

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

***BASIC
FINANCIAL STATEMENTS
(Audited)***

For The Year Ended
December 31, 2005



**Auditor of State
Betty Montgomery**

City Council
City of Crestline
100 N. Seltzer St.
Crestline, OH 44827

We have reviewed the *Independent Auditors' Report* of the City of Crestline, Crawford 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 Crestline is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY
Auditor of State

September 11, 2006

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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 Crestline
100 North Seltzer Street
Crestline, Ohio 44827

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Crestline, Crawford 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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.

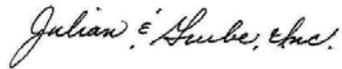
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestline, Ohio, as of December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

As disclosed in Note 3 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-002, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers" for the year ended December 31, 2005 and for restatement of income tax receivable as disclosed in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of Council and Mayor
City of Crestline
Page Two

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 required 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.".

Julian & Grube, Inc.
June 27, 2006

CITY OF CRESTLINE, OHIO

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

The management's discussion and analysis of the City of Crestline'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 decreased \$272,908 assets of governmental activities decreased \$225,693 or 3.25% below 2004 and net assets of business-type activities decreased \$47,215 or 0.98% below 2004.
- General revenues accounted for \$1,811,622 of total governmental activities revenue. Program specific revenues accounted for \$1,022,812 or 36.09% of total governmental activities revenue.
- The City had \$3,035,975 in expenses related to governmental activities; \$1,022,812 of these expenses was offset by program specific charges for services, grants or contributions. A portion of the remaining expenses of the governmental activities were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$1,811,622.
- The general fund had revenues of \$1,678,078 in 2005. This represents an increase of \$69,121 from 2004 revenues. The expenditures of the general fund, which totaled \$1,864,536 in 2005, increased \$372,062 from 2004. The net decrease in fund balance for the general fund was \$186,458 or 124.04%.
- The capital improvements fund had revenues of \$234,327 in 2005. The expenditures and other financing uses of the capital improvements fund, totaled \$297,317 in 2005. The net decrease in fund balance for the capital improvements fund was \$62,990 or 12.00%.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and ambulance services enterprise funds, decreased in 2005 by \$47,215. This decrease in net assets was due primarily to increasing revenues still not covering decreased expenses.
- In the general fund, the actual revenues came in \$135,103 lower than they were in the final budget and actual expenditures were \$64,617 less than the amount in the final budget. Budgeted expenditures increased \$115,939 from the original to the final budget due primarily to an increase in the cost of security of persons and property and general government expenditures.

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.

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.

CITY OF CRESTLINE, OHIO

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

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 ambulance service 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.

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.

CITY OF CRESTLINE, OHIO

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

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 and capital improvements 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 20-24 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 ambulance service management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 25-27 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. A private purpose trust and agency funds are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

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 30-57 of this report.

CITY OF CRESTLINE, OHIO

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

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2005 and 2004:

			Net Assets		2005 Total	2004 Total
	Governmental Activities 2005	Business-type Activities 2005	Restated			
			Governmental Activities 2004	Business-type Activities 2004		
<u>Assets</u>						
Current and other assets	\$ 2,330,564	\$ 779,694	\$ 2,696,967	\$ 1,102,084	\$ 3,110,258	\$ 3,799,051
Capital assets, net	<u>5,439,434</u>	<u>6,314,717</u>	<u>5,538,170</u>	<u>6,177,366</u>	<u>11,754,151</u>	<u>11,715,536</u>
Total assets	<u>7,769,998</u>	<u>7,094,411</u>	<u>8,235,137</u>	<u>7,279,450</u>	<u>14,864,409</u>	<u>15,514,587</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	559,232	2,250,606	624,913	2,376,424	2,809,838	3,001,337
Other liabilities	<u>485,546</u>	<u>59,776</u>	<u>659,311</u>	<u>71,782</u>	<u>545,322</u>	<u>731,093</u>
Total liabilities	<u>1,044,778</u>	<u>2,310,382</u>	<u>1,284,224</u>	<u>2,448,206</u>	<u>3,355,160</u>	<u>3,732,430</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	5,100,736	4,131,950	5,098,441	3,824,914	9,232,686	8,923,355
Restricted	1,491,892	-	1,455,527	-	1,491,892	1,455,527
Unrestricted	<u>132,592</u>	<u>652,079</u>	<u>396,945</u>	<u>1,006,330</u>	<u>784,671</u>	<u>1,403,275</u>
Total net assets	<u>\$ 6,725,220</u>	<u>\$ 4,784,029</u>	<u>\$ 6,950,913</u>	<u>\$ 4,831,244</u>	<u>\$ 11,509,249</u>	<u>\$ 11,782,157</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 \$11,509,249. At year-end, net assets were \$6,725,220 and \$4,784,029 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 79.08% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2005, were \$5,100,736 and \$4,131,950 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, \$1,491,892, 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 \$132,592 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CRESTLINE, OHIO

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

The table below shows the changes in net assets for fiscal years 2005 and 2004.

