870	6,192,973	(871,897)
Operating expenses				
Water Administration	370,539	368,310	347,196	21,114
Water Treatment	1,914,203	1,977,580	1,977,182	398
Water Maintenance	1,492,024	1,491,964	1,383,643	108,321
Administrative Support	798,931	798,931	798,931	-
Water Capital Reserve	6,717,938	6,928,543	5,306,148	1,622,395
Wellfield Protection	100,094	2,987,094	2,338,294	648,800
Total operating expenses	11,393,729	14,552,422	12,151,394	2,401,028
Operating income (loss)	(4,478,859)	(7,487,552)	(5,958,421)	1,529,131
Non-operating revenues (expenses)				
Interest revenue	136,057	136,057	225,259	89,202
Interest expenses & fiscal charges	(208,718)	(331,747)	(331,747)	-
Debt retirement	(265,000)	(265,000)	(265,000)	-
Lease proceeds	-	4,011,812	4,011,812	-
Operating grants	-	2,500,000	868,967	(1,631,033)
Other sources	-	-	42,026	42,026
Total non-operating revenues (expenses)	(337,661)	6,051,122	4,551,317	(1,499,804)
Income (loss) before operating transfers	(4,816,520)	(1,436,430)	(1,407,104)	29,327
Operating transfers-out	-	(27,400)	(27,400)	-
Total transfers	-	(27,400)	(27,400)	-
Net income (loss)	(4,816,520)	(1,463,830)	(1,434,504)	29,327
Retained earnings, beginning of the year	631,667	631,667	631,667	-
Appropriation for prior year encumbrances	4,566,759	4,566,759	4,566,759	-
Retained earnings, end of the year	\$ 381,906	\$ 3,734,596	\$ 3,763,922	\$ 29,327

CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
STORM SEWER FUND
FOR YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 1,500,000	\$ 1,500,000	\$ 1,393,923	\$ (106,077)
Total operating revenues	1,500,000	1,500,000	1,393,923	(106,077)
Operating expenses				
Sewer Capital Reserve	375,000	375,000	345,998	29,002
Total operating expenses	375,000	375,000	345,998	29,002
Operating income (loss)	1,125,000	1,125,000	1,047,925	(77,075)
Non-operating revenues (expenses)				
Interest revenue	-	-	26,480	26,480
Total non-operating revenues (expenses)	-	-	26,480	26,480
Net income (loss)	1,125,000	1,125,000	1,074,405	(50,595)
Retained earnings, beginning of the year	-	-	-	-
Retained earnings, end of the year	\$ 1,125,000	\$ 1,125,000	\$ 1,074,405	\$ (50,595)

CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
SEWER FUND
FOR YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 6,469,912	\$ 6,579,912	\$ 6,276,772	\$ (303,140)
Other operating revenues	-	-	388	388
Total operating revenues	6,469,912	6,579,912	6,277,160	(302,752)
Operating expenses				
Sewer Administration	265,935	291,102	279,867	11,235
Sewer Treatment	2,908,971	3,131,771	2,537,800	593,971
Sewer Maintenance	932,716	932,716	822,416	110,300
Environmental Services Administration	198,852	198,852	181,426	17,426
Administrative Support	798,931	798,931	798,931	-
Sewer Capital Reserve	15,205,192	7,190,997	6,219,265	971,732
Total operating expenses	20,310,597	12,544,369	10,839,705	1,704,664
Operating income (loss)	(13,840,685)	(5,964,457)	(4,562,545)	1,401,912
Non-operating revenues (expenses)				
Interest revenue	209,445	208,138	305,805	97,667
Interest expenses & fiscal charges	(16,988)	(142,017)	(141,276)	741
Debt retirement	(225,000)	(225,000)	(225,000)	-
Proceeds from bonds	10,643,368	-	153,681	153,681
Lease proceeds	-	4,011,812	4,011,812	-
Total non-operating revenues (expenses)	10,610,825	3,852,933	4,105,022	252,089
Income (loss) before operating transfers	(3,229,860)	(2,111,524)	(457,523)	1,654,002
Operating transfers-out	(27,400)	(27,400)	(27,400)	-
Total transfers	(27,400)	(27,400)	(27,400)	-
Net income (loss)	(3,257,260)	(2,138,924)	(484,923)	1,654,002
Retained earnings, beginning of the year	967,574	967,574	967,574	-
Appropriation for prior year encumbrances	4,707,453	4,707,453	4,707,453	-
Retained earnings, end of the year	\$ 2,417,767	\$ 3,536,103	\$ 5,190,104	\$ 1,654,002

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
TRANSIT SYSTEM FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 90,000	\$ 105,000	\$ 123,652	\$ 18,652
Other operating revenues	27,000	27,000	1,350	(25,650)
Total operating revenues	117,000	132,000	125,002	(6,998)
Operating expenses	869,268	1,047,268	1,046,973	295
Total operating expenses	869,268	1,047,268	1,046,973	295
Operating income (loss)	(752,268)	(915,268)	(921,971)	(6,703)
Non-operating revenues (expenses)				
Operating grants	543,332	613,332	639,430	26,098
Income tax	173,800	173,800	173,800	-
Total non-operating revenues (expenses)	717,132	787,132	813,230	26,098
Net income (loss)	(35,136)	(128,136)	(108,741)	19,395
Retained earnings, beginning of the year	135,626	135,626	135,626	-
Appropriation for prior year encumbrances	662	662	662	-
Retained earnings, end of the year	\$ 101,152	\$ 8,152	\$ 27,547	\$ 19,395

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
GOLF COURSE FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 1,846,000	\$ 1,846,000	\$ 1,620,113	\$ (225,887)
Other operating revenues	4,000	4,000	9,552	5,552
Total operating revenues	1,850,000	1,850,000	1,629,665	(220,335)
Operating expenses				
Golf Maintenance	904,179	904,179	758,658	145,521
Golf Clubhouse	708,364	708,364	639,031	69,333
Golf Improvements	2,400	-	-	-
Total operating expenses	1,614,943	1,612,543	1,397,689	214,854
Operating income (loss)	235,057	237,457	231,976	(5,481)
Non-operating revenues (expenses)				
Interest revenue	500	500	-	(500)
Interest expenses & fiscal charges	(103,643)	(104,563)	(104,555)	8
Debt retirement	(130,000)	(130,000)	(130,000)	-
Other sources	-	-	565	565
Total non-operating revenues (expenses)	(233,143)	(234,063)	(233,990)	73
Net income (loss)	1,914	3,394	(2,014)	(5,408)
Retained earnings, beginning of the year	18,922	18,922	18,922	-
Appropriation for prior year encumbrances	2,400	2,400	2,400	-
Retained earnings, end of the year	\$ 23,236	\$ 24,716	\$ 19,308	\$ (5,408)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
SOLID WASTE DISPOSAL FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 2,671,380	\$ 2,671,380	\$ 2,577,024	\$ (94,356)
Other operating revenues	15,000	15,000	15,424	424
Total operating revenues	2,686,380	2,686,380	2,592,448	(93,932)
Operating expenses	2,530,617	2,535,611	2,532,142	3,469
Total operating expenses	2,530,617	2,535,611	2,532,142	3,469
Operating income (loss)	155,763	150,769	60,306	(90,463)
Non-operating expenses				
Interest expenses & fiscal charges	-	(107,201)	(107,200)	1
Debt retirement	-	(180,000)	(180,000)	-
Income Tax	-	36,000	36,000	-
Total non-operating expenses	-	(251,201)	(251,200)	1
Net income (loss)	155,763	(100,432)	(190,894)	(90,462)
Retained earnings, beginning of the year	144,102	144,102	144,102	-
Appropriation for prior year encumbrances	49,906	49,906	49,906	-
Retained earnings, end of the year	\$ 349,771	\$ 93,576	\$ 3,114	\$ (90,462)

