

**CITY OF BROOKVILLE**  
**MONTGOMERY COUNTY, OHIO**  
**BASIC**  
**FINANCIAL STATEMENTS**  
*FOR THE YEAR ENDED*  
*DECEMBER 31, 2005*

**SONJA KEATON, DIRECTOR OF FINANCE**





**Auditor of State  
Betty Montgomery**

City Council  
City of Brookville  
301 Sycamore St.  
Brookville, OH 45309

We have reviewed the *Independent Auditors' Report* of the City of Brookville, Montgomery County, prepared by Julian and Grube, Inc., for the audit period January 1, 2005 through December 31, 2005. 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 Brookville is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

June 6, 2006

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**CITY OF BROOKVILLE, OHIO**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

### **Independent Auditors' Report**

Members of Council and Mayor  
City of Brookville  
301 Sycamore Street  
Brookville, Ohio 45309

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of the City of Brookville, Montgomery County, Ohio, (the "City"), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brookville, Montgomery County, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general and street construction, maintenance and repair funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of Council and Mayor  
City of Brookville

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.  
April 27, 2006



## CITY OF BROOKVILLE, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

The management's discussion and analysis of the City of Brookville's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

#### Financial Highlights

Key financial highlights for 2005 are as follows:

- The total net assets of the City increased \$510,792. Net assets of governmental activities increased \$715,141 or 10.01% over 2004 and net assets of business-type activities decreased \$204,349 or 4.31% over 2004.
- General revenues accounted for \$2,664,117 of total governmental activities revenue. Program specific revenues accounted for \$1,866,363 or 41.20% of total governmental activities revenue.
- The City had \$3,805,339 in expenses related to governmental activities; \$1,866,363 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,938,976 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$2,664,117.
- The general fund had revenues and other financing sources of \$3,242,018 in 2005. This represents a decrease of \$85,628 from 2004. The expenditures and other financing uses of the general fund, which totaled \$3,395,935 in 2005, increased \$92,899 from 2004. The net decrease in fund balance for the general fund was \$153,917 or 12.74%.
- The street construction maintenance and repair fund had revenues and other financing sources of \$529,512 in 2005. The expenditures of the street construction maintenance and repair fund, totaled \$539,666 in 2005. The net decrease in fund balance for the street construction maintenance and repair fund was \$10,154 or 7.35%.
- The capital improvement fund had revenues and other financing sources of \$1,580,772 in 2005. The expenditures of the capital improvement fund, totaled \$1,728,945 in 2005. The net decrease in fund balance for the capital improvement fund was \$148,173 or 42.94%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and Refuse enterprise funds, decreased in 2005 by \$204,349. This decrease in net assets was due primarily to increasing expenses and decreasing revenues.
- In the general fund, the actual revenues came in \$263,902 higher than they were in the final budget and actual expenditures and other financing uses were \$245,678 less than the amount in the final budget. Budgeted expenditures and revenues were the same in the original and the final budgets.

#### Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

## CITY OF BROOKVILLE, OHIO

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

#### **Reporting the City as a Whole**

##### *Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

**Governmental activities** - Most of the City's programs and services are reported here including police, fire and rescue, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

**Business-type activities** - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's water, sewer, and refuse operations are reported here.

The City's statement of net assets and statement of activities can be found on pages 17-19 of this report.

#### **Reporting the City's Most Significant Funds**

##### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

**CITY OF BROOKVILLE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

***Governmental Funds***

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

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, street construction maintenance and repair fund, and capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 20-25 of this report.

***Proprietary Funds***

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and refuse management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 26-28 of this report.

***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City has no fiduciary funds.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-54 of this report.

**CITY OF BROOKVILLE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Government-Wide Financial Analysis**

The Statement of Net Assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2005 compared to 2004.

	<b>Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Assets</u>						
Current and other assets	\$ 2,351,370	\$ 2,674,903	\$ 966,441	\$ 917,028	\$ 3,317,811	\$ 3,591,931
Capital assets	<u>7,223,256</u>	<u>6,021,289</u>	<u>5,007,461</u>	<u>5,361,611</u>	<u>12,230,717</u>	<u>11,382,900</u>
Total assets	<u>9,574,626</u>	<u>8,696,192</u>	<u>5,973,902</u>	<u>6,278,639</u>	<u>15,548,528</u>	<u>14,974,831</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,404,288	1,253,303	1,251,842	1,382,753	2,656,130	2,636,056
Other liabilities	<u>307,547</u>	<u>295,239</u>	<u>184,542</u>	<u>154,019</u>	<u>492,089</u>	<u>449,258</u>
Total liabilities	<u>1,711,835</u>	<u>1,548,542</u>	<u>1,436,384</u>	<u>1,536,772</u>	<u>3,148,219</u>	<u>3,085,314</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	5,981,104	4,892,327	3,822,936	4,033,510	9,804,040	8,925,837
Restricted	754,741	892,956	-	-	754,741	892,956
Unrestricted	<u>1,126,946</u>	<u>1,362,367</u>	<u>714,582</u>	<u>708,357</u>	<u>1,841,528</u>	<u>2,070,724</u>
Total net assets	<u>\$ 7,862,791</u>	<u>\$ 7,147,650</u>	<u>\$ 4,537,518</u>	<u>\$ 4,741,867</u>	<u>\$ 12,400,309</u>	<u>\$ 11,889,517</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2005, the City's assets exceeded liabilities by \$12,400,309. At year-end, net assets were \$7,862,791 and \$4,537,518 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 75.44% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, construction in progress and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$5,981,104 and \$3,822,936 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$754,741, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,126,946 may be used to meet the government's ongoing obligations to citizens and creditors.

The following table shows the comparative analysis of changes in net assets for fiscal year 2005 compared to 2004.

**CITY OF BROOKVILLE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

	<b>Change in Net Assets</b>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 872,382	\$ 841,195	\$ 1,593,032	\$ 1,541,650	\$ 2,465,414	\$ 2,382,845
Operating grants and contributions	272,995	272,067	-	-	272,995	272,067
Capital grants and contributions	<u>720,986</u>	<u>445,007</u>	<u>-</u>	<u>-</u>	<u>720,986</u>	<u>445,007</u>
Total program revenues	<u>1,866,363</u>	<u>1,558,269</u>	<u>1,593,032</u>	<u>1,541,650</u>	<u>3,459,395</u>	<u>3,099,919</u>
General revenues:						
Property taxes	51,874	205,410	-	-	51,874	205,410
Income taxes	1,972,840	2,255,966	-	-	1,972,840	2,255,966
Unrestricted grants and entitlements	510,906	285,658	-	-	510,906	285,658
Investment earnings	56,133	29,673	-	-	56,133	29,673
Miscellaneous	<u>72,364</u>	<u>53,971</u>	<u>-</u>	<u>-</u>	<u>72,364</u>	<u>53,971</u>
Total general revenues	<u>2,664,117</u>	<u>2,830,678</u>	<u>-</u>	<u>-</u>	<u>2,664,117</u>	<u>2,830,678</u>
Total revenues	<u>4,530,480</u>	<u>4,388,947</u>	<u>1,593,032</u>	<u>1,541,650</u>	<u>6,123,512</u>	<u>5,930,597</u>
<b>Expenses:</b>						
General government	771,650	709,732	-	-	771,650	709,732
Security of persons and property	1,773,944	1,717,363	-	-	1,773,944	1,717,363
Public health and welfare	10,353	-	-	-	10,353	-
Transportation	1,079,760	1,147,509	-	-	1,079,760	1,147,509
Leisure time activity	168,203	132,356	-	-	168,203	132,356
Interest and fiscal charges	1,429	652	-	-	1,429	652
Water	-	-	754,651	673,362	754,651	673,362
Sewer	-	-	689,659	753,676	689,659	753,676
Refuse	<u>-</u>	<u>-</u>	<u>363,071</u>	<u>337,521</u>	<u>363,071</u>	<u>337,521</u>
Total expenses	<u>3,805,339</u>	<u>3,707,612</u>	<u>1,807,381</u>	<u>1,764,559</u>	<u>5,612,720</u>	<u>5,472,171</u>
<b>Special Items:</b>						
Gain on exchange of land	<u>-</u>	<u>56,980</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,980</u>
Transfers	<u>(10,000)</u>	<u>(188,064)</u>	<u>10,000</u>	<u>188,064</u>	<u>-</u>	<u>-</u>
Change in net assets	715,141	550,251	(204,349)	(34,845)	510,792	515,406
Net assets at beginning of year	<u>7,147,650</u>	<u>6,597,399</u>	<u>4,741,867</u>	<u>4,776,712</u>	<u>11,889,517</u>	<u>11,374,111</u>
Net assets at end of year	<u>\$ 7,862,791</u>	<u>\$ 7,147,650</u>	<u>\$ 4,537,518</u>	<u>\$ 4,741,867</u>	<u>\$ 12,400,309</u>	<u>\$ 11,889,517</u>

**CITY OF BROOKVILLE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Governmental Activities**

Governmental activities net assets increased \$715,141 in 2005. This increase is a result of decreasing expenses and increasing revenues versus amounts reported in the prior year.