	Change in Net Assets					
	Governmental Activities <u>2005</u>	Business-type Activities <u>2005</u>	Governmental Activities <u>2004</u>	Business-type Activities <u>2004</u>	2005 Total	2004 Total
Revenues						
Program revenues:						
Charges for services	\$ 284,986	\$ 1,316,352	\$ 223,776	\$ 1,161,374	\$ 1,601,338	\$ 1,385,150
Operating grants and contributions	664,344	-	498,021	-	664,344	498,021
Capital grants and contributions	<u>73,482</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,482</u>	<u>-</u>
Total program revenues	<u>1,022,812</u>	<u>1,316,352</u>	<u>721,797</u>	<u>1,161,374</u>	<u>2,339,164</u>	<u>1,883,171</u>
General revenues:						
Property taxes	333,898	-	359,742	-	333,898	359,742
Income taxes	1,080,017	-	1,245,873	-	1,080,017	1,245,873
Unrestricted grants and entitlements	295,092	-	262,966	-	295,092	262,966
Investment earnings	46,646	2,854	34,148	-	49,500	34,148
Miscellaneous	<u>55,969</u>	<u>7,568</u>	<u>63,219</u>	<u>1,511</u>	<u>63,537</u>	<u>64,730</u>
Total general revenues	<u>1,811,622</u>	<u>10,422</u>	<u>1,965,948</u>	<u>1,511</u>	<u>1,822,044</u>	<u>1,967,459</u>
Total revenues	<u>2,834,434</u>	<u>1,326,774</u>	<u>2,687,745</u>	<u>1,162,885</u>	<u>4,161,208</u>	<u>3,850,630</u>
Expenses:						
General government	687,215	-	455,937	-	687,215	455,937
Security of persons and property	1,279,467	-	1,162,469	-	1,279,467	1,162,469
Transportation	541,187	-	419,197	-	541,187	419,197
Community environment	399,653	-	377,948	-	399,653	377,948
Leisure time activity	94,290	-	44,125	-	94,290	44,125
Interest and fiscal charges	34,163	-	40,418	-	34,163	40,418
Water	-	621,665	-	605,126	621,665	605,126
Sewer	-	681,596	-	659,364	681,596	659,364
Other enterprise	<u>-</u>	<u>94,880</u>	<u>-</u>	<u>219,019</u>	<u>94,880</u>	<u>219,019</u>
Total expenses	<u>3,035,975</u>	<u>1,398,141</u>	<u>2,500,094</u>	<u>1,483,509</u>	<u>4,434,116</u>	<u>3,983,603</u>
Increase (decrease) in net assets before transfers	(201,541)	(71,367)	187,651	(320,624)	(272,908)	(132,973)
Transfers	<u>(24,152)</u>	<u>24,152</u>	<u>(24,152)</u>	<u>24,152</u>	<u>-</u>	<u>-</u>
Change in net assets	(225,693)	(47,215)	163,499	(296,472)	(272,908)	(132,973)
Net assets at beginning of year (restated)	<u>6,950,913</u>	<u>4,831,244</u>	<u>6,787,414</u>	<u>5,127,716</u>	<u>11,782,157</u>	<u>11,915,130</u>
Net assets at end of year	<u>\$ 6,725,220</u>	<u>\$ 4,784,029</u>	<u>\$ 6,950,913</u>	<u>\$ 4,831,244</u>	<u>\$ 11,509,249</u>	<u>\$ 11,782,157</u>

CITY OF CRESTLINE, OHIO

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

Governmental Activities

Governmental activities net assets decreased \$225,693 in 2005. This decrease is a result of increasing expenses outpacing increased revenues versus amounts reported in the prior year.