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
PARKING GARAGE FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 31,620	\$ 32,253	\$ 34,308	\$ 2,055
Fines and forfeits	5,100	5,202	2,268	(2,934)
Other operating revenues	-	14,000	29,198	15,198
Total operating revenues	36,720	51,455	65,774	14,319
Operating expenses				
Parking Enforcement	33,825	35,825	34,369	1,456
Parking Garage	85,050	103,050	94,284	8,766
Total operating expenses	118,875	138,875	128,653	10,222
Operating income (loss)	(82,155)	(87,420)	(62,879)	24,541
Non-operating revenues (expenses)				
Income taxes	86,200	60,500	60,500	-
Total non-operating revenues (expenses)	86,200	60,500	60,500	-
Net income (loss)	4,045	(26,920)	(2,379)	24,541
Retained earnings, beginning of the year	28,354	28,354	28,354	-
Retained earnings, end of the year	\$ 32,399	\$ 1,434	\$ 25,975	\$ 24,541

CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
AIRPORT FUND
FOR YEAR ENDED DECEMBER 31, 2006

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 226,000	\$ 226,000	\$ 227,787	\$ 1,787
Total operating revenues	226,000	226,000	227,787	1,787
Operating expenses				
Airport Improvements	546,237	543,280	394,928	148,352
Airport	1,878,650	1,886,952	1,879,534	7,418
Total operating expenses	2,424,887	2,430,232	2,274,462	155,770
Operating income (loss)	(2,198,887)	(2,204,232)	(2,046,675)	157,557
Non-operating revenues				
Proceeds from notes	1,640,000	1,640,000	1,635,404	(4,596)
Operating grants	330,000	330,000	171,724	(158,276)
Total non-operating revenues	1,970,000	1,970,000	1,807,128	(162,872)
Net income (loss)	(228,887)	(234,232)	(239,547)	(5,315)
Retained earnings, beginning of the year	22,095	22,095	22,095	-
Appropriation for prior year encumbrances	243,737	243,737	243,737	-
Retained earnings, end of the year	\$ 36,945	\$ 31,600	\$ 26,285	\$ (5,315)

INTERNAL SERVICE FUNDS

To account for the financing of goods or services provided by one department for the other departments within the City.

MUNICIPAL GARAGE

To account for the operations of the municipal garage for the purchase, sale and repair of vehicles for all departments within the City.

EMPLOYEE BENEFITS

To account for the operation of the City's self-funded health insurance program. The expenses of this fund are comprised of medical, dental, and prescription drug claims approved by the City's Third Party Administrator.

**CITY OF MIDDLETOWN, OHIO
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
DECEMBER 31, 2006**

	Municipal Garage	Employee Benefits Fund	Totals
Assets:			
Current assets:			
Equity in pooled cash, deposits and investments	\$ 1,525,049	\$ 884,506	\$ 2,409,555
Receivables (net of allowance for uncollectibles):			
Accounts	18,320	4,445	22,765
Due from other funds	201,286	-	201,286
Inventory of supplies	179,784	-	179,784
Total current assets	1,924,439	888,951	2,813,390
Capital assets:			
Land	195,750	-	195,750
Buildings	363,139	-	363,139
Equipment	9,224,843	-	9,224,843
Less: Accumulated depreciation	(7,148,699)	-	(7,148,699)
Net capital assets	2,635,033	-	2,635,033
Total assets	4,559,472	888,951	5,448,423
Liabilities:			
Current liabilities:			
Accounts payable	13,032	584,285	597,317
Accrued wages and benefits	25,726	-	25,726
Other accrued liabilities	10,127	-	10,127
Due to other funds	4,594	-	4,594
Total current liabilities	53,479	584,285	637,764
Long-term liabilities:			
Compensated absences payable	79,165	-	79,165
Total long-term liabilities	79,165	-	79,165
Total liabilities	132,644	584,285	716,929
Net assets:			
Invested in capital assets, net of related debt	2,635,033	-	2,635,033
Unrestricted	1,791,795	304,666	2,096,461
Total net assets	\$ 4,426,828	\$ 304,666	\$ 4,731,494

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN FUND NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

	Municipal Garage	Employee Benefits Fund	Totals
Operating revenues:			
Charges for services	\$ 2,517,344	\$ 4,372,507	\$ 6,889,851
Other operating revenues	44,410	15,521	59,931
Total operating revenues	2,561,754	4,388,028	6,949,782
Operating expenses:			
Personal services	631,617	-	631,617
Contractual services	355,532	4,221,579	4,577,111
Commodities	848,070	-	848,070
Depreciation	681,207	-	681,207
Other operating expenses	245,987	-	245,987
Total operating expenses	2,762,413	4,221,579	6,983,992
Operating income (loss)	(200,659)	166,449	(34,210)
Non-operating revenues (expenses):			
Interest revenue	47,125	-	47,125
Gain (Loss) on sale of equipment	17,221	-	17,221
Total non-operating revenues (expenses)	64,346	-	64,346
Change in net assets	(136,313)	166,449	30,136
Total net assets, beginning of the year	4,563,141	138,217	4,701,358
Total net assets, end of the year	\$ 4,426,828	\$ 304,666	\$ 4,731,494

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

	Municipal Garage	Employee Benefits Fund	Totals
Cash flows from operating activities:			
Cash payments to suppliers for goods and services	\$ (1,429,510)	\$ (4,209,067)	\$ (5,638,577)
Cash payments to employees for services	-	-	(535,667)
Miscellaneous revenue	26,090	11,076	37,166
Cash received from quasi-external operating activities	2,519,062	4,372,507	6,891,569
Cash payments for quasi-external operating activities	(106,312)	-	(106,312)
Net cash provided by operating activities	473,663	174,516	648,179
Cash flows from capital and related financing activities:			
Sale of capital assets	83,519	-	83,519
Purchase of capital assets	(414,317)	-	(414,317)
Net cash used by capital and related financing activities	(330,798)	-	(330,798)
Cash flows from investing activities:			
Interest income	47,125	-	47,125
Net cash provided by investing activities	47,125	-	47,125
Net increase (decrease) in cash and cash equivalents	189,990	174,516	364,506
Cash and cash equivalents, beginning of year	1,335,059	709,990	2,045,049
Cash and cash equivalents, end of year	\$ 1,525,049	\$ 884,506	\$ 2,409,555