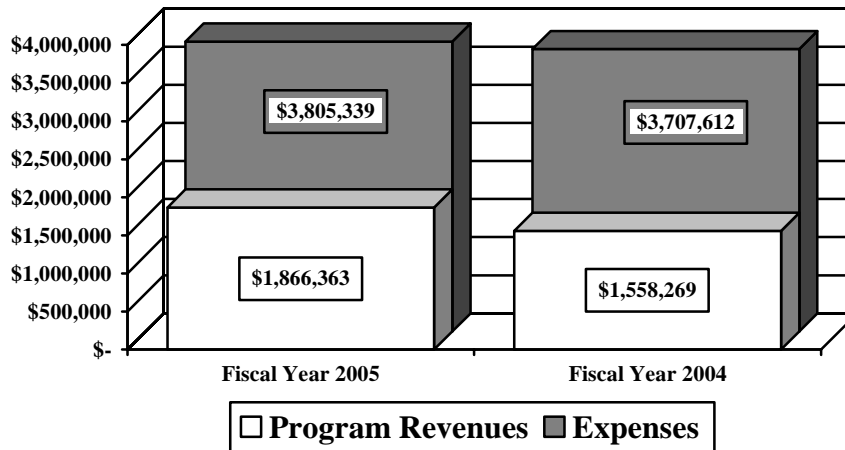
Security of persons and property which primarily supports the operations of the police and fire department accounted for \$1,773,944 or 46.62% of the total expenses of the City. Security of persons and property expenses were partially funded by \$612,339 in direct charges to users of the services. General government expenses totaled \$771,650. General government expenses were partially funded by \$213,839 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$272,995 in operating grants and contributions and \$720,986 in capital grants and contributions. These revenues are restricted to a particular program or purpose. The total grants and contributions subsidized transportation programs.

General revenues totaled \$2,664,117 and amounted to 58.80% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,024,714. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$510,906.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2005 compared to 2004. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

**Governmental Activities - Program Revenues vs. Total Expenses**



**CITY OF BROOKVILLE, OHIO**

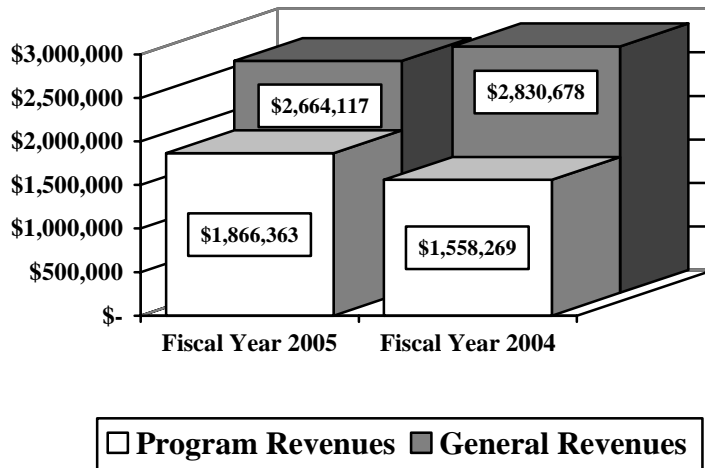
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Governmental Activities**

	2005		2004	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 771,650	\$ 557,811	\$ 709,732	\$ 478,268
Security of persons and property	1,773,944	1,161,605	1,717,363	1,163,232
Public health and welfare	10,353	-	-	-
Transportation	1,079,760	87,824	1,147,509	416,373
Leisure time activity	168,203	130,307	132,356	90,818
Interest and fiscal charges	1,429	1,429	652	652
<b>Total</b>	<b>\$ 3,805,339</b>	<b>\$ 1,938,976</b>	<b>\$ 3,707,612</b>	<b>\$ 2,149,343</b>

The dependence upon general revenues for governmental activities is apparent, with 50.95% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2005.

**Governmental Activities – General and Program Revenues**

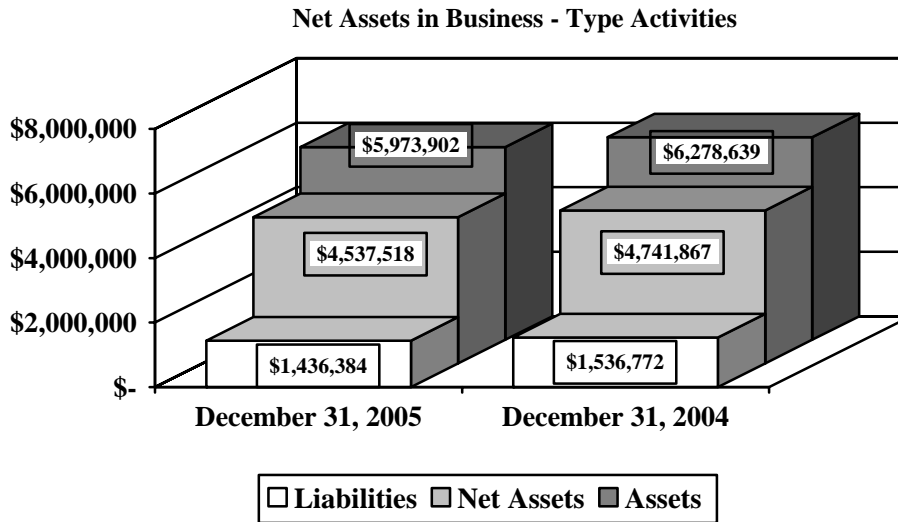


**CITY OF BROOKVILLE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**Business-type Activities**

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$1,593,032, transfers in of \$10,000 and expenses of \$1,807,381 for 2005. The graph below shows the business-type activities assets, liabilities and net assets at year-end.



**Financial Analysis of the Government's Funds**

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

**Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$1,754,514 which is \$264,241 below last year's total of \$2,018,755. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 for all major and non-major governmental funds.

	Fund Balances <u>12/31/2005</u>	Fund Balances <u>12/31/2004</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 1,054,003	\$ 1,207,920	\$ (153,917)
Street construction maintenance and repair	128,028	138,182	(10,154)
Capital improvement	196,913	345,086	(148,173)
Other nonmajor governmental funds	<u>375,570</u>	<u>327,567</u>	<u>48,003</u>
Total	<u>\$ 1,754,514</u>	<u>\$ 2,018,755</u>	<u>\$ (264,241)</u>



**CITY OF BROOKVILLE, OHIO**

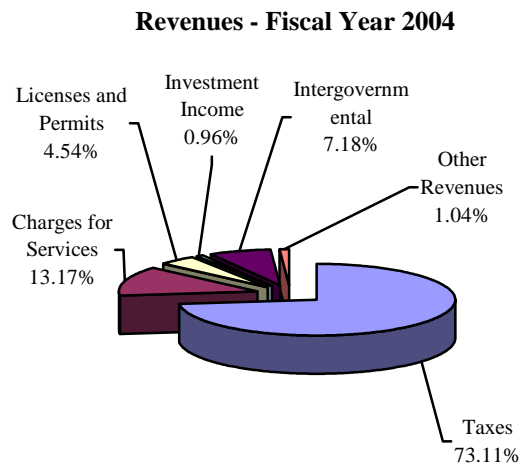
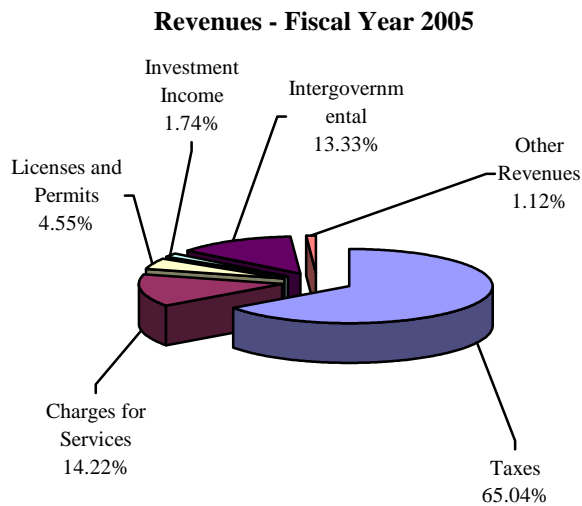
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

**General Fund**

The City's general fund balance decreased \$153,917. The table that follows assists in illustrating the revenues of the general fund.

	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 2,101,727	\$ 2,426,168	(13.37) %
Charges for services	459,640	436,978	5.19 %
Licenses and permits	147,161	150,521	(2.23) %
Investment income	56,084	31,714	76.84 %
Intergovernmental	430,684	238,408	80.65 %
Other	<u>36,266</u>	<u>34,607</u>	4.79 %
Total	<u>\$ 3,231,562</u>	<u>\$ 3,318,396</u>	(2.62) %

Tax revenue represents 65.04% of all general fund revenue. Tax revenue decreased 13.37% over prior year. The decrease in taxes revenue is due to a decrease in the collections of municipal income taxes. The increase in investment income is due to the increase in interest rates on the in City's investments during the year. The 80.65% increase in intergovernmental revenues is due to a change in cash classifications in the current year.



**CITY OF BROOKVILLE, OHIO**

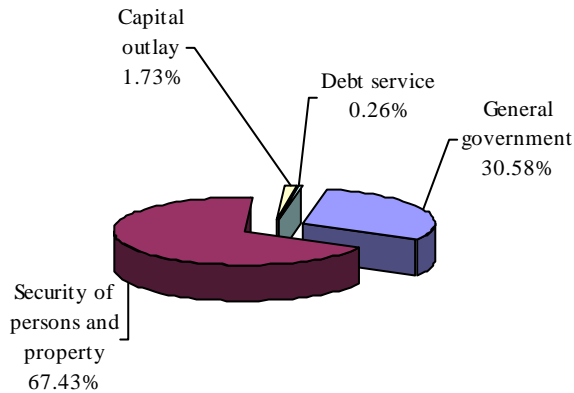
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

The table that follows assists in illustrating the expenditures of the general fund.