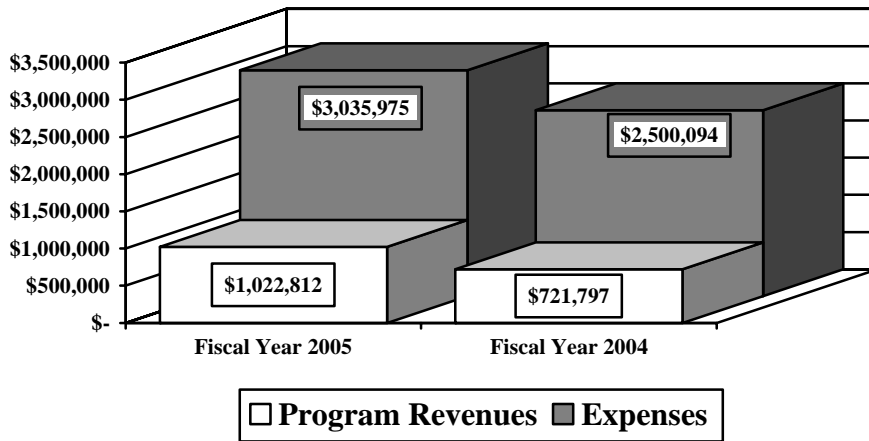
Security of persons and property, which primarily supports the operations of the police and fire department's expenses of which total \$1,279,467 and account for 42.14% the total expenses of the City. Security of persons and property expenses were partially funded by direct charges to users of \$177,209 and operating grants of \$907. General government expenses totaled \$687,215. General government expenses were partially funded by \$13,086 in direct charges to users of the services. Transportation expenses of \$541,187 were partially funded by \$223,399 in operating grants and contributions and \$73,482 in capital grants.

The state and federal government contributed to the City a total of \$664,344 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$223,399 subsidized transportation programs and \$359,783 subsidized community environment activities.

General revenues totaled \$1,811,622, and amounted to 63.91% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$1,413,915. 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 \$295,092.

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. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities. As program revenues are not sufficient to cover total governmental expenses for 2005.

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF CRESTLINE, OHIO

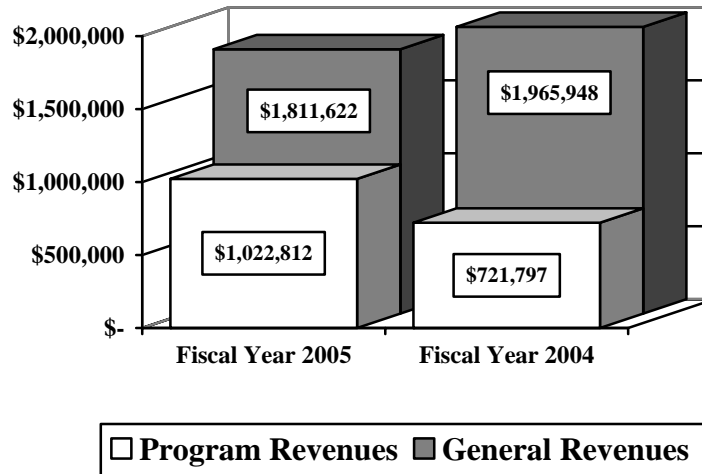
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses:				
General government	\$ 687,215	\$ 593,874	\$ 455,937	\$ 450,395
Security of persons and property	1,279,467	1,101,351	1,162,469	1,001,307
Transportation	541,187	244,306	419,197	211,934
Community environment	399,653	(5,814)	377,948	45,809
Leisure time activity	94,290	45,283	44,125	28,434
Interest and fiscal charges	34,163	34,163	40,418	40,418
Total	\$ 3,035,975	\$ 2,013,163	\$ 2,500,094	\$ 1,778,297

The dependence upon general revenues for governmental activities is apparent, with 66.31% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2005 and 2004.

Governmental Activities - General and Program Revenues



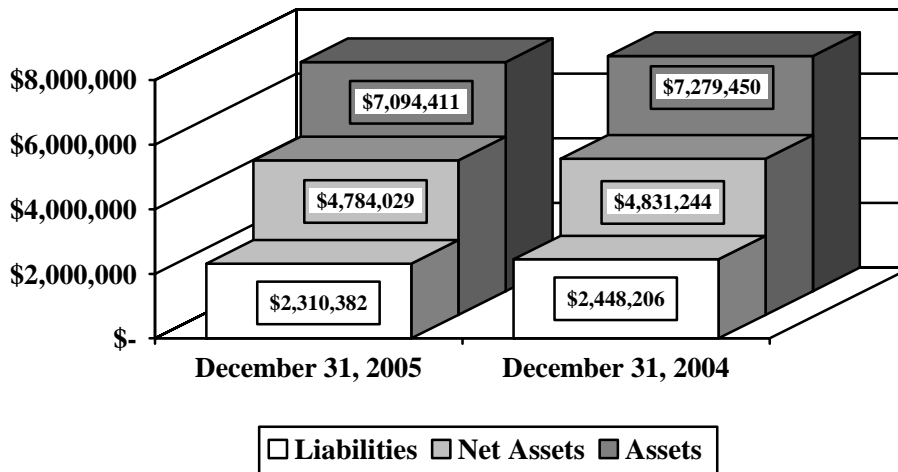
CITY OF CRESTLINE, OHIO

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

Business-type Activities

Business-type activities include the water, sewer, and ambulance service enterprise funds. These programs had program revenues of \$1,316,352, general revenues of \$10,422 and expenses of \$1,398,141 for 2005. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



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 \$1,190,080 which is \$109,091 below last year's restated total of \$1,299,171 (the restatement is due to a prior period adjustment described in Note 3.A. of the notes to the financial statements). The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2005 for all major and nonmajor governmental funds.