**CITY OF MIDDLETOWN, OHIO
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006**

(continued)	Municipal Garage	Employee Benefits Fund	Totals
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (200,659)	\$ 166,449	\$ (34,210)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	681,207	-	681,207
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	(12,825)	(4,445)	(17,270)
Decrease (increase) in due from other funds	(3,777)		(3,777)
Decrease (increase) in supplies inventory	56,177	-	56,177
Increase (decrease) in accounts payable	(44,118)	12,512	(31,606)
Decrease (increase) in accrued wages	(3,231)	-	(3,231)
Increase (decrease) in accrued liabilities	1,502	-	1,502
Decrease (increase) in compensated absences	(613)	-	(613)
Total adjustments	674,322	8,067	682,389
Net cash provided by operating activities	\$ 473,663	\$ 174,516	\$ 648,179

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
MUNICIPAL GARAGE FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 2,661,099	\$ 2,661,099	\$ 2,628,671	\$ (32,428)
Total operating revenues	2,661,099	2,661,099	2,628,671	(32,428)
Operating expenses				
Personal services	651,110	651,110	633,960	17,150
Contractual services	295,642	295,520	360,074	(64,554)
Commodities	698,027	698,027	794,006	(95,979)
Other operating expenses	1,326,077	1,321,366	907,033	414,333
Total operating expenses	2,970,856	2,966,023	2,695,073	270,950
Operating income (loss)	(309,757)	(304,924)	(66,402)	238,522
Non-operating revenues (expenses)				
Interest revenue	24,900	24,900	47,125	22,225
Total non-operating revenues (expenses)	24,900	24,900	47,125	22,225
Net income	(284,857)	(280,024)	(19,277)	260,747
Retained earnings, beginning of the year	676,448	676,448	676,448	-
Appropriation for prior year encumbrances	658,608	658,608	658,608	-
Retained earnings, end of the year	\$ 1,050,199	\$ 1,055,032	\$ 1,315,779	\$ 260,747

**CITY OF MIDDLETOWN, OHIO
SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL (NON-GAAP BASIS)
EMPLOYEE BENEFITS FUND
FOR YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance From Final Budget
Operating revenues				
Charges for services	\$ 4,818,409	\$ 4,818,409	\$ 4,383,583	\$ (434,826)
Total operating revenues	4,818,409	4,818,409	4,383,583	(434,826)
Operating expenses				
Contractual services	5,053,876	5,053,876	4,209,067	844,809
Total operating expenses	5,053,876	5,053,876	4,209,067	844,809
Net income	(235,467)	(235,467)	174,516	409,983
Retained earnings, beginning of the year	709,990	709,990	709,990	-
Retained earnings, end of the year	\$ 474,523	\$ 474,523	\$ 884,506	\$ 409,983

AGENCY FUNDS

The City is responsible in a fiduciary capacity for other assets that can only be used for designated beneficiaries. The City has four agency funds. The City acts as the collection agent for these separate activities. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations.

CONSERVANCY

The Conservancy fund records the city property tax levy which is collected on the behalf of the Miami Conservancy District.

PAYROLL CLEARING

The Payroll Clearing fund accounts for the employee payroll withholdings due to other agencies and private businesses.

MUNICIPAL COURT

The Municipal Court fund accounts for the activities of the Municipal Court collections which are due to other agencies and to certain individuals.

**CITY OF MIDDLETOWN, OHIO
COMBINING BALANCE SHEET
FIDUCIARY FUNDS
DECEMBER 31, 2006**

	Conservancy	Payroll Clearing	Municipal Court	Totals
Assets:				
Cash and equity in pooled cash, deposits and investments	\$ 3,319	\$ -	\$ 71,474	\$ 74,793
Cash with fiscal and escrow agent	-	202,185	-	202,185
Property taxes receivable	154,375	-	-	154,375
Total assets	157,694	202,185	71,474	431,353
Liabilities:				
Due to other governments	157,694	186,834	-	344,528
Due to individuals	-	73	28,131	28,204
Unapportioned monies	-	15,278	43,343	58,621
Total liabilities	\$ 157,694	\$ 202,185	\$ 71,474	\$ 431,353

**CITY OF MIDDLETOWN, OHIO
STATEMENT OF CHANGES
IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	CONSERVANCY			
	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets:				
Cash and equity in pooled cash, deposits and investments	\$ 2,006	\$ 145,311	\$ 143,998	\$ 3,319
Property taxes receivable	159,686	145,000	150,311	154,375
Total assets	161,692	290,311	294,309	157,694
Liabilities:				
Due to other governments	161,692	290,311	294,309	157,694
Total liabilities	\$ 161,692	\$ 290,311	\$ 294,309	\$ 157,694

**CITY OF MIDDLETOWN, OHIO
STATEMENT OF CHANGES
IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	PAYROLL CLEARING			Balance End of Year
	Balance Beginning of Year	Additions	Deductions	
Assets:				
Cash with fiscal and escrow agent	\$ 168,047	\$ 17,350,205	\$ 17,316,067	\$ 202,185
Total assets	168,047	17,350,205	17,316,067	202,185
Liabilities:				
Due to other governments	153,256	5,571,216	5,537,638	186,834
Due to individuals	128	11,245,314	11,245,369	73
Unapportioned monies	14,663	533,675	533,060	15,278
Total liabilities	\$ 168,047	\$ 17,350,205	\$ 17,316,067	\$ 202,185

**CITY OF MIDDLETOWN, OHIO
STATEMENT OF CHANGES
IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	MUNICIPAL COURT			
	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets:				
Cash and equity in pooled cash, deposits and investments	\$ 70,378	\$ 3,299,036	\$ 3,297,940	\$ 71,474
Total assets	70,378	3,299,036	3,297,940	71,474
Liabilities:				
Due to other governments	-	515,538	515,538	-
Due to individuals	29,434	1,101,086	1,102,389	28,131
Unapportioned monies	40,944	1,682,412	1,680,013	43,343
Total liabilities	\$ 70,378	\$ 3,299,036	\$ 3,297,940	\$ 71,474

CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS

**CITY OF MIDDLETOWN
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 COMPARATIVE SCHEDULES BY SOURCES
 DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Governmental funds capital assets:		
Land and land improvements	\$ 12,351,228	\$ 17,851,228
Buildings	23,531,680	23,521,824
Infrastructure	150,578,065	146,603,968
Machinery and equipment	6,508,736	5,384,040
Total governmental funds capital assets	<u>\$ 192,969,709</u>	<u>\$ 193,361,060</u>
Investments in governmental funds capital assets by source:		
General fund	\$ 17,753,432	\$ 23,002,549
Special revenue funds	4,974,367	4,281,106
Capital project funds	170,241,910	166,077,405
Total governmental funds capital assets	<u>\$ 192,969,709</u>	<u>\$ 193,361,060</u>

Infrastructure additions in 2005 include \$128,139,533 in local streets that were constructed between 1980 and 2000. These streets are included in the City's 2006 financial report for the first time to comply with GASB 34.