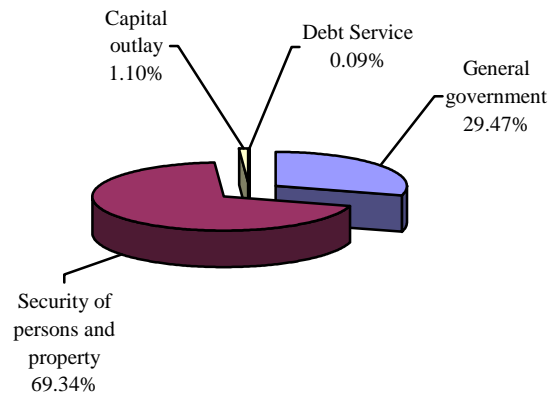
	<u>2005 Amount</u>	<u>2004 Amount</u>	<u>Percentage Change</u>
<b><u>Expenditures</u></b>			
General government	\$ 758,609	\$ 689,108	10.09 %
Security of persons and property	1,672,962	1,621,083	3.20 %
Capital outlay	42,804	25,730	66.36 %
Debt service	<u>6,560</u>	<u>2,115</u>	210.17 %
 Total	 <u>\$ 2,480,935</u>	 <u>\$ 2,338,036</u>	 6.11 %

The City increased total expenditures by 6.11%. The largest expenditure line item, security of persons and property, increased slightly, which is primarily attributed to wage and benefit increases.

**Expenditures - Fiscal Year 2005**



**Expenditures - Fiscal Year 2004**



***Budgeting Highlights***

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund and street construction maintenance and repair fund. In the general fund, the actual revenues came in \$263,902 higher than they were in the final budget and actual expenditures and other financing uses were \$245,678 less than the amount in the final budget. Budgeted revenues were increased \$85,353 from the original to the final budget. Budgeted expenditures were the same in the original and the final budgets.

**CITY OF BROOKVILLE, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

***Street Construction Maintenance and Repair Fund***

The street construction maintenance and repair fund had revenues and other financing sources of \$529,512 in 2005. The expenditures of the street construction maintenance and repair fund, totaled \$539,666 in 2005. The net decrease in fund balance for the street construction maintenance and repair fund was \$10,154 or 7.35%.

***Capital Improvement Fund***

The capital improvement fund had revenues and other financing sources of \$1,580,772 in 2005. The expenditures of the capital improvement fund, totaled \$1,728,945 in 2005. The net decrease in fund balance for the capital improvement fund was \$148,173 or 42.94%.

***Proprietary Funds***

The City's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2005, the City had \$12,230,717 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, infrastructure and construction in progress. Of this total, \$7,223,256 was reported in governmental activities and \$5,007,461 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows fiscal 2005 balances compared to 2004:

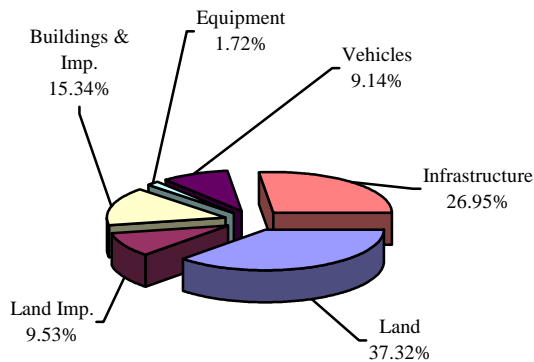
**Capital Assets at December 31  
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 2,696,163	\$ 2,736,163	\$ 32,388	\$ 32,388	\$ 2,728,551	\$ 2,768,551
Land improvements	688,487	730,158	4,341,384	4,692,914	5,029,871	5,423,072
Buildings and improvements	1,107,730	1,061,340	197,157	204,083	1,304,887	1,265,423
Equipment	124,489	145,812	51,720	33,850	176,209	179,662
Vehicles	659,920	607,018	49,809	64,040	709,729	671,058
Infrastructure	1,946,467	716,804	335,003	327,425	2,281,470	1,044,229
Construction in progress	-	23,994	-	6,911	-	30,905
Totals	<u>\$ 7,223,256</u>	<u>\$ 6,021,289</u>	<u>\$ 5,007,461</u>	<u>\$ 5,361,611</u>	<u>\$ 12,230,717</u>	<u>\$ 11,382,900</u>

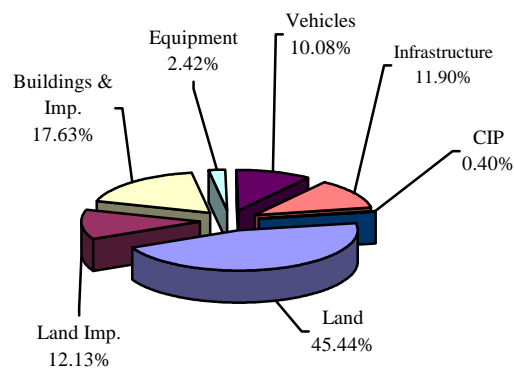
**CITY OF BROOKVILLE, OHIO**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**  
**UNAUDITED**

The following graphs show the breakdown of governmental capital assets by category for 2005 and 2004.

**Capital Assets - Governmental Activities 2005**



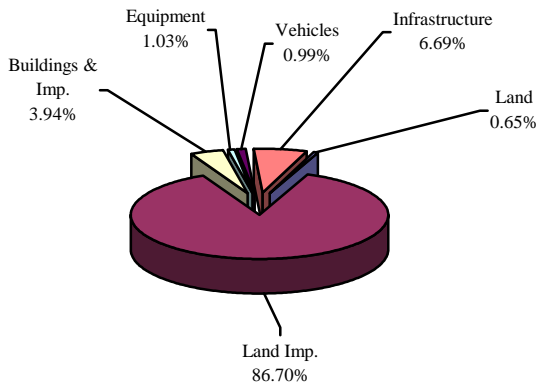
**Capital Assets - Governmental Activities 2004**



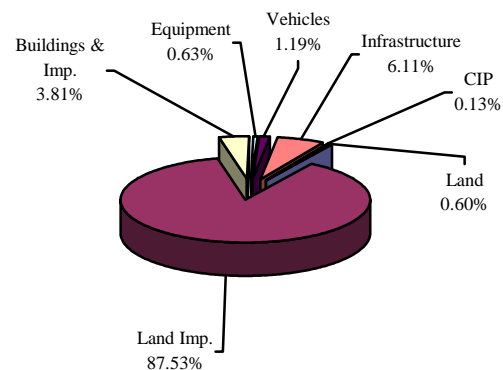
This is the City's second year of reporting infrastructure, and it is already the second largest capital asset category. Infrastructure includes bridges and streets. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 26.95% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2005 and 2004.

**Capital Assets - Business-Type Activities 2005**



**Capital Assets - Business-Type Activities 2004**



The City's largest business-type capital asset category is land improvements which include water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's land improvements (cost less accumulated depreciation) represents approximately 80.70% of the City's total business-type capital assets.

**CITY OF BROOKVILLE, OHIO**

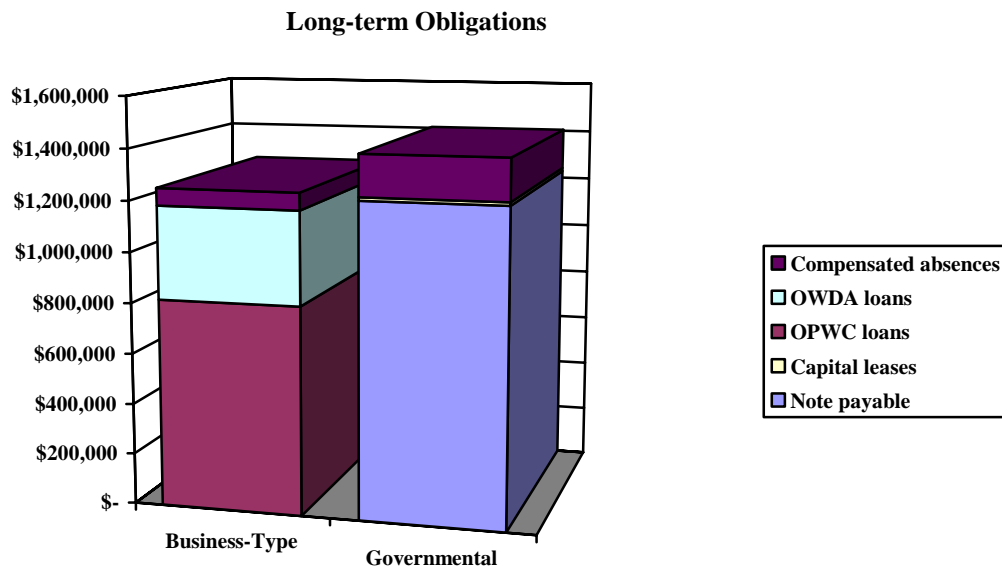
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005  
UNAUDITED**

***Debt Administration***

The City had the following long-term obligations outstanding at December 31, 2005 and 2004:

	Governmental Activities	
	2005	2004
Mortgage note payable	\$ 1,229,040	\$ 1,121,175
Capital leases payable	13,112	7,787
Compensated absences	162,136	124,341
<b>Total long-term obligations</b>	<b>\$ 1,404,288</b>	<b>\$ 1,253,303</b>
	Business-type Activities	
	2005	2004
OPWC loans	\$ 819,354	\$ 892,228
OWDA loan	365,171	435,873
Compensated absences	67,317	54,652
<b>Total long-term obligations</b>	<b>\$ 1,251,842</b>	<b>\$ 1,382,753</b>

A comparison of the long-term obligations by category is depicted in the chart below.