	Fund Balances 12/31/05	Restated Fund Balances 12/31/04	Increase (Decrease)
Major funds:			
General	\$ (36,138)	\$ 150,320	\$ (186,458)
Capital improvements	461,787	524,777	(62,990)
Other nonmajor governmental funds	764,431	624,074	140,357
Total	<u>\$ 1,190,080</u>	<u>\$ 1,299,171</u>	<u>\$ (109,091)</u>

CITY OF CRESTLINE, OHIO

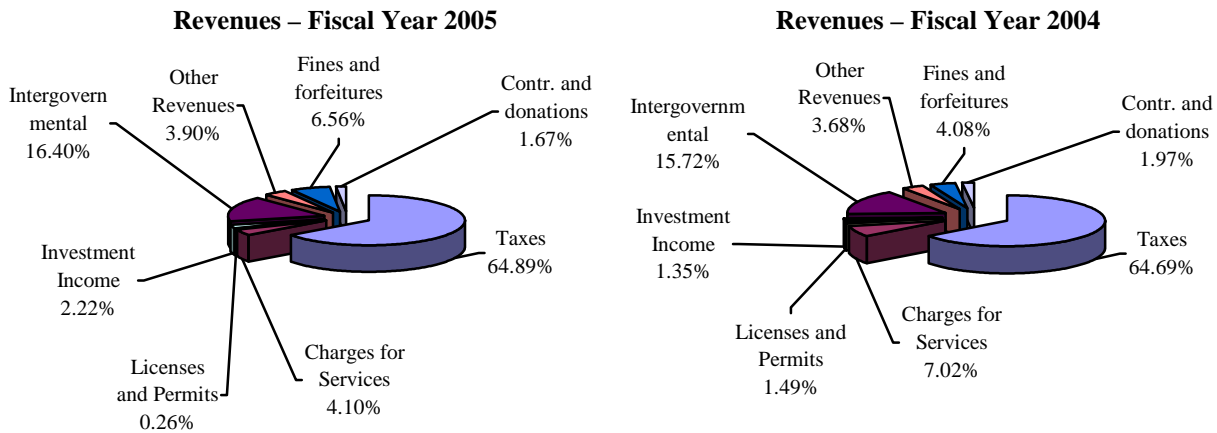
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

General Fund

The City's general fund balance decreased \$186,458. The table that follows assists in illustrating the revenues of the general fund.

	<u>2005</u> <u>Amount</u>	<u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 1,088,847	\$ 1,040,745	4.62 %
Charges for services	68,760	112,882	(39.09) %
Licenses and permits	4,445	24,044	(81.51) %
Fines and forfeitures	110,006	65,657	67.55 %
Investment income	37,256	21,642	72.15 %
Contributions and donations	28,056	31,732	(11.58) %
Intergovernmental	275,197	253,000	8.77 %
Other	65,511	59,255	10.56 %
Total	<u>\$ 1,678,078</u>	<u>\$ 1,608,957</u>	4.30 %

Tax revenue represents 64.89% of all general fund revenue. Tax revenue increased 4.62% over prior year. The increase in taxes revenue is due to an increase in the collections of municipal income taxes.



CITY OF CRESTLINE, OHIO

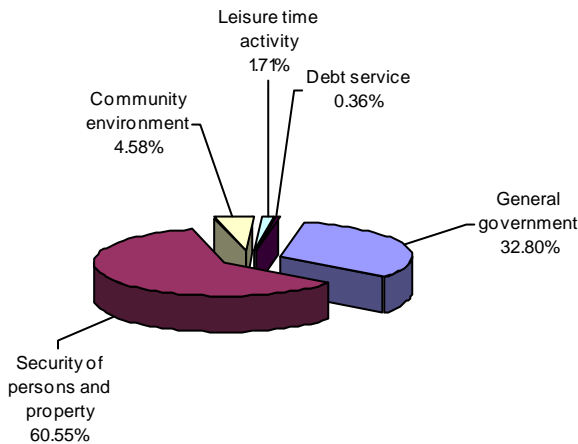
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The table that follows assists in illustrating the comparison of expenditures of the general fund. Certain 2004 amounts have been restated due to a prior period adjustment described in Note 3.A. of the notes to the financial statements.