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

CITY OF MIDDLETOWN
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
DECEMBER 31, 2006

Function and Activity	Machinery and Equipment	Land and Land Improvements	Buildings	Infrastructure	Total
General Government:					
City Manager/City Council	\$ 163,506	\$ -	\$ -	\$ -	\$ 163,506
Finance	1,585,465	277,050	-	-	1,862,515
Law	11,500	-	-	-	11,500
Planning/Economic Development	20,082	3,667,182	-	-	3,687,264
Bldg. Maint.	124,650	-	9,856	-	134,506
Engineering	50,939	-	-	-	50,939
Income Tax	13,792	-	-	-	13,792
Miami Conservancy	-	-	7,660	-	7,660
City Building/Library	-	-	12,825,916	-	12,825,916
Leisure:					
Douglass Park	-	95,850	6,365	-	102,215
Parks Maintenance	426,514	-	-	-	426,514
Recreation/Community Center	372,297	123,050	1,558,454	-	2,053,801
Smith Park	91,456	-	58,116	-	149,572
Sunset Park	-	310,400	1,053,214	-	1,363,614
Other Parks	6,550	4,089,936	518,810	349,802	4,965,098
Public health:					
Health & Environment	6,200	-	-	-	6,200
Social Health	107,237	8,100	483,262	-	598,599
Senior Citizens Center & Cemetery	-	1,643,250	1,037,961	-	2,681,211
Public safety:					
Fire	1,269,080	205,750	861,168	-	2,335,998
Police	1,644,199	5,950	560,794	-	2,210,943
Electronic Maintenance	318,543	-	427,865	-	746,408
Municipal Court	71,027	-	292,447	-	363,474
Police Grants	33,858	-	-	-	33,858
12th District Court	-	-	3,542,930	-	3,542,930
Streets and highways:					
Street Maintenance	191,841	-	286,862	-	478,703
Street system	-	1,924,710	-	150,228,263	152,152,973
Total governmental funds capital assets	<u>\$ 6,508,736</u>	<u>\$ 12,351,228</u>	<u>\$ 23,531,680</u>	<u>\$ 150,578,065</u>	<u>\$ 192,969,709</u>

Infrastructure additions in 2005 include \$128,138,533 in local streets that were constructed between 1980 and 2000. These streets are included in the City's 2006 financial report for the first time to comply with GASB 34.

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

**CITY OF MIDDLETOWN
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

Function and Activity	Governmental Funds Capital Assets January 1, 2006	Additions	Deductions	Governmental Funds Capital Assets December 31, 2006
General Government:				
City Manager/City Council	\$ 163,506	\$ -	\$ -	\$ 163,506
Finance	7,356,204	6,311	(5,500,000)	1,862,515
Law	11,500	-	-	11,500
Planning/Economic Development	3,687,264	-	-	3,687,264
Bldg. Maint.	124,650	9,856	-	134,506
Engineering	50,939	-	-	50,939
Income Tax	13,792	-	-	13,792
Miami Conservancy	7,660	-	-	7,660
City Building/Library	12,825,916	-	-	12,825,916
Leisure:				
Recreation & Community Center	2,053,801	-	-	2,053,801
Parks Maintenance	426,514	-	-	426,514
Sunset Park	1,363,614	-	-	1,363,614
Douglass Park	102,215	-	-	102,215
Smith Park	58,116	91,456	-	149,572
Other Parks	4,953,658	11,440	-	4,965,098
Public health:				
Health & Environment	6,200	-	-	6,200
Social Health	598,599	-	-	598,599
Senior Citizens Center	2,681,211	-	-	2,681,211
Public safety:				
Fire	1,797,408	664,512	(125,922)	2,587,842
Police	1,751,353	459,590	-	2,210,943
Electronic Maintenance	717,659	28,749	-	746,408
Municipal Court	363,474	-	-	363,474
Police Grants	33,858	-	-	33,858
12th District Court	3,542,930	-	-	3,542,930
Streets and highways:				
Street Maintenance	478,703	-	-	478,703
Street system	148,190,316	3,962,657	-	152,152,973
Total governmental funds capital assets	\$ 193,361,060	\$ 5,234,571	\$ (5,625,922)	\$ 192,969,709

Infrastructure additions in 2005 include \$128,138,533 in local streets that were constructed between 1980 and 2000. These streets are included in the City's 2006 financial report for the first time to comply with GASB 34.

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital



STATISCAL SECTION

STATISTICAL SECTION

This part of the City of Middletown's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

CONTENTS	PAGE
Financial Trends	153
These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.	
Revenue Capacity	160
These schedules contain information to help the reader assess one of the government's most significant local revenue source, the property tax.	
Debt Capacity	164
These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	
Demographic and Economic Information	169
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.	
Operating Information	171
These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.	

CITY OF MIDDLETOWN, OHIO
Net Assets by Component
Last Five Years
(Accrual Basis of Accounting)
(amounts expressed in thousands)
Table 1

	2006	2005	2004	2003	2002
Governmental Activities					
Invested in Capital Assets, Net of Related Debt	\$ 62,823	68,722	22,142	21,613	18,601
Restricted:					
Capital Projects	4,229	5,838	5,402	3,703	-
Debt Service	2,466	2,483	2,700	1,768	443
Housing Assistance	12,608	10,625	-	-	-
Community Development	2,689	2,689	-	-	-
Other Purposes	5,072	5,813	16,329	15,413	5,463
Unrestricted	4,930	3,605	2,267	4,239	21,526
Total Governmental Activities Net Assets	\$ 94,817	99,775	48,840	46,736	46,033
Business-Type Activities					
Invested in Capital Assets, Net of Related Debt	\$ 40,483	41,012	39,549	38,968	36,568
Restricted:					
Other Purposes	1,105	711	711	716	712
Unrestricted	15,650	12,658	13,204	12,239	13,145
Total Business-Type Activities Net Assets	\$ 57,238	54,381	53,464	51,923	50,425

CITY OF MIDDLETOWN, OHIO
Changes in Net Assets
Last Five Years
(Accrual Basis of Accounting)
(amounts expressed in thousands)

Table 2

	2006	2005	2004	2003	2002
Expenses					
Governmental activities:					
Community environment	\$ 11,402	11,022	13,033	12,476	10,981
General government	4,639	4,674	4,389	4,248	5,625
Leisure	1,096	1,661	877	1,146	1,315
Public health	1,262	1,247	1,471	1,859	1,991
Public safety	22,691	22,420	22,544	22,128	22,174
Highways and streets	8,377	2,560	3,614	1,405	3,161
Miscellaneous	1,410	1,636	1,832	2,080	1,371
Interest on long-term debt	1,522	1,506	1,375	1,215	1,197
Total governmental activities expenses	<u>52,399</u>	<u>46,726</u>	<u>49,135</u>	<u>46,557</u>	<u>47,815</u>
Business-type activities:					
Water	8,027	6,002	5,265	5,397	5,625
Sanitary Sewer	6,928	5,640	5,505	5,734	5,627
Storm Sewer	-	-	-	-	-
Transit	1,284	1,256	1,066	1,048	1,008
Golf	1,653	1,881	1,727	1,879	1,869
Solid Waste	2,442	2,280	2,236	2,290	1,939
Non major enterprise funds	753	554	895	273	888
Total business-type activities expenses	<u>21,087</u>	<u>17,613</u>	<u>16,694</u>	<u>16,621</u>	<u>16,956</u>
Total primary government expenses	<u>\$ 73,486</u>	<u>64,339</u>	<u>65,829</u>	<u>63,178</u>	<u>64,771</u>
Program Revenue					
Governmental activities:					
Charges for services:					
Community environment	\$ 896	777	447	16	651
General government	1,744	644	1,589	1,528	1,478
Highways and streets	498	-	18	-	-
Leisure	45	18	23	34	38
Public health	204	205	200	329	637
Public safety	2,297	2,836	1,793	2,422	2,445
Miscellaneous	-	1,685	-	-	-
Operating grants and contributions	12,241	14,421	6,895	10,007	11,713
Capital grants and contributions	3,047	1,560	9,125	1,985	115
Total governmental activities program revenue	<u>\$ 20,972</u>	<u>22,146</u>	<u>20,090</u>	<u>16,321</u>	<u>17,077</u>

continued

CITY OF MIDDLETOWN, OHIO
Changes in Net Assets
Last Five Years
(Accrual Basis of Accounting)
(amounts expressed in thousands)
Table 2