Further detail on the City's long-term obligations can be found in Note 13 to the financial statements.

## **CITY OF BROOKVILLE, OHIO**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005 UNAUDITED**

#### **Economic Conditions and Outlook**

The City's Administration considers the impact of various economic factors when establishing the fiscal year budget. The continued challenges resulting from regional loss of employment, stagnant economic development, and the general national recession, have yielded significant influence on the objectives established in the budget the last few years.

Even though we continued to face flat revenues in 2005, compared to the "good years" of the 90's, we still experienced a successful year relative to what we were able to accomplish. Service levels were maintained and no work force cutbacks were necessary. The City completed numerous Capital Improvement projects that will have a lasting impact on the City for years to come. Several of the projects received grant fund assistance.

Despite the uncertainty still surrounding the economy, the City continues to carefully monitor two primary sources of revenue, local income taxes and shared intergovernmental (state) revenue. In order to stabilize the impact of the fluctuations in these revenue streams, City Council continues to pursue economic development and job creation, in order to maintain the community's reputation for high public safety standards, and adoption of a budget designed to promote long-term fiscal stability.

A substantial portion of the General Fund revenues (63.5%) comes from the City's 1.75 percent income tax; much of which is derived from our industrial sector in the Mosier Industrial Park. Growth in overall income tax collections between 2000 and 2002 were non-existent; in fact income tax declined to a low of \$1,723,633 in 2002. Income tax began to increase again in 2003 and saw a high of \$2,231,794 in 2004, which can be attributed to the construction of a new 4-12 grade school building in Brookville. The year 2005 saw a slight decline in income tax revenue, but it still exceeded \$2 million.

In recent years, the City's General Fund cash balance has declined from \$1.2 million in 2001 to \$870,000 in 2005. Most of that can be attributed to the flat revenue we saw in local government funds, which froze revenue at the 2000 level, the decline in investment interest revenue since 2003, and of course ongoing expenses, which seem to grow at a faster rate than revenues coming in. As interest rates begin to climb and as the City continues to acquire new businesses and assist existing businesses with their expansions, balances in the General Fund should stabilize and begin to grow again.

#### **Contacting the City's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact: Sonja Keaton, Director of Finance, 301 Sycamore Street, Brookville, Ohio 45309.

**BASIC  
FINANCIAL STATEMENTS**

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**CITY OF BROOKVILLE, OHIO**

STATEMENT OF NET ASSETS  
DECEMBER 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets:</b>			
Equity in pooled cash and cash equivalents. . . . .	\$ 1,520,776	\$ 232,531	\$ 1,753,307
Cash with fiscal agent . . . . .	-	241,881	241,881
Receivables (net of allowances for uncollectibles):			
Income taxes . . . . .	286,529	-	286,529
Real and other taxes . . . . .	127,648	-	127,648
Accounts . . . . .	116,870	480,909	597,779
Accrued interest . . . . .	2,784	-	2,784
Special assessments . . . . .	704	-	704
Intergovernmental . . . . .	231,001	-	231,001
Prepayments . . . . .	40,825	10,635	51,460
Materials and supplies inventory. . . . .	24,233	485	24,718
Capital assets:			
Land and construction in progress. . . . .	2,696,163	32,388	2,728,551
Depreciable capital assets, net . . . . .	4,527,093	4,975,073	9,502,166
Total capital assets. . . . .	<u>7,223,256</u>	<u>5,007,461</u>	<u>12,230,717</u>
 Total assets. . . . .	 <u>9,574,626</u>	 <u>5,973,902</u>	 <u>15,548,528</u>
 <b>Liabilities:</b>			
Accounts payable. . . . .	44,391	164,864	209,255
Contracts payable. . . . .	21,490	-	21,490
Accrued wages and benefits . . . . .	27,892	7,286	35,178
Due to other governments . . . . .	56,721	11,405	68,126
Pension obligation payable. . . . .	34,362	987	35,349
Deferred revenue. . . . .	122,691	-	122,691
Long-term liabilities:			
Due within one year . . . . .	96,486	172,755	269,241
Due in more than one year . . . . .	1,307,802	1,079,087	2,386,889
 Total liabilities . . . . .	 <u>1,711,835</u>	 <u>1,436,384</u>	 <u>3,148,219</u>
 <b>Net assets:</b>			
Invested in capital assets, net of related debt . . . . .	5,981,104	3,822,936	9,804,040
Restricted for:			
Capital projects. . . . .	554,871	-	554,871
Street construction, maintenance and repair . . . . .	189,920	-	189,920
Other purposes . . . . .	9,950	-	9,950
Unrestricted. . . . .	1,126,946	714,582	1,841,528
 Total net assets . . . . .	 <u>\$ 7,862,791</u>	 <u>\$ 4,537,518</u>	 <u>\$ 12,400,309</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General government . . . . .	\$ 771,650	\$ 213,839	\$ -	\$ -
Security of persons and property. . . . .	1,773,944	612,339	-	-
Public health and welfare . . . . .	10,353	-	10,353	-
Transportation . . . . .	1,079,760	8,308	262,642	720,986
Leisure time activity. . . . .	168,203	37,896	-	-
Interest and fiscal charges. . . . .	1,429	-	-	-
	3,805,339	872,382	272,995	720,986
<b>Business-Type Activities:</b>				
Water . . . . .	754,651	736,494	-	-
Sewer . . . . .	689,659	535,894	-	-
Refuse . . . . .	363,071	320,644	-	-
	1,807,381	1,593,032	-	-
Total business-type activities . . . . .	1,807,381	1,593,032	-	-
Total primary government. . . . .	\$ 5,612,720	\$ 2,465,414	\$ 272,995	\$ 720,986

**General Revenues:**

Property taxes levied for:

    General purposes. . . . .

Income taxes levied for:

    General purposes. . . . .

Grants and entitlements not restricted to specific programs . . . . .

Investment earnings . . . . .

Miscellaneous . . . . .

Total general revenues. . . . .

Transfers. . . . .

Change in net assets. . . . .

**Net assets at beginning of year . . . . .**

**Net assets at end of year . . . . .**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**Net (Expense) Revenue and Changes in Net Assets**

<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
\$ (557,811)	\$ -	\$ (557,811)
(1,161,605)	-	(1,161,605)
-	-	-
(87,824)	-	(87,824)
(130,307)	-	(130,307)
(1,429)	-	(1,429)
<u>(1,938,976)</u>	<u>-</u>	<u>(1,938,976)</u>
-	(18,157)	(18,157)
-	(153,765)	(153,765)
-	(42,427)	(42,427)
-	(214,349)	(214,349)
<u>(1,938,976)</u>	<u>(214,349)</u>	<u>(2,153,325)</u>
51,874	-	51,874
1,972,840	-	1,972,840
510,906	-	510,906
56,133	-	56,133
72,364	-	72,364
2,664,117	-	2,664,117
<u>(10,000)</u>	<u>10,000</u>	<u>-</u>
715,141	(204,349)	510,792
<u>7,147,650</u>	<u>4,741,867</u>	<u>11,889,517</u>
<u>\$ 7,862,791</u>	<u>\$ 4,537,518</u>	<u>\$ 12,400,309</u>

**CITY OF BROOKVILLE, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	<u>General</u>	<u>Street Construction Maintenance and Repair</u>	<u>Capital Improvement</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Equity in pooled cash and cash equivalents . . . . .	\$ 827,272	\$ 105,315	\$ 211,272	\$ 376,917	\$ 1,520,776
Receivables (net of allowance for uncollectibles):					
Income taxes. . . . .	286,529	-	-	-	286,529
Real and other taxes. . . . .	127,648	-	-	-	127,648
Accounts . . . . .	115,645	1,225	-	-	116,870
Intergovernmental . . . . .	99,500	124,370	7,131	-	231,001
Accrued interest . . . . .	2,784	-	-	-	2,784
Special assessments. . . . .	-	-	704	-	704
Prepayments. . . . .	31,615	7,680	-	1,530	40,825
Materials and supplies inventory . . . . .	12,112	12,121	-	-	24,233
Total assets . . . . .	<u>\$ 1,503,105</u>	<u>\$ 250,711</u>	<u>\$ 219,107</u>	<u>\$ 378,447</u>	<u>\$ 2,351,370</u>
<b>Liabilities:</b>					
Accounts payable . . . . .	\$ 29,825	\$ 13,062	\$ -	\$ 1,504	\$ 44,391
Contracts payable . . . . .	-	-	21,490	-	21,490
Accrued wages and benefits. . . . .	23,996	3,427	-	469	27,892
Compensated absences payable. . . . .	28,715	-	-	-	28,715
Due to other governments. . . . .	49,158	6,723	-	840	56,721
Pension obligation payable . . . . .	33,834	464	-	64	34,362
Deferred revenue . . . . .	283,574	99,007	704	-	383,285
Total liabilities . . . . .	<u>449,102</u>	<u>122,683</u>	<u>22,194</u>	<u>2,877</u>	<u>596,856</u>
<b>Fund Balances:</b>					
Reserved for encumbrances. . . . .	2,271	40	-	24,428	26,739
Reserved for prepayments . . . . .	31,615	7,680	-	1,530	40,825
Reserved for materials and supplies inventory . . . . .	12,112	12,121	-	-	24,233
Unreserved, undesignated, reported in:					
General fund. . . . .	1,008,005	-	-	-	1,008,005
Special revenue funds. . . . .	-	108,187	-	16,786	124,973
Capital projects funds. . . . .	-	-	196,913	332,826	529,739
Total fund balances . . . . .	<u>1,054,003</u>	<u>128,028</u>	<u>196,913</u>	<u>375,570</u>	<u>1,754,514</u>
Total liabilities and fund balances. . . . .	<u>\$ 1,503,105</u>	<u>\$ 250,711</u>	<u>\$ 219,107</u>	<u>\$ 378,447</u>	<u>\$ 2,351,370</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005**