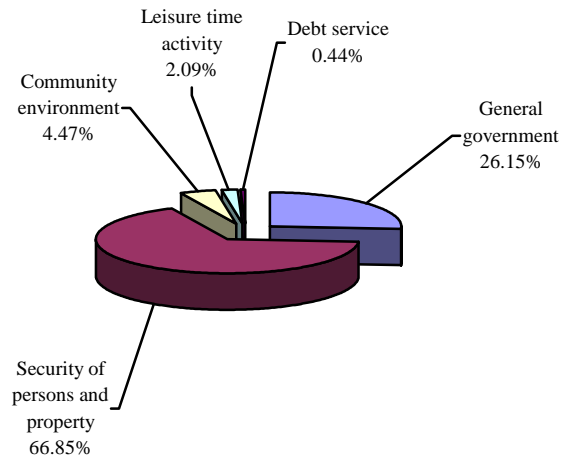
	<u>2005</u> <u>Amount</u>	<u>Restated</u> <u>2004</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 611,580	\$ 394,895	54.87 %
Security of persons and property	1,128,983	1,009,186	11.87 %
Community environment	85,366	67,531	26.41 %
Leisure time activity	31,898	31,562	1.06 %
Debt service	<u>6,709</u>	<u>6,710</u>	(0.01) %
 Total	 <u>\$ 1,864,536</u>	 <u>\$ 1,509,884</u>	 23.49 %

The City increased total expenditures by 23.49%. The largest expenditure line item, security of persons and property, as well as general government expenditures, increased which can primarily be attributed to wage and benefit increases compared to 2004.

Expenditures - Fiscal Year 2005



Expenditures - Fiscal Year 2004



Capital Improvements Fund

The capital improvements fund had revenues of \$234,327 in 2005. The expenditures of the capital improvements fund, totaled \$273,165 in 2005. The net decrease in fund balance for the capital improvements fund was \$62,990 or 12.00%.

CITY OF CRESTLINE, OHIO

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

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.

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 community development block grant fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$115,939 from \$1,819,316 to \$1,935,255. Actual revenues of \$1,687,831 were less than final budgeted revenues by \$135,103. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$64,617 lower than the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the City had \$11,754,151 (net of accumulated depreciation) invested in land, construction-in-progress, land improvements, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Of this total, \$5,439,434 was reported in governmental activities and \$6,314,717 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2005 balances compared to 2004:

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

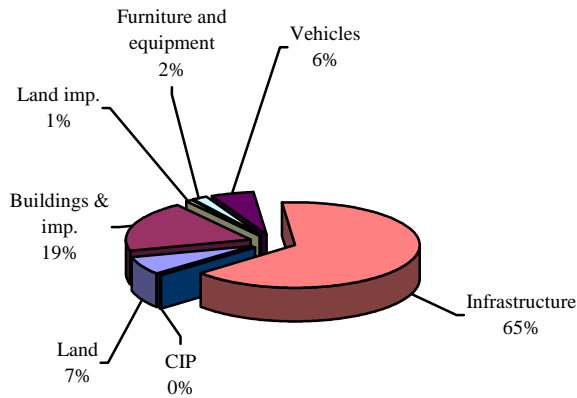
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$ 380,645	\$ 380,645	\$ 111,558	\$ 111,558	\$ 492,203	\$ 492,203
Construction in progress	19,455	-	-	-	19,455	-
Land improvements	49,482	51,078	18,620	19,950	68,102	71,028
Buildings and improvements	1,035,449	1,069,144	1,420,870	1,463,960	2,456,319	2,533,104
Furniture and equipment	98,391	112,875	3,031,641	3,146,632	3,130,032	3,259,507
Vehicles	311,695	351,340	209,084	236,467	520,779	587,807
Infrastructure	3,544,317	3,573,088	-	-	3,544,317	3,573,088
Water and sewer lines	-	-	1,522,944	1,198,799	1,522,944	1,198,799
Totals	<u>\$ 5,439,434</u>	<u>\$ 5,538,170</u>	<u>\$ 6,314,717</u>	<u>\$ 6,177,366</u>	<u>\$ 11,754,151</u>	<u>\$ 11,715,536</u>