	2006	2005	2004	2003	2002
Business-type activities:					
Charges for services:					
Water	\$ 6,980	6,655	6,711	6,228	5,433
Sanitary Sewer	7,122	5,574	5,791	5,460	5,546
Transit	125	132	89	86	85
Golf course	1,635	1,716	1,765	1,668	1,799
Solid Waste	2,596	2,454	2,423	2,330	2,021
Other business-type activities	1,869	135	112	120	130
Operating grants and contributions	2,639	1,139	184	31	417
Capital grants and contributions	172	151	654	1,985	2,150
Total business-type activities program revenue	<u>23,138</u>	<u>17,956</u>	<u>17,729</u>	<u>17,908</u>	<u>17,581</u>
Total primary government program revenue	<u>\$ 44,110</u>	<u>40,102</u>	<u>37,819</u>	<u>34,229</u>	<u>34,658</u>
Net (Expense)/Revenue					
Governmental activities	\$ (31,427)	(24,580)	(29,045)	(30,236)	(30,738)
Business-type activities	2,051	343	1,035	1,287	625
Total primary government net expense	<u>(29,376)</u>	<u>(24,237)</u>	<u>(28,010)</u>	<u>(28,949)</u>	<u>(30,113)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Income taxes	\$ 17,695	18,009	17,960	16,417	17,764
Property taxes	5,920	5,941	5,654	5,588	5,042
Other taxes	3,382	3,046	3,445	3,849	3,436
Grants & contributions not restricted	807	6	69	2,300	4,366
Investment earnings	967	485	529	1,006	1,101
Miscellaneous	3,143	3,196	3,560	1,445	49
Transfers	55	56	(67)	334	1,868
Total governmental activities general revenues	<u>31,969</u>	<u>30,739</u>	<u>31,150</u>	<u>30,939</u>	<u>33,626</u>
Business-type activities:					
Income taxes	\$ 270	338	238	245	230
Grants & contributions not restricted	-	-	201	245	216
Investment earnings	591	291	-	-	377
Transfers	(55)	(56)	67	(279)	(49)
Miscellaneous	-	-	-	-	116
Total business type activities general revenues	<u>806</u>	<u>573</u>	<u>506</u>	<u>211</u>	<u>890</u>
Total primary government general revenues	<u>\$ 32,775</u>	<u>31,312</u>	<u>31,656</u>	<u>31,150</u>	<u>34,516</u>
Special item	\$ (5,500)	-	-	-	-
Changes in Net Assets					
Governmental activities	\$ (4,958)	6,159	2,105	703	2,888
Business-type activities	2,857	916	1,541	1,498	1,515
Total primary government	<u>\$ (2,101)</u>	<u>7,075</u>	<u>3,646</u>	<u>2,201</u>	<u>4,403</u>

CITY OF MIDDLETOWN, OHIO
Governmental Activities Tax Revenues By Source
Last Five Years
(Accrual Basis of Accounting)
(amounts expressed in thousands)
Table 3

Fiscal Year	Income Tax	Property Tax	Other Taxes	Total
2006	\$ 17,695	\$ 5,920	\$ 3,382	\$ 26,997
2005	\$ 18,009	\$ 5,941	\$ 3,046	\$ 26,996
2004	\$ 17,960	\$ 5,654	\$ 3,445	\$ 27,059
2003	\$ 16,417	\$ 5,588	\$ 3,849	\$ 25,854
2002	\$ 17,764	\$ 5,042	\$ 3,436	\$ 26,242

CITY OF MIDDLETOWN, OHIO
Fund Balances of Governmental Funds
Last Ten Years
(Modified Accrual Basis of Accounting)
(amounts expressed in thousands)
Table 4

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Fund										
Reserved	\$ 229	732	355	509	417	221	469	462	63	89
Unreserved	6,792	6,527	6,007	7,119	10,938	10,193	9,959	11,370	8,739	6,651
Total General Fund	\$ 7,021	7,259	6,362	7,628	11,355	10,414	10,428	11,832	8,802	6,740
All Other Governmental Funds										
Reserved	\$ 5,138	9,102	4,834	5,071	9,289	8,804	8,564	4,559	1,111	2,517
Unreserved, undesignated, reported in:										
Capital project funds	1,823	887	4,258	2,541	(1,091)	6,709	7,386	9,964	1,750	328
Debt service funds	463	317	327	124	443	650	885	372	147	120
Special revenue funds	5,440	3,109	4,117	4,169	3,852	4,184	3,501	3,627	3,136	2,393
Total All Other Governmental Funds	12,864	13,415	13,536	11,905	12,493	20,347	20,336	18,522	6,144	5,358
Total Governmental Funds	\$ 19,885	20,674	19,898	19,533	23,848	30,761	30,764	30,354	14,946	12,098

CITY OF MIDDLETOWN, OHIO
Change in Fund Balances of Governmental Funds
Last Ten Years

(Modified Accrual Basis of Accounting)
(amounts expressed in thousands)

Table 5

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
Property taxes	\$ 5,920	5,941	5,654	5,588	5,019	4,773	5,140	4,837	4,593	4,809
Municipal income taxes	17,061	18,092	17,376	15,443	17,764	19,231	16,970	17,614	15,975	14,959
Intergovernmental revenues	19,159	15,702	17,940	17,781	16,308	13,808	11,952	9,024	8,476	7,734
Charges for services	3,286	3,624	3,758	2,915	3,730	2,568	1,371	1,802	1,273	1,119
Fees, licenses, and permits	417	338	312	245	274	335	308	337	438	179
Fines and forfeits	1,483	1,612	1,499	1,164	1,259	1,301	1,272	1,152	1,218	1,149
Special assessments	498	591	659	638	625	816	810	980	690	903
Interest earnings	861	450	498	730	1,111	1,764	1,890	1,113	1,014	715
Miscellaneous	3,385	3,172	2,089	1,976	2,270	1,908	1,542	1,240	1,803	1,571
Total revenues	52,070	49,522	49,785	46,480	48,360	46,504	41,255	38,099	35,480	33,138
Expenditures										
Current:										
General Government	4,306	4,196	4,104	4,203	5,124	4,804	4,676	4,693	3,915	3,641
Public safety	23,791	22,501	22,142	23,596	23,775	20,863	19,457	18,753	17,962	17,667
Public health and welfare	1,220	1,187	1,457	1,832	1,996	1,699	1,548	1,548	1,098	1,138
Leisure time activities	1,064	1,502	1,060	1,152	1,233	1,071	1,022	1,264	956	959
Community environment	11,377	13,708	13,024	12,441	14,991	11,195	7,467	4,423	3,694	3,900
Highways and streets	6,587	5,373	3,787	7,432	7,401	5,139	4,618	3,255	3,946	5,179
Miscellaneous	1,410	1,636	7,353	2,080	1,371	976	1,602	1,070	975	1,381
Debt Service										
Principal retirement	1,661	1,520	1,407	1,238	1,356	1,300	1,237	914	876	1,117
Interest and fiscal charges	1,527	1,493	1,355	1,209	1,217	1,209	1,192	762	740	839
Bond issuance costs				141	-	-	-	-	-	-
Total expenditures	52,943	53,116	55,689	55,324	58,464	48,256	42,819	36,682	34,162	35,821
Excess (deficiency) of revenues over expenditures	\$ (873)	(3,594)	(5,904)	(8,844)	(10,104)	(1,752)	(1,564)	1,417	1,318	(2,683)