<b>Total governmental fund balances</b>		\$	1,754,514
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			7,223,256
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.			
Property taxes	\$	4,957	
Income taxes		85,932	
Special assessments		704	
Intergovernmental revenues		168,988	
Accrued interest		13	
		<hr/>	
Total			260,594
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:			
Compensated absences		(133,421)	
Capital lease payable		(13,112)	
Mortgage note payable		(1,229,040)	
		<hr/>	
			(1,375,573)
<b>Net assets of governmental activities</b>		\$	<u>7,862,791</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<b>General</b>	<b>Street Construction Maintenance and Repair</b>	<b>Capital Improvement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>					
Municipal income taxes . . . . .	\$ 2,051,578	\$ -	\$ -	\$ -	\$ 2,051,578
Property and other taxes . . . . .	50,149	-	-	-	50,149
Charges for services . . . . .	459,640	8,308	-	233,402	701,350
Licenses, permits and fees . . . . .	147,161	-	-	23,869	171,030
Intergovernmental . . . . .	430,684	271,161	720,986	10,353	1,433,184
Special assessments . . . . .	-	-	95,011	-	95,011
Investment income . . . . .	56,084	43	-	-	56,127
Rental income . . . . .	26,886	-	-	-	26,886
Donations . . . . .	796	-	-	2,568	3,364
Other . . . . .	8,584	-	-	10,856	19,440
Total revenues . . . . .	<u>3,231,562</u>	<u>279,512</u>	<u>815,997</u>	<u>281,048</u>	<u>4,608,119</u>
<b>Expenditures:</b>					
Current:					
General government . . . . .	758,609	-	-	-	758,609
Security of persons and property . . . . .	1,672,962	-	-	10,020	1,682,982
Public health and welfare . . . . .	-	-	-	10,353	10,353
Transportation . . . . .	-	539,666	-	-	539,666
Leisure time activity . . . . .	-	-	-	85,837	85,837
Capital outlay . . . . .	42,804	-	1,728,945	187,601	1,959,350
Debt service:					
Principal retirement . . . . .	5,131	-	-	-	5,131
Interest and fiscal charges . . . . .	1,429	-	-	-	1,429
Total expenditures . . . . .	<u>2,480,935</u>	<u>539,666</u>	<u>1,728,945</u>	<u>293,811</u>	<u>5,043,357</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>750,627</u>	<u>(260,154)</u>	<u>(912,948)</u>	<u>(12,763)</u>	<u>(435,238)</u>
<b>Other financing sources (uses):</b>					
Sale of capital assets . . . . .	-	-	56,910	5,766	62,676
Sale of notes . . . . .	-	-	107,865	-	107,865
Capital lease transaction . . . . .	10,456	-	-	-	10,456
Transfers in . . . . .	-	250,000	600,000	55,000	905,000
Transfers out . . . . .	(915,000)	-	-	-	(915,000)
Total other financing sources (uses) . . . . .	<u>(904,544)</u>	<u>250,000</u>	<u>764,775</u>	<u>60,766</u>	<u>170,997</u>
Net change in fund balances . . . . .	(153,917)	(10,154)	(148,173)	48,003	(264,241)
<b>Fund balances at beginning of year . . . . .</b>	<u>1,207,920</u>	<u>138,182</u>	<u>345,086</u>	<u>327,567</u>	<u>2,018,755</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 1,054,003</u>	<u>\$ 128,028</u>	<u>\$ 196,913</u>	<u>\$ 375,570</u>	<u>\$ 1,754,514</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

**Net change in fund balances - total governmental funds** \$ (264,241)

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

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

Capital asset additions	\$	1,550,183	
Current year depreciation		<u>(300,740)</u>	
 Total			 1,249,443

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (47,476)

Proceeds of mortgage notes and capital leases are recognized as revenue in the governmental funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities in the statement of activities. (118,321)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	\$	1,725	
Intergovernmental		(20,220)	
Municipal income taxes		(78,738)	
Special assessments		(3,088)	
Interest		<u>6</u>	
 Total			 (100,315)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 5,131

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. (9,080)

**Change in net assets of governmental activities** \$ 715,141

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 GENERAL FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Municipal income taxes . . . . .	\$ 1,890,380	\$ 1,944,595	\$ 2,112,222	\$ 167,627
Property and other taxes . . . . .	83,325	91,166	305,492	214,326
Charges for services . . . . .	386,713	397,804	432,095	34,291
Licenses and permits and fees . . . . .	138,237	142,201	154,459	12,258
Intergovernmental . . . . .	392,110	397,904	225,737	(172,167)
Investment income . . . . .	50,828	52,286	56,793	4,507
Rental income . . . . .	24,062	24,752	26,886	2,134
Donations . . . . .	712	733	796	63
Other . . . . .	9,734	10,013	10,876	863
Total revenues. . . . .	<u>2,976,101</u>	<u>3,061,454</u>	<u>3,325,356</u>	<u>263,902</u>
<b>Expenditures:</b>				
Current:				
General government . . . . .	778,011	779,511	750,858	28,653
Security of persons and property . . . . .	1,765,989	1,766,589	1,673,148	93,441
Capital outlay. . . . .	63,620	61,520	32,936	28,584
Total expenditures . . . . .	<u>2,607,620</u>	<u>2,607,620</u>	<u>2,456,942</u>	<u>150,678</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>368,481</u>	<u>453,834</u>	<u>868,414</u>	<u>414,580</u>
<b>Other financing uses:</b>				
Transfers out. . . . .	<u>(1,010,000)</u>	<u>(1,010,000)</u>	<u>(915,000)</u>	<u>95,000</u>
Total other financing uses . . . . .	<u>(1,010,000)</u>	<u>(1,010,000)</u>	<u>(915,000)</u>	<u>95,000</u>
Net change in fund balance . . . . .	(641,519)	(556,166)	(46,586)	509,580
<b>Fund balance at beginning of year . . . . .</b>	861,721	861,721	861,721	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>7,905</u>	<u>7,905</u>	<u>7,905</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 228,107</u>	<u>\$ 313,460</u>	<u>\$ 823,040</u>	<u>\$ 509,580</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**CITY OF BROOKVILLE, OHIO**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
 STREET CONSTRUCTION, MAINTENANCE AND REPAIR  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Charges for services . . . . .	\$ 7,800	\$ 7,800	\$ 7,208	\$ (592)
Intergovernmental . . . . .	244,100	244,100	268,661	24,561
Investment income . . . . .	100	100	43	(57)
Total revenues. . . . .	<u>252,000</u>	<u>252,000</u>	<u>275,912</u>	<u>23,912</u>
<b>Expenditures:</b>				
Current:				
Transportation . . . . .	<u>670,746</u>	<u>670,746</u>	<u>608,286</u>	<u>62,460</u>
Total expenditures . . . . .	<u>670,746</u>	<u>670,746</u>	<u>608,286</u>	<u>62,460</u>
Excess (deficiency) of revenues over (under) expenditures . . . . .	<u>(418,746)</u>	<u>(418,746)</u>	<u>(332,374)</u>	<u>86,372</u>
<b>Other financing sources:</b>				
Transfers in. . . . .	250,000	250,000	250,000	-
Other financing sources. . . . .	<u>67,000</u>	<u>67,000</u>	<u>63,172</u>	<u>(3,828)</u>
Total other financing sources . . . . .	<u>317,000</u>	<u>317,000</u>	<u>313,172</u>	<u>(3,828)</u>
Net change in fund balance . . . . .	(101,746)	(101,746)	(19,202)	82,544
<b>Fund balance at beginning of year . . . . .</b>	102,322	102,322	102,322	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>20,246</u>	<u>20,246</u>	<u>20,246</u>	<u>-</u>
<b>Fund balance at end of year. . . . .</b>	<u>\$ 20,822</u>	<u>\$ 20,822</u>	<u>\$ 103,366</u>	<u>\$ 82,544</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2005