CITY OF CRESTLINE, OHIO

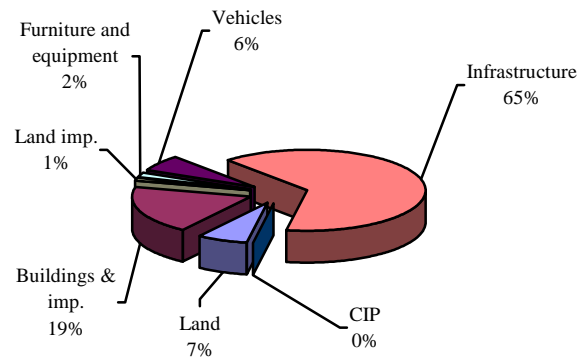
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

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

**Capital Assets - Governmental Activities
2005**



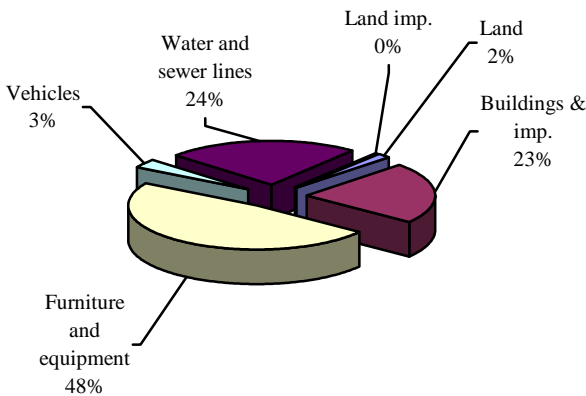
**Capital Assets - Governmental Activities
2004**



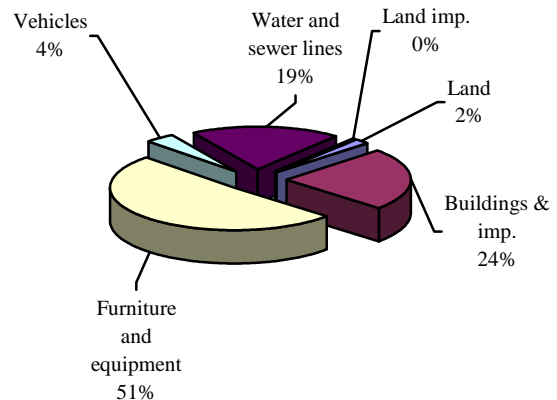
The City's largest capital asset category is infrastructure which includes bridges and streets. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 65% 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 second largest business-type capital asset category is 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 water and sewer lines (cost less accumulated depreciation) represents approximately 24% of the City's total business-type capital assets.

CITY OF CRESTLINE, OHIO

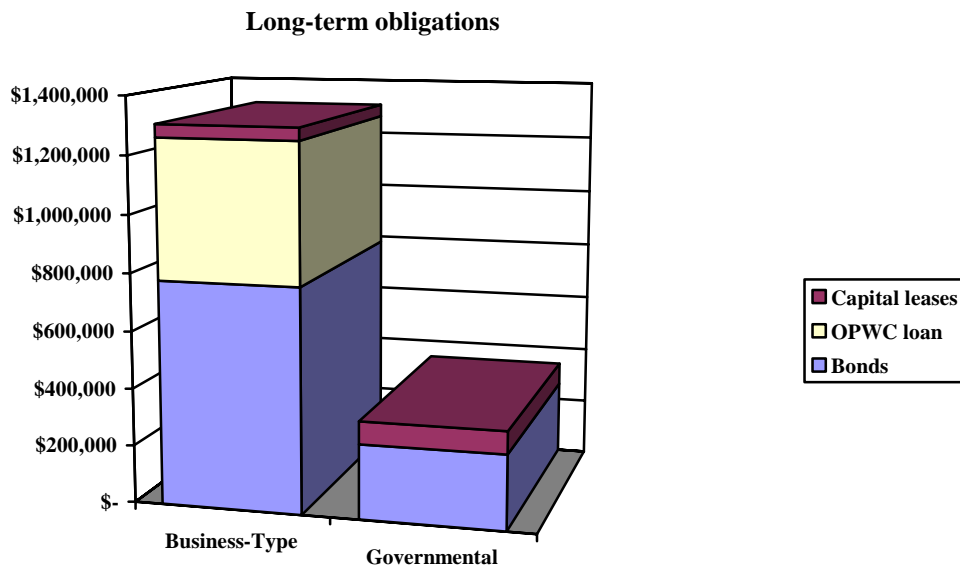
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED

Debt Administration

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Capital leases payable	\$ 78,698	\$ 114,729
General obligation bonds	<u>260,000</u>	<u>325,000</u>
 Total long-term obligations	 <u>\$ 338,698</u>	 <u>\$ 439,729</u>
	 <u>Business-type Activities</u>	
	<u>2005</u>	<u>2004</u>
Revenue bonds	780,000	885,000
Capital leases	44,269	64,536
OPWC loan	<u>482,498</u>	<u>466,916</u>
 Total long-term obligations	 <u>\$ 1,306,767</u>	 <u>\$ 1,416,452</u>

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 16 to the financial statements.