CITY OF MIDDLETOWN, OHIO
Change in Fund Balances of Governmental Funds
Last Ten Years
(Modified Accrual Basis of Accounting)
(amounts expressed in thousands)

Table 5

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Other Financing Sources (Uses)										
Transfers in	\$ 497	661	765	1,047	1,290	2,784	4,125	10,712	1,866	3,813
Transfers out	(442)	(606)	(713)	(768)	(1,379)	(1,751)	(2,741)	(8,003)	(562)	(2,447)
Issuance of bonds	58	4,315	6,216	4,250	-	716	223	10,981	226	697
Other uses	(29)	-	-	-	-	-	-	-	-	-
Capital lease	-	-	-	-	-	-	362	-	-	-
Total other financing sources (uses)	84	4,370	6,268	4,529	(89)	1,749	1,969	13,690	1,530	2,063
Net change in Fund Balances	\$ (789)	776	364	(4,315)	(10,193)	(3)	405	15,107	2,848	(620)

Debt service as a % of total expenditures 6.02% 5.67% 4.96% 4.68% 4.40% 5.20% 5.67% 4.57% 4.73% 5.46%

CITY OF MIDDLETOWN, OHIO
General Governmental Tax Revenues By Source
Last Ten Years
(Modified Accrual Basis of Accounting)
(amounts expressed in thousands)

Table 6

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Property taxes	\$ 5,920	5,941	5,654	5,588	5,019	4,773	5,140	4,837	4,593	4,809
Municipal income taxes	\$ 17,061	18,092	17,376	15,443	17,764	19,231	16,970	17,614	15,975	14,959

CITY OF MIDDLETOWN, OHIO
Assessed and Estimated Actual Value of Taxable Property

Last ten years
(amounts expressed in thousands)
Table 7

Tax Levy/ Collection Year	Real Property		Personal Property (1)		Public Utility (2)		Totals		Assessed Value as a Percent of Estimated Actual Value
	Assessed	Estimated Actual	Assessed	Estimated Actual	Assessed	Estimated Actual	Assessed	Estimated Actual	
1996/1997	\$532,780	\$1,522,227	\$177,047	\$708,189	\$54,506	\$218,024	\$764,333	\$2,448,440	31.22
1997/1998	\$564,341	\$1,612,404	\$202,163	\$808,651	\$53,128	\$212,513	\$819,632	\$2,633,568	31.12
1998/1999	\$570,897	\$1,631,133	\$188,367	\$753,469	\$54,546	\$218,184	\$813,810	\$2,602,786	31.27
1999/2000	\$622,984	\$1,779,954	\$210,395	\$841,580	\$55,444	\$158,411	\$888,823	\$2,779,946	31.97
2000/2001	\$636,124	\$1,817,497	\$215,165	\$860,660	\$52,758	\$211,030	\$904,046	\$2,889,187	31.29
2001/2002	\$652,341	\$1,863,830	\$237,371	\$949,486	\$35,230	\$140,920	\$924,942	\$2,954,236	31.31
2002/2003	\$752,103	\$2,148,865	\$248,818	\$995,273	\$39,556	\$158,224	\$1,040,477	\$3,302,362	31.51
2003/2004	\$753,911	\$2,154,032	\$252,766	\$1,011,064	\$38,624	\$154,498	\$1,045,301	\$3,319,593	31.49
2004/2005	\$752,108	\$2,148,880	\$253,353	\$1,013,414	\$38,637	\$154,548	\$1,044,099	\$3,316,842	31.48
2005/2006	\$777,301	\$2,220,861	\$238,133	\$952,532	\$36,625	\$146,501	\$1,052,060	\$3,319,895	31.69

Real property is reappraised every six years with a State mandated update of the current market in the third year following each reappraisal.

The assessed value of real property (including public utility real property) is 35 percent of estimated true value. The assessed value of public utility personal property ranges from 25 percent of true value for railroad property to 88 percent for electric transmission and distribution property. General business tangible personal property tax was assessed in previous years at 25 percent for machinery and equipment and 23 percent for inventories. General business tangible personal property tax is being phased out beginning in 2006. For collection year 2006, both types of general business tangible personal property were assessed at 18.75 percent. The percentage will be 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009.

The tangible personal property values associated with each year are the values that, when multiplied by the applicable rates, generated the property tax revenue billed in that year. For real property, the amounts generated by multiplying the assessed values by the applicable rates would be reduced by the 10%, 2 1/2% and homestead exemptions before being billed. Beginning in the 2006 collection year, the 10% rollback for commercial/industrial has been eliminated.

(1) Other than public utility.

(2) Real and tangible personal property

Source: County Auditors except for estimated actual values for personal property which was estimated by the City of Middletown Finance Dept.

CITY OF MIDDLETOWN, OHIO
Property Tax Rates and Tax Levies
Direct and Overlapping Governments
Last ten years (1)
Table 8

City of Middletown							
Collection Year	Operating	Police and Fire Pension	Debt Retirement	City of Middletown Total	Butler County	Middletown City School District	Total
1997	5.26	0.60	0.56	6.42	8.45	38.56	53.43
1998	5.26	0.60	0.56	6.42	8.45	38.56	53.43
1999	5.26	0.60	0.61	6.47	8.44	38.49	53.40
2000	5.26	0.60	0.45	6.31	8.45	37.26	52.02
2001	5.26	0.60	0.00	5.86	8.45	37.26	51.57
2002	5.26	0.60	0.00	5.86	8.75	36.71	51.32
2003	5.26	0.60	0.00	5.86	8.74	40.03	54.63
2004	5.30	0.60	0.00	5.90	8.74	40.01	54.65
2005	5.30	0.60	0.00	5.90	8.74	40.01	54.65
2006	5.30	0.60	0.00	5.90	8.74	40.01	54.65

(1) The above tax rates are based on \$1,000 of assessed valuation.