	<b>Business-Type Activities -Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Total</b>
<b>Assets:</b>				
Current assets:				
Equity in pooled cash and cash equivalents . . . . .	\$ 115,953	\$ 91,026	\$ 25,552	\$ 232,531
Cash with fiscal agent . . . . .	-	241,881	-	241,881
Receivables (net of allowance for uncollectibles):				
Accounts . . . . .	236,045	143,146	101,718	480,909
Prepayments . . . . .	2,838	5,238	2,559	10,635
Materials and supplies inventory . . . . .	-	485	-	485
Total current assets . . . . .	<u>354,836</u>	<u>481,776</u>	<u>129,829</u>	<u>966,441</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress . . . . .	-	32,388	-	32,388
Depreciable capital assets, net . . . . .	497,291	4,427,973	49,809	4,975,073
Total capital assets . . . . .	<u>497,291</u>	<u>4,460,361</u>	<u>49,809</u>	<u>5,007,461</u>
Total assets . . . . .	<u>852,127</u>	<u>4,942,137</u>	<u>179,638</u>	<u>5,973,902</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable. . . . .	136,460	14,440	13,964	164,864
Accrued wages and benefits . . . . .	1,911	2,723	2,652	7,286
Compensated absences . . . . .	6,136	9,010	9,179	24,325
Due to other governments . . . . .	3,004	4,242	4,159	11,405
Pension obligation payable. . . . .	259	369	359	987
Current portion of OPWC loan . . . . .	26,455	47,694	-	74,149
Current portion of ODWA loan . . . . .	-	74,281	-	74,281
Total current liabilities . . . . .	<u>174,225</u>	<u>152,759</u>	<u>30,313</u>	<u>357,297</u>
Long-term liabilities:				
OPWC loans payable . . . . .	226,727	518,478	-	745,205
ODWA loans payable . . . . .	-	290,890	-	290,890
Compensated absences . . . . .	5,959	9,790	27,243	42,992
Total long-term liabilities . . . . .	<u>232,686</u>	<u>819,158</u>	<u>27,243</u>	<u>1,079,087</u>
Total liabilities . . . . .	<u>406,911</u>	<u>971,917</u>	<u>57,556</u>	<u>1,436,384</u>
<b>Net assets:</b>				
Invested in capital assets, net of related debt. . . . .	244,109	3,529,018	49,809	3,822,936
Unrestricted . . . . .	201,107	441,202	72,273	714,582
Total net assets . . . . .	<u>\$ 445,216</u>	<u>\$ 3,970,220</u>	<u>\$ 122,082</u>	<u>\$ 4,537,518</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Total</b>
<b>Operating revenues:</b>				
Charges for services . . . . .	\$ 701,744	\$ 467,990	\$ 320,644	\$ 1,490,378
Tap-in fees. . . . .	34,750	67,904	-	102,654
Total operating revenues . . . . .	736,494	535,894	320,644	1,593,032
<b>Operating expenses:</b>				
Personal services . . . . .	143,015	203,042	184,122	530,179
Contract services . . . . .	548,515	126,803	145,819	821,137
Materials and supplies . . . . .	4,697	-	18,899	23,596
Depreciation . . . . .	44,817	344,410	14,231	403,458
Total operating expenses. . . . .	741,044	674,255	363,071	1,778,370
Operating loss . . . . .	(4,550)	(138,361)	(42,427)	(185,338)
<b>Nonoperating revenues (expenses):</b>				
Interest expense and fiscal charges . . . . .	(13,607)	(15,404)	-	(29,011)
Total nonoperating revenues (expenses) . . . . .	(13,607)	(15,404)	-	(29,011)
Loss before transfers . . . . .	(18,157)	(153,765)	(42,427)	(214,349)
Transfers in. . . . .	-	-	10,000	10,000
Changes in net assets . . . . .	(18,157)	(153,765)	(32,427)	(204,349)
<b>Net assets at beginning of year. . . . .</b>	<b>463,373</b>	<b>4,123,985</b>	<b>154,509</b>	<b>4,741,867</b>
<b>Net assets at end of year. . . . .</b>	<b>\$ 445,216</b>	<b>\$ 3,970,220</b>	<b>\$ 122,082</b>	<b>\$ 4,537,518</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF BROOKVILLE, OHIO**

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2005

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Water</b>	<b>Sewer</b>	<b>Refuse</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>				
Cash received from customers . . . . .	\$ 672,463	\$ 471,472	\$ 319,624	\$ 1,463,559
Cash received from tap-in fees. . . . .	34,750	67,904	-	102,654
Cash payments for personal services . . . . .	(146,891)	(207,135)	(169,457)	(523,483)
Cash payments for contract services . . . . .	(519,247)	(111,367)	(141,929)	(772,543)
Cash payments for materials and supplies . . . . .	(4,933)	(10,913)	(19,662)	(35,508)
Net cash provided by (used in) operating activities.	<u>36,142</u>	<u>209,961</u>	<u>(11,424)</u>	<u>234,679</u>
<b>Cash flows from noncapital financing activities:</b>				
Cash received from transfers in . . . . .	-	-	10,000	10,000
Net cash provided by noncapital financing activities . . . . .	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>
<b>Cash flows from capital and related financing activities:</b>				
Acquisition of capital assets . . . . .	(11,009)	(38,299)	-	(49,308)
Principal retirement on OPWC loan. . . . .	(25,180)	(47,694)	-	(72,874)
Principal retirement on OWDA loan. . . . .	-	(70,702)	-	(70,702)
Interest and fiscal charges . . . . .	(13,607)	(15,404)	-	(29,011)
Net cash used in capital and related financing activities . . . . .	<u>(49,796)</u>	<u>(172,099)</u>	<u>-</u>	<u>(221,895)</u>
Net increase (decrease) in cash and cash equivalents . . . . .	(13,654)	37,862	(1,424)	22,784
<b>Cash and cash equivalents at beginning of year . . . . .</b>	<u>129,607</u>	<u>295,045</u>	<u>26,976</u>	<u>451,628</u>
<b>Cash and cash equivalents at end of year. . . . .</b>	<u>\$ 115,953</u>	<u>\$ 332,907</u>	<u>\$ 25,552</u>	<u>\$ 474,412</u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>				
Operating loss . . . . .	\$ (4,550)	\$ (138,361)	\$ (42,427)	\$ (185,338)
Adjustments:				
Depreciation . . . . .	44,817	344,410	14,231	403,458
Changes in assets and liabilities:				
Decrease in materials and supplies inventory. . . . .	-	887	2,427	3,314
(Increase) decrease in accounts receivable. . . . .	(29,281)	3,482	(1,020)	(26,819)
Increase in prepayments . . . . .	(261)	(304)	(2,559)	(3,124)
Increase in accounts payable . . . . .	28,939	3,403	2,776	35,118
Decrease in accrued wages and benefits . . . . .	(1,077)	(1,666)	(1,820)	(4,563)
Increase (decrease) in due to other governments . . . . .	(20)	(26)	633	587
Increase (decrease) in compensated absences payable. . . . .	(2,279)	(1,638)	16,582	12,665
Decrease in pension obligation payable . . . . .	(146)	(226)	(247)	(619)
Net cash provided by (used in) operating activities . . . . .	<u>\$ 36,142</u>	<u>\$ 209,961</u>	<u>\$ (11,424)</u>	<u>\$ 234,679</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

## **CITY OF BROOKVILLE, OHIO**

### **NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005**

#### **NOTE 1 - DESCRIPTION OF THE CITY**

The City of Brookville (the "City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City operates under a council-manager government and provides the following services: police protection, water, sewer and refuse utility services, street maintenance and repair, as well as other services.

Management believes the financial statements included in this report represent all of the funds of the City over which the City officials have direct operating control.

#### **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The most significant of the City's accounting policies are described below.

##### **A. Reporting Entity**

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The primary government consists of all funds and departments which provide various services including police protection, street maintenance and repair, parks, recreation, water, sewer and refuse services. Council and the City Manager are directly responsible for these activities. The accompanying financial statements present the City, which has no component units.

##### **B. Basis of Presentation - Fund Accounting**

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

## CITY OF BROOKVILLE, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

#### C. Fund Accounting

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

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

***General Fund*** - The general fund accounts for all financial resources except those required to be accounted for in another fund. This includes, but is not limited to, police and fire protection, public health activities, and the general administration of City functions.

***Street Construction, Maintenance and Repair Fund*** - This fund accounts for all transactions relating to street maintenance and construction.

***Capital Improvement Fund*** - The capital improvement fund accounts for all transactions relating to the construction and improvements other than those financed by proprietary funds.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

***Proprietary Funds*** - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows.

***Enterprise Funds*** - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

***Sewer Fund*** - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

***Water Fund*** - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

***Refuse Fund*** - This fund accounts for the operations providing refuse removal to the residents and commercial users located with the City.

***Fiduciary Funds*** - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has no fiduciary funds.

**D. Measurement Focus and Basis of Accounting**

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

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

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

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities and operating expenses for the internal service fund include personnel costs, claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**E. Basis of Accounting**

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

**Deferred Revenue** - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2005, but which were levied to finance year 2006 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.



**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

*Expenses/Expenditures* - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**F. Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code (ORC) and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The Montgomery County Commissioners waived the tax budget for fiscal year 2005. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources. All funds, other than agency funds, legally are required to be budgeted and appropriated.

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. 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 reappropriated.

Appropriation budgets are legally required for each fund at the object level. This is known as the legal level of budgetary control. Appropriation modifications outside the legal level of budgetary control must be approved by City Council. A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31.

An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified and the fund balance at the beginning of the year.

**CITY OF BROOKVILLE, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**G. 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 utilized during the year for budget control purposes. Encumbrances outstanding at year-end are reported as expenditures under the City's budgetary basis of accounting. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances for governmental funds since they do not constitute expenditures or liabilities.

**H. Cash and Cash Equivalents**

Cash balances of the City's funds, except cash held by a fiscal agent, are pooled and invested in investments in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During 2005, investments were limited to nonnegotiable certificates of deposit and investments in State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as certificates of deposit are reported at cost.

The City has invested funds in STAR Ohio during 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2005.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2005 amounted to \$56,084, which included \$33,961 assigned from other funds of the City.

For purpose of presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

For purposes of the Statement of Cash Flows and for presentation on the Statement of Net Assets, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investment account at year-end is provided in Note 4.

**I. Inventories of Materials and Supplies**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**J. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The City’s infrastructure consists of culverts, curbs, sidewalks, storm sewers, streets, irrigation systems, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20 years	20 years
Buildings and improvements	50 years	50 years
Equipment	15 years	15 years
Vehicles	8 years	8 years
Infrastructure	20 years	50 years

**K. Compensated Absences**

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences”, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service or any employee with at least twenty (20) years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16. Sick leave benefits were accrued using the “vesting” method.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates. Payment of vacation and sick leave is dependent upon many factors; therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payment of vacation and sick leave when such payments become due.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**L. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

**M. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**N. Interfund Activity**

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

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

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**O. Fund Balance Reserves**

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, materials and supplies inventory, and prepayments in the governmental fund financial statements.

**P. Estimates**

The preparation of the BFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the BFS and accompanying notes. Actual results may differ from those estimates.

**Q. Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements. There were no contributions of capital during 2005.

**R. Net Assets**

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

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

**S. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer and refuse programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

**T. Prepaid Items and Materials and Supplies Inventory**

Payments made to vendors for services that will benefit beyond year-end are recorded as prepaid expenditures. Prepayments are accounted for using the consumption method. On governmental fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

## CITY OF BROOKVILLE, OHIO

### NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

##### U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2005.

#### NOTE 3 - ACCOUNTABILITY & COMPLIANCE

##### Change in Accounting Principles

For fiscal year 2005, the City has implemented GASB Statement No. 40 "Deposit and Investment Risk Disclosures", and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 4.

#### NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool STAR Ohio;
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Director of Finance or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the City had \$200 in undeposited cash on hand which is included on the financial statements of the City as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Cash with Fiscal Agent**

At December 31, 2005, \$241,881 was on deposit with the City's fiscal agent for funds that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt (see Note 13).

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**C. Deposits with Financial Institutions**

At December 31, 2005, the carrying amount of all City deposits was \$1,311,660. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2005, \$1,177,861 of the City’s bank balance of \$1,477,861 was exposed to custodial risk as discussed below, while \$300,000 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the City’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

**D. Investments**

As of December 31, 2005, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	<u>\$ 441,447</u>	<u>\$ 441,447</u>
	<u>\$ 441,447</u>	<u>\$ 441,447</u>

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City’s investment policy limits investment portfolio maturities to five years or less.

*Credit Risk:* Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

*Concentration of Credit Risk:* The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
STAR Ohio	<u>\$ 441,447</u>	<u>100.00%</u>
	<u>\$ 441,447</u>	<u>100.00%</u>



**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**E. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,311,660
Investments	441,447
Cash with fiscal agent	241,881
Cash on hand	<u>200</u>
Total	<u>\$ 1,995,188</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,520,776
Business type activities	<u>474,412</u>
Total	<u>\$ 1,995,188</u>

**NOTE 5 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported on the fund financial statements:

Transfers from General Fund to:

Capital Improvement	\$ 600,000
Street Construction, Maintenance and Repair	250,000
Nonmajor Governmental Funds	55,000
Refuse	<u>10,000</u>
Total transfers	<u>\$ 915,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) transfer assets purchased by governmental funds to enterprise funds.

**NOTE 6 - PROPERTY TAXES**

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2002. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by July 20.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 6 - PROPERTY TAXES - (Continued)**

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 25 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City. The County Auditor periodically remits to the City its portion of the taxes collected with final settlement in June and December for taxes payable in the first and second halves of the year, respectively. The full tax rate for all City operations for the year ended December 31, 2005 was 1.3 mills of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real property tax	\$ 96,770,460
Public utility tangible personal property	2,128,410
Tangible personal property	<u>7,265,563</u>
Total assessed valuation	<u>\$ 106,164,433</u>

Property taxes receivables represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2005. Although total property tax collections for the next year are measurable, they are generally not collected during the available period. The exception to this is any advances received by the City in the first thirty-one days of the year are credited as property tax revenues with the remainder being credited to deferred revenue.

**NOTE 7 - LOCAL INCOME TAX**

The 1.75 percent City income tax, which is not subject to renewal, is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income tax on income they earn outside the City; however, full credit is allowed for all income taxes these residents pay to other municipalities. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City at least quarterly. Major employers are required to remit withholdings to the City monthly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2005. Income tax revenue for 2005 was \$2,051,578. Income tax revenue is reported in the general fund.

**CITY OF BROOKVILLE, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 8 - RECEIVABLES**

Receivables at December 31, 2005, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Intergovernmental Receivables" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2005, as well as intended to finance fiscal 2005 operations.

A summary of the items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Income taxes	\$ 286,529
Real and other taxes	127,648
Accounts	116,870
Accrued interest	2,784
Special assessments	704
Intergovernmental receivables	231,001

**Business-type Activities:**

Accounts	480,909
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

**NOTE 9 - MORTGAGE NOTE**

The City entered into an agreement with a land owner in which the City purchased 66.773 acres of land in September 2001 via a mortgage note. The City took ownership of the land and is selling it in pieces at no profit in an effort to develop a business park. The amount of the mortgage note is a varying requirement based on the time the land is sold. It ranges from \$22,500 an acre through September 21, 2005 and increases annually by incremental amounts until maturity on September 26, 2011 at which time the price is \$28,600 per acre.

The note has been recorded on the City's financial statements as \$1,229,040 on the Statement of Net Assets. The land has been recorded on the City's governmental capital assets in the amount of \$1,092,480.

At December 31, 2005 there remained 54.624 acres unsold.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 10 - CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005, was as follows:

<b><u>Governmental Activities:</u></b>	Balance <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,736,163	\$ -	\$ (40,000)	\$ 2,696,163
Construction in progress	<u>23,994</u>	<u>469,188</u>	<u>(493,182)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,760,157</u>	<u>469,188</u>	<u>(533,182)</u>	<u>2,696,163</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,568,178	20,785	-	1,588,963
Buildings and improvements	1,580,759	95,000	-	1,675,759
Equipment	411,456	33,861	-	445,317
Vehicles	1,507,511	144,483	(91,962)	1,560,032
Infrastructure	<u>735,368</u>	<u>1,280,048</u>	<u>-</u>	<u>2,015,416</u>
Total capital assets, being depreciated	<u>5,803,272</u>	<u>1,574,177</u>	<u>(91,962)</u>	<u>7,285,487</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(838,020)	(62,456)	-	(900,476)
Buildings and improvements	(519,419)	(48,610)	-	(568,029)
Equipment	(265,644)	(55,184)	-	(320,828)
Vehicles	(900,493)	(84,105)	84,486	(900,112)
Infrastructure	<u>(18,564)</u>	<u>(50,385)</u>	<u>-</u>	<u>(68,949)</u>
Total accumulated depreciation	<u>(2,542,140)</u>	<u>(300,740)</u>	<u>84,486</u>	<u>(2,758,394)</u>
Total capital assets, being depreciated, net	<u>3,261,132</u>	<u>1,273,437</u>	<u>(7,476)</u>	<u>4,527,093</u>
Governmental activities capital assets, net	<u>\$ 6,021,289</u>	<u>\$ 1,742,625</u>	<u>\$ (540,658)</u>	<u>\$ 7,223,256</u>

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 10 - CAPITAL ASSETS - (Continued)**

<b><u>Business-type Activities:</u></b>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 32,388	\$ -	\$ -	\$ 32,388
Construction in progress	<u>6,911</u>	<u>7,315</u>	<u>(14,226)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>39,299</u>	<u>7,315</u>	<u>(14,226)</u>	<u>32,388</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	8,786,636	8,574	-	8,795,210
Buildings and improvements	346,271	-	-	346,271
Equipment	49,780	21,575	(5,000)	66,355
Vehicles	175,796	-	-	175,796
Infrastructure	<u>343,769</u>	<u>26,070</u>	<u>-</u>	<u>369,839</u>
Total capital assets, being depreciated	<u>9,702,252</u>	<u>56,219</u>	<u>(5,000)</u>	<u>9,753,471</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(4,093,722)	(360,104)	-	(4,453,826)
Buildings and improvements	(142,188)	(6,926)	-	(149,114)
Equipment	(15,930)	(3,705)	5,000	(14,635)
Vehicles	(111,756)	(14,231)	-	(125,987)
Infrastructure	<u>(16,344)</u>	<u>(18,492)</u>	<u>-</u>	<u>(34,836)</u>
Total accumulated depreciation	<u>(4,379,940)</u>	<u>(403,458)</u>	<u>5,000</u>	<u>(4,778,398)</u>
Total capital assets, being depreciated, net	<u>5,322,312</u>	<u>(347,239)</u>	<u>-</u>	<u>4,975,073</u>
Business-type activities capital assets, net	<u>\$ 5,361,611</u>	<u>\$ (339,924)</u>	<u>\$ (14,226)</u>	<u>\$ 5,007,461</u>