Source: Butler County Auditor's Office

CITY OF MIDDLETOWN, OHIO
Principal Property Taxpayers
December 31, 2006
(amounts expressed in thousands)
Table 9

Real Property

Name of Taxpayer	Nature of Business	Assessed Valuation	Percentage of Total Assessed
Cincinnati Gas & Electric	Public utility	\$ 56,841	43.60%
A K Steel Corp.	Steel manufacturing	\$ 30,191	23.16%
Precision Strip, Inc.	Steel processing	\$ 8,332	6.39%
Southwestern Ohio Steel	Steel processing	\$ 8,124	6.23%
Garden Manor	Retirement home	\$ 7,136	5.47%
Bavarian Woods Apartments	Apartment complex	\$ 4,544	3.49%
Chaka-Chak LLC	Apartment complex	\$ 4,066	3.12%
Texas Eastern Transmission	Gas pipeline	\$ 3,978	3.05%
Bay West Paper Corp	Paper and packaging	\$ 3,635	2.79%
Riverside Village LTD PRT	Apartment complex	\$ 3,532	2.70%
Total		\$ 130,379	100.00%

Tangible Personal Property

Name of Taxpayer	Nature of Business	Assessed Valuation	Percentage of Total Assessed
A.K. Steel	Steel manufacturing	\$ 113,172	76.68%
Bay West Paper Company	Paper and packaging	\$ 8,652	5.86%
Misa Metals, Inc.	Steel processing	\$ 6,904	4.68%
Jefferson Smurfit Corporation	Paper and packaging	\$ 4,073	2.76%
Pilot Chemical Company	Industrial gas manufacturing	\$ 3,015	2.04%
Air Products & Chemicals	Industrial gas manufacturing	\$ 2,840	1.92%
Precision Strip	Steel processing	\$ 2,488	1.69%
Middletown Tube Works	Steel processing	\$ 2,309	1.56%
Cohen Brothers, Inc.	Scrap metal	\$ 2,258	1.53%
Inland PaperBoard	Paper and packaging	\$ 1,887	1.28%
Total		\$ 147,598	100.00%

Tangible personal property tax is being replaced over a four year period by the Commercial Activities Tax beginning in 2006.

Source: Butler County Auditor's Office

CITY OF MIDDLETOWN, OHIO
Property Tax Levies and Collections
Last Ten Years (1)
(amounts expressed in thousands)
Table 10

Fiscal Year Ended December 31	Total Tax Levy for Fiscal Year (Millage)	Collected within the Fiscal Year of the Levy		
		Amount Levied	Amount Collected	Percentage of Levy Collected
2006	5.90	\$ 6,207	\$ 6,206	99.98%
2005	5.90	\$ 6,160	\$ 5,941	96.44%
2004	5.90	\$ 6,167	\$ 5,654	91.68%
2003	5.86	\$ 6,097	\$ 5,588	91.65%
2002	5.86	\$ 5,420	\$ 5,019	92.60%
2001	5.86	\$ 5,298	\$ 4,773	90.10%
2000	6.31	\$ 5,608	\$ 5,140	91.65%
1999	6.47	\$ 5,265	\$ 4,837	91.86%
1998	6.42	\$ 5,262	\$ 4,593	87.29%
1997	6.42	\$ 4,907	\$ 4,809	98.00%

CITY OF MIDDLETOWN, OHIO
Ratios of Outstanding Debt by Type
Last Ten Years
(amounts expressed in thousands, except per capita amount)
Table 11

Fiscal Year	Governmental Activities			Business-Type Activities		Total	Percentage of Personal Income	Per Capita (1)
	General Obligation Bonds	Special Assessment Bonds	Capital Leases	General Obligation Bonds	Capital Leases			
2006	\$ 24,010	\$ 3,325	\$ -	\$ 6,850	\$ 8,024	\$ 42,209	4.14%	\$ 818
2005	\$ 25,375	\$ 2,899	\$ -	\$ 7,650	\$ -	\$ 35,924	2.54%	\$ 696
2004	\$ 22,220	\$ 3,259	\$ 74	\$ 8,405	\$ -	\$ 33,958	3.33%	\$ 658
2003	\$ 17,815	\$ 2,857	\$ 155	\$ 9,125	\$ -	\$ 29,952	2.94%	\$ 580
2002	\$ 14,705	\$ 2,955	\$ 223	\$ 9,315	\$ -	\$ 27,198	2.67%	\$ 527
2001	\$ 15,595	\$ 3,352	\$ 223	\$ 9,960	\$ -	\$ 29,130	2.85%	\$ 564
2000	\$ 16,455	\$ 3,007	\$ 291	\$ 10,565	\$ -	\$ 30,318	2.97%	\$ 588
1999	\$ 17,290	\$ 3,186	\$ -	\$ 11,160	\$ -	\$ 31,636	5.29%	\$ 687
1998	\$ 7,250	\$ 3,158	\$ -	\$ 9,105	\$ -	\$ 19,513	3.26%	\$ 424
1997	\$ 7,725	\$ 3,333	\$ -	\$ 10,386	\$ -	\$ 21,444	3.59%	\$ 466

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Demographic and Economic Statistics on page 169 for personal income and population data.

CITY OF MIDDLETOWN, OHIO
Ratios of General Bonded Debt Outstanding for Governmental Activities
Last Ten Years
(amounts expressed in thousands, except per capita amount)
Table 12

Fiscal Year	General Obligation Bonds	Less: Amounts Available in Debt Service Funds	Total	Percentage of Estimated Actual Taxable Value (1) of Property	Per Capita (2)
2006	\$24,010	\$138	\$23,872	2.28%	\$465
2005	\$25,375	\$172	\$25,203	2.43%	\$492
2004	\$22,220	\$272	\$21,948	2.13%	\$431
2003	\$17,815	\$141	\$17,674	1.71%	\$345
2002	\$14,705	\$297	\$14,408	1.59%	\$285
2001	\$15,595	\$284	\$15,311	1.73%	\$302
2000	\$16,455	\$279	\$16,176	1.85%	\$319
1999	\$17,290	\$28	\$17,262	2.12%	\$376
1998	\$7,250	\$19	\$7,231	0.88%	\$158
1997	\$7,725	\$15	\$7,710	1.01%	\$168

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements
(1) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 16C for property value data.

(2) Population data can be found in the Schedule of Demographic and Economic Statistics on page 16

**CITY OF MIDDLETOWN, OHIO
 COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 As of December 31, 2006
 (amounts expressed in thousands)
 Table 13**

Political Subdivision	General Bonded Debt	Percent Applicable to City	City's Share
City of Middletown	\$24,010,000	100.0	\$24,010,000
Butler County	45,365,000	13.8	6,260,370
Warren County	<u>5,502</u>	8.1	<u>446</u>
Total	\$69,380,502		\$30,270,816

Source: Butler and Warren County Auditor's Offices.

CITY OF MIDDLETOWN, OHIO
Legal Debt Margin Information

Last Ten Years

(amounts expressed in thousands)

Table 14

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt limit	\$ 80,255	86,601	85,450	93,326	94,925	97,119	109,250	109,757	109,630	110,466
Total net debt applicable to limit	7,725	7,250	6,755	6,606	5,725	5,185	8,655	13,535	16,995	16,050
Legal debt margin	\$ 72,530	79,351	78,695	86,720	89,200	91,934	100,595	96,222	92,635	94,416
Total net debt applicable to the limit as a percentage of debt limit	9.63%	8.37%	7.91%	7.08%	6.03%	5.34%	7.92%	12.33%	15.50%	14.53%
						Assessed value				1,052,060
						Add back: exempt real property				-
						Total assessed value				<u>1,052,060</u>
						Debt limit (10%) of total asses value				110,466
						Debt applicable to limit:				
						General obligation bond				16,995
						Less: Amount set aside for repayment of general obligation debt				<u>384</u>
						Total net debt applicable to limit				<u>15,666</u>
						Legal debt margin				<u><u>94,800</u></u>