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 10 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to functions/programs of the City as follows:

**Governmental activities:**

General government	\$ 29,454
Security of persons and property	74,307
Transportation	119,461
Leisure time activity	<u>77,518</u>
Total depreciation expense - governmental activities	<u>\$300,740</u>

**NOTE 11 - VACATION AND SICK LEAVE LIABILITY**

Vacation and sick leave accumulated by governmental fund type employees has been recorded in the statement of net assets to the extent they were not paid using current expendable available resources. Vacation and sick leave earned by proprietary funds type employees is expensed when earned and has been recorded in the fund. Upon termination of City service, a fully vested employee is entitled to a percentage of their accumulated sick leave based on their years of service. At December 31, 2005, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$62,507 and vested benefits for sick leave, totaled \$70,914. For proprietary fund types, vested benefits for vacation leave totaled \$24,325 and vested benefits for sick leave totaled \$42,992 at December 31, 2005. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

**NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE**

During 2005, the City entered into two capital lease agreements for a copier and a file server. In a prior year, the City entered into a capital lease agreement for a copier. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, capital lease transactions are accounted for as capital outlay expenditure and other financing source in the appropriate fund.

For the City, a corresponding liability was recorded in the government-wide financial statements. Principal payments in 2005 totaled \$5,131 in the general fund. Capital lease payments in the general fund have been reclassified on the financial statements to reflect debt principal and interest payments. These payments are reported as program expenditures on the budgetary statement.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)**

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005.

<u>Year Ending</u> <u>December 31,</u>	<u>General</u>
2006	\$ 6,189
2007	5,400
2008	1,708
2009	1,003
2010	<u>418</u>
Total future minimum lease payments	14,718
Less: amount representing interest	<u>(1,606)</u>
Present value of net minimum lease payments	<u>\$ 13,112</u>

**NOTE 13 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

<b>Governmental Activities:</b>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/05</u>	<u>Amounts</u> <u>Due in</u> <u>One Year</u>
Mortgage Note Payable	\$ 1,121,175	\$ 107,865	\$ -	\$ 1,229,040	\$ -
Capital Lease Payable	7,787	10,456	(5,131)	13,112	5,264
Compensated Absences	<u>124,341</u>	<u>92,946</u>	<u>(55,151)</u>	<u>162,136</u>	<u>91,222</u>
Total governmental activities long-term obligations	<u>\$ 1,253,303</u>	<u>\$ 211,267</u>	<u>\$ (60,282)</u>	<u>\$ 1,404,288</u>	<u>\$ 96,486</u>

Compensated absences are reported in the Statement of Net Assets and will be paid from the fund from which the employee's salaries are paid.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

**B.** During the fiscal year 2005, the following changes occurred in the City's business-type long-term liabilities:

<b>Business-Type Activities:</b>	<u>Interest Rate</u>	<u>Balance 12/31/04</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/05</u>	<u>Amount Due in One Year</u>
<u>OPWC loans</u>						
Water Tower	5.00%	\$ 278,362	\$ -	\$ (25,180)	\$ 253,182	\$ 26,455
Wolf Creek Sanitary Trunk Main	0.00%	37,500	-	(5,000)	32,500	5,000
Wastewater Treatment Plant	0.00%	<u>576,366</u>	<u>-</u>	<u>(42,694)</u>	<u>533,672</u>	<u>42,694</u>
Total OPWC loans		<u>892,228</u>	<u>-</u>	<u>(72,874)</u>	<u>819,354</u>	<u>74,149</u>
<u>OWDA loans</u>						
Wastewater Treatment Plant	5.00%	<u>435,873</u>	<u>-</u>	<u>(70,702)</u>	<u>365,171</u>	<u>74,281</u>
<u>Other Long-term obligations</u>						
Compensated Absences		<u>54,652</u>	<u>34,546</u>	<u>(21,881)</u>	<u>67,317</u>	<u>24,325</u>
Total business-type long-term obligation		<u>\$ 1,382,753</u>	<u>\$ 34,546</u>	<u>\$ (165,457)</u>	<u>\$ 1,251,842</u>	<u>\$ 172,755</u>

The City has entered into three debt financing arrangements through the Ohio Public Work Commission (OPWC) to fund a new water tower, the Wolf Creek sanitary trunk extension and wastewater treatment plant improvements. The amounts due to the OPWC are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2005, the City has outstanding borrowings of \$253,182 in the water fund and \$32,500 and \$533,672 in the sewer fund. The loan agreements require semi-annual payments based on the actual amount loaned. The Wolfcreek sanitary trunk main and the wastewater treatment plant of the OPWC loans are interest free, the Water Tower has a rate of 5%.

The City has entered into debt financing arrangements through the Ohio Water Development Authority (OWDA) to fund a wastewater treatment project. The amounts due to the OWDA are payable solely from sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2005, the City has outstanding borrowings of \$365,171. The loan agreement requires semi-annual payments based on the actual amount loaned.

On May 15, 1984, the City issued mortgage revenue bonds to advance refund the 1964 mortgage revenue bonds by purchasing U.S. Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. The total amount of funds available in the trust at December 31, 2005, was \$270,581. The amount due on the defeased debt to be paid from the escrow account is \$28,700. The remaining balance in the escrow account is recorded as cash with fiscal agent in the Sewer enterprise fund for \$241,881. The refunded bonds are not included in the City's outstanding debt since the City has satisfied its obligations through the advance refunding.



**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)**

The following is the summary of the City's future annual debt service and interest requirements for enterprise fund obligations:

Year Ending December 31,	OWDA Loan			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 74,281	\$ 17,341	\$ 91,622	\$ 74,149	\$ 12,332	\$ 86,481
2007	78,042	13,581	91,623	75,488	10,993	86,481
2008	81,993	9,630	91,623	76,895	9,586	86,481
2009	86,143	5,479	91,622	78,372	8,108	86,480
2010	44,712	1,100	45,812	79,926	6,555	86,481
2010 - 2015	-	-	-	327,792	9,539	337,331
2016 - 2018	-	-	-	106,732	-	106,732
	<u>\$ 365,171</u>	<u>\$ 47,131</u>	<u>\$ 412,302</u>	<u>\$ 819,354</u>	<u>\$ 57,113</u>	<u>\$ 876,467</u>

**C. Legal Debt Margin**

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2005, the City's total debt margin was \$9,962,739 and the unvoted debt margin was \$4,654,518.

**NOTE 14 - RISK MANAGEMENT**

**A. Liability Insurance**

The City is exposed to various risks of loss during the normal course of its operations including, but not limited to, loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. The City obtains commercial insurance for coverage of potential losses through Employers Mutual Casualty Company.

**B. Employee Health Insurance**

During 2005, the City provided employees health, dental and life insurance through United Health Care. The premiums for dental and life insurance are paid monthly with the City paying one hundred percent of the cost.

The premiums for health insurance are paid monthly with the City paying ninety percent of the cost.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 14 - RISK MANAGEMENT - (Continued)**

**C. Workers' Compensation**

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

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

**NOTE 15 - DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2005 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$170,024, \$144,709, and \$136,769, respectively; 100% has been contributed for 2005, 2004 and 2003.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 15 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10.0% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F for the years ended December 31, 2005, 2004, and 2003 were \$123,541, \$103,167, and \$106,883, respectively. The full amount has been contributed for 2004 and 2003. 76.18% for police and fire has been contributed for 2005 with the remainder of \$29,431 being reported as a liability in the respective funds.

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS**

**A. Ohio Public Employees Retirement System**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPER's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$50,192. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004 (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 16 - POSTRETIREMENT BENEFIT PLANS - (Continued)**

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account

**B. Ohio Police and Fire Pension Fund**

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005. 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 City's actual contributions for 2005 that were used to fund postemployment benefits for police officers and firefighters were \$43,288 and \$4,722 respectively. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 (the latest information available), was 13,812 for police and 10,528 for firefighters.

**CITY OF BROOKVILLE, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005

**NOTE 17 - BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

**Net Change in Fund Balance**

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>
Budget basis	\$ (46,586)	\$ (19,202)
Net adjustment for revenue accruals	(93,794)	3,600
Net adjustment for expenditure accruals	(28,225)	66,671
Net adjustment for other sources/uses	10,456	(63,172)
Adjustment for encumbrances	<u>4,232</u>	<u>1,949</u>
GAAP basis	<u>\$ (153,917)</u>	<u>\$ (10,154)</u>

**CITY OF BROOKVILLE, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**NOTE 19 - CONTINGENCIES**

**A. Grants**

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2005.

**B. Litigation**

The City is currently not involved in pending litigation at year-end.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**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***

Members of Council and Mayor  
City of Brookville  
301 Sycamore Street  
Brookville, Ohio 45309

We have audited the basic financial statements consisting of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brookville, Montgomery County (the "City") as of and for the year ended December 31, 2005, and have issued our report thereon dated April 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of Council and Mayor  
City of Brookville

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 that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." with a stylized flourish at the end.

Julian & Grube, Inc.  
April 27, 2006





**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**CITY OF BROOKVILLE**

**MONTGOMERY 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  
JUNE 20, 2006**