Note: Under state finance law, the City of Middletown's outstanding general obligation debt should not exceed ten percent of total assessed property value. By the law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

CITY OF MIDDLETOWN, OHIO
Pledged-Revenue Coverage
Last Ten Years
Table 15

Tax Year	Special Assessment Collections	Debt Service		Coverage
		Principal	Interest & Fiscal Charges	
2006	\$495,329	\$296,295	\$187,135	1.02
2005	\$547,790	\$359,859	\$201,059	0.98
2004	\$518,116	\$312,000	\$162,746	1.09
2003	\$557,436	\$233,000	\$184,966	1.33
2002	\$623,248	\$397,144	\$204,857	1.04
2001	\$603,269	\$371,658	\$213,702	1.03
2000	\$632,469	\$401,780	\$215,524	1.02
1999	\$747,284	\$428,376	\$303,056	1.02
1998	\$632,469	\$400,743	\$233,574	1.00
1997	\$591,053	\$337,018	\$226,626	1.05

CITY OF MIDDLETOWN, OHIO
Demographic and Economic Statistics
Last Ten Years
Table 16

Year	Population (1)	Personal Income (in 1,000's)	Per Capita Personal Income (1)	Median Age (1)	Education Level in Years of Formal Schooling (3)	School Enrollment (3)	Unemployment Rate (2)
1997	46,022	\$ 597,734	\$ 12,988	n/a	n/a	9,817	5.30
1998	46,022	\$ 597,734	\$ 12,988	n/a	n/a	9,662	5.10
1999	46,022	\$ 597,734	\$ 12,988	n/a	n/a	9,566	4.80
2000	51,605	\$ 1,020,386	\$ 19,773	36.2	n/a	9,343	5.40
2001	51,605	\$ 1,020,386	\$ 19,773	36.2	n/a	7,818	6.10
2002	51,605	\$ 1,020,386	\$ 19,773	36.2	n/a	7,836	6.90
2003	51,605	\$ 1,020,386	\$ 19,773	36.2	n/a	7,631	6.80
2004	51,605	\$ 1,020,386	\$ 19,773	36.2	n/a	7,302	6.30
2005	51,605	\$ 1,020,386	\$ 19,773	36.2	n/a	7,198	6.10
2006	51,605	\$ 1,020,386	\$ 19,773	36.2	16 yrs - 13% 12 yrs - 63%	6,925	7.10

Data Sources:

- (1) Bureau of the Census
- (2) State Department of Labor
- (3) School District

Note: Population, median age, and personal income information are based on the 2000 Census. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

CITY OF MIDDLETOWN, OHIO
Principal Employers
Current Year
Table 17

Employer	2006		
	Employees	Rank	Percentage of Total City Employment
AK Steel	4,651	1	39.8%
Middletown Regional Hospital	1,836	2	15.7%
Middletown City School District	1,248	3	10.7%
City of Middletown	514	4	4.4%
Strom Engineering Corp.	1,181	5	10.1%
Bay West Paper (Wausau)	197	6	1.7%
National Workforce Assistance	505	7	4.3%
Stone Container Corp. (Altiivity)	314	8	2.7%
Miami University	667	9	5.7%
Garden Manor Extended Care	563	10	4.8%

CITY OF MIDDLETOWN, OHIO
Full-time Equivalent City Government Employees by Function
Last Ten Years
Table 18

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government	50	50	50	50	51	57	54	47	42	43
Public safety										
Police										
Officers	88	88	89	89	89	89	93	90	89	85
Civilians	41	41	41	45	46	46	49	45	45	43
Fire										
Firefighters & officers	89	89	89	90	90	90	90	87	87	84
Civilians	1	1	1	1	1	1	1	1	1	1
Other	38	38	38	37	38	36	36	33	32	33
Highways and streets										
Maintenance	20	20	20	21	21	19	19	17	18	17
Leisure Time Activities	13	13	11	10	11	11	11	10	8	9
Community Environment	6	6	6	5	5	1	2	2	2	2
Public health & welfare	14	13	14	13	11	11	11	7	6	6
Water	41	41	33	32	31	32	32	32	33	32
Sewer	38	36	36	36	36	35	35	34	34	36
Golf Course	8	8	8	8	8	8	8	8	8	7
Transit	9	9	9	9	9	9	9	9	8	8
Parking	2	2	1	1	1	1	1	0	0	0
Internal Services	11	11	11	11	11	11	11	10	10	10
Total	469	466	457	458	459	457	462	432	423	416

CITY OF MIDDLETOWN, OHIO
Operating Indicators by Function
Last Ten Years
Table 19

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Fire										
Number of fire responses	490	770	918	811	791	742	708	718	604	916
Average response time (minutes)	3.1	3.4	3.5	3.6	4.0	4.0	4.1	4.2	4.3	4.3
Emergency medical calls	4,833	4,936	5,457	5,606	5,751	5,951	6,153	6,159	6,557	6,700
Police										
Calls for service	43,215	44,481	43,480	45,851	43,930	46,807	44,285	42,547	42,563	47,348
Number of arrests	7,084	7,204	6,570	7,089	7,998	7,840	7,069	7,525	8,223	8,370
Response time for priority calls (minutes)	5.1	4.9	5.0	5.0	4.9	4.8	5.3	5.4	5.5	5.4
Traffic accidents	2,546	2,527	2,725	2,499	2,305	2,170	2,140	1,965	1,877	1,892
Average daily jail population	53	58	60	65	65	69	55	55	58	53
Recreation and leisure										
Community center admissions	18,840	15,968	7,030	9,613	8,830	6,556	14,382	8,042	9,125	8,548
Transit										
Unlinked passenger trips	198,385	198,385	201,669	205,602	202,373	188,840	195,687	194,079	233,750	253,587
Water										
Average daily water pumpage (million gallons per day)	8.66	8.36	8.80	8.60	8.30	8.46	8.11	8.12	8.23	8.00
Number of water accounts	19,760	19,672	19,773	19,869	19,869	19,869	19,877	19,877	19,877	19,877
Sewer										
Average daily flow (million gallons per day)	18.1	18.4	17.8	16.6	16.4	17.5	16.4	14.1	16.5	16.2
Sewer mains cleaned (feet)	72,237	31,168	68,965	9,078	9,639	300,000	40,417	98,502	19,217	21,475

CITY OF MIDDLETOWN, OHIO
Capital Asset Statistics by Function
Last Ten Years
Table 20

Function	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Public safety:										
Fire stations	5	5	5	5	5	5	5	5	5	5
Police stations	1	1	1	1	1	1	1	1	1	1
Highways and streets:										
Streets (miles)	217	217	229	229	229	229	231	231	231	231
Traffic Lights	110	110	116	118	116	112	108	110	114	110
Water:										
Water mains (miles)	327	327	331	332	332	332	337	338	340	340
Sewer:										
Sanitary & storm (miles)	289	289	296	299	299	299	307	309	311	311
Leisure & recreation:										
Parks	31	31	34	34	34	36	36	36	36	36
Swimming pools	2	2	2	2	2	2	2	2	0	0
Community Centers	1	1	1	1	1	1	1	1	1	1
Golf Courses	1	1	1	1	1	1	1	1	1	1



Mary Taylor, CPA
Auditor of State

CITY OF MIDDLETOWN

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 9, 2007**