CITY OF CRESTLINE, OHIO

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

Economic Conditions and Outlook

The City's current population as of the 2000 Census is 5,088.

The City is located in Crawford County. Crawford County has an unemployment rate of 6.6%, compared to the 5.3% state average and the 4.6% national average.

State funding is uncertain due to budgetary shortfalls at the state level. It appears Local Government Revenue and Local Government Revenue Assistance Funds may be cut by 10% in the next biennial State budget. These funds represented 17.20% of the City's general fund revenue in 2005. Income and property tax revenues are expected to remain consistent as well as expenditures.

These economic factors were considered in preparing the City's budget for fiscal year 2006. Budgeted revenues and other financing sources in the general fund for fiscal year 2006 are \$1,596,879. The City has continued to practice conservative budgetary practices in order to preserve a positive financial position in future years.

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 Kelly Kurtzman, City Auditor, 100 North Seltzer Street, Crestline, Ohio 44827.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF CRESTLINE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2005

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,071,789	\$ 511,594	\$ 1,583,383
Cash in segregated accounts	15,263	-	15,263
Cash with fiscal agents.	-	175,913	175,913
Receivables (net of allowances for uncollectibles):			
Income taxes	548,887	-	548,887
Real and other taxes	255,494	-	255,494
Accounts	15,701	188,357	204,058
Accrued interest	6,945	-	6,945
Notes.	12,011	-	12,011
Intergovernmental	238,663	-	238,663
Internal balances	118,000	(118,000)	-
Prepayments	47,811	21,830	69,641
Capital assets:			
Land and construction in progress.	400,100	111,558	511,658
Depreciable capital assets, net	5,039,334	6,203,159	11,242,493
Total capital assets, net	<u>5,439,434</u>	<u>6,314,717</u>	<u>11,754,151</u>
Total assets.	<u>7,769,998</u>	<u>7,094,411</u>	<u>14,864,409</u>
Liabilities:			
Accounts payable.	29,887	8,692	38,579
Accrued wages and benefits	42,720	17,008	59,728
Due to other governments	72,591	13,625	86,216
Deferred revenue.	238,446	-	238,446
Accrued interest payable.	1,902	20,451	22,353
Notes payable	100,000	-	100,000
Long-term liabilities:			
Due within one year	134,709	1,030,083	1,164,792
Due in more than one year	424,523	1,220,523	1,645,046
Total liabilities	<u>1,044,778</u>	<u>2,310,382</u>	<u>3,355,160</u>
Net assets:			
Invested in capital assets, net of related debt	5,100,736	4,131,950	9,232,686
Restricted for:			
Capital projects.	575,234	-	575,234
Debt service	234,522	-	234,522
Transportation projects.	310,573	-	310,573
Community environment programs.	237,629	-	237,629
Other purposes	133,934	-	133,934
Unrestricted.	<u>132,592</u>	<u>652,079</u>	<u>784,671</u>
Total net assets	<u>\$ 6,725,220</u>	<u>\$ 4,784,029</u>	<u>\$ 11,509,249</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 687,215	\$ 13,086	\$ 80,255	\$ -
Security of persons and property.	1,279,467	177,209	907	-
Transportation	541,187	-	223,399	73,482
Community environment	399,653	45,684	359,783	-
Leisure time activity	94,290	49,007	-	-
Interest and fiscal charges.	34,163	-	-	-
Total governmental activities	<u>3,035,975</u>	<u>284,986</u>	<u>664,344</u>	<u>73,482</u>
Business-type Activities:				
Water	621,665	707,102	-	-
Sewer	681,596	525,307	-	-
Ambulance services.	94,880	83,943	-	-
Total business-type activities	<u>1,398,141</u>	<u>1,316,352</u>	<u>-</u>	<u>-</u>
Total primary government.	<u>\$ 4,434,116</u>	<u>\$ 1,601,338</u>	<u>\$ 664,344</u>	<u>\$ 73,482</u>

General Revenues:

Property taxes levied for:
General purposes.
Debt service
Police pension
Fire pension
Income taxes levied for:
General purposes.
Street construction and maintenance.
Capital improvements
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 (restated)
Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (593,874)	\$ -	\$ (593,874)
(1,101,351)	-	(1,101,351)
(244,306)	-	(244,306)
5,814	-	5,814
(45,283)	-	(45,283)
(34,163)	-	(34,163)
<u>(2,013,163)</u>	<u>-</u>	<u>(2,013,163)</u>
-	85,437	85,437
-	(156,289)	(156,289)
-	(10,937)	(10,937)
<u>-</u>	<u>(81,789)</u>	<u>(81,789)</u>
<u>(2,013,163)</u>	<u>(81,789)</u>	<u>(2,094,952)</u>
159,073	-	159,073
147,616	-	147,616
13,605	-	13,605
13,604	-	13,604
860,291	-	860,291
73,134	-	73,134
146,592	-	146,592
295,092	-	295,092
46,646	2,854	49,500
55,969	7,568	63,537
<u>1,811,622</u>	<u>10,422</u>	<u>1,822,044</u>
<u>(24,152)</u>	<u>24,152</u>	<u>-</u>
<u>(225,693)</u>	<u>(47,215)</u>	<u>(272,908)</u>
<u>6,950,913</u>	<u>4,831,244</u>	<u>11,782,157</u>
<u>\$ 6,725,220</u>	<u>\$ 4,784,029</u>	<u>\$ 11,509,249</u>

CITY OF CRESTLINE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	<u>General</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ -	\$ 316,484	\$ 755,305	\$ 1,071,789
Cash in segregated accounts	11,954	-	3,309	15,263
Receivables (net of allowance for uncollectibles):				
Income taxes	407,960	93,456	47,471	548,887
Real and other taxes	155,877	-	99,617	255,494
Intergovernmental	128,824	-	109,839	238,663
Accounts	15,701	-	-	15,701
Interfund loans	-	118,000	-	118,000
Accrued interest	5,553	-	1,392	6,945
Notes	-	-	12,011	12,011
Due from other funds	-	-	79,483	79,483
Prepayments	27,495	4,408	15,908	47,811
Total assets	<u>\$ 753,364</u>	<u>\$ 532,348</u>	<u>\$ 1,124,335</u>	<u>\$ 2,410,047</u>
Liabilities:				
Accounts payable	\$ 21,560	\$ -	\$ 8,327	\$ 29,887
Accrued wages and benefits	40,424	-	2,296	42,720
Due to other funds	79,483	-	-	79,483
Due to other governments	54,691	-	17,900	72,591
Deferred revenue	593,344	70,561	231,381	895,286
Notes payable	-	-	100,000	100,000
Total liabilities	<u>789,502</u>	<u>70,561</u>	<u>359,904</u>	<u>1,219,967</u>
Fund Balances:				
Reserved for encumbrances	11,495	30,013	211,238	252,746
Reserved for prepayments	27,495	4,408	15,908	47,811
Reserved for noncurrent notes receivable	-	-	6,048	6,048
Reserved for debt service	-	-	225,693	225,693
Unreserved, undesignated (deficit), reported in:				
General fund	(75,128)	-	-	(75,128)
Special revenue funds	-	-	312,242	312,242
Capital projects funds	-	427,366	(6,698)	420,668
Total fund balances	<u>(36,138)</u>	<u>461,787</u>	<u>764,431</u>	<u>1,190,080</u>
Total liabilities and fund balances	<u>\$ 753,364</u>	<u>\$ 532,348</u>	<u>\$ 1,124,335</u>	<u>\$ 2,410,047</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

Total governmental fund balances		\$ 1,190,080
<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.		5,439,434
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 17,049	
Income taxes	414,418	
Fines and forfeitures	15,232	
Intergovernmental revenues	204,627	
Accrued interest	5,514	
Total	656,840	656,840
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(1,902)
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:		
General obligations bonds	260,000	
Police and fire pension	112,129	
Compensated absences	108,405	
Capital lease payable	78,698	
	(559,232)	(559,232)
Net assets of governmental activities		\$ 6,725,220

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

	<u>General</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Municipal income taxes	\$ 929,058	\$ 160,845	\$ 81,215	\$ 1,171,118
Property and other taxes	159,789	-	172,232	332,021
Charges for services	68,760	-	49,057	117,817
Licenses and permits	4,445	-	-	4,445
Fines and forfeitures	110,006	-	14,196	124,202
Intergovernmental	275,197	73,482	675,844	1,024,523
Investment income	37,256	-	9,369	46,625
Rental income	5,318	-	-	5,318
Gifts and donations	28,056	-	-	28,056
Other	60,193	-	3,939	64,132
Total revenues	<u>1,678,078</u>	<u>234,327</u>	<u>1,005,852</u>	<u>2,918,257</u>
Expenditures:				
Current:				
General government	611,580	-	20,494	632,074
Security of persons and property	1,128,983	-	29,124	1,158,107
Transportation	-	-	340,373	340,373
Community environment	85,366	-	314,287	399,653
Leisure time activity	31,898	-	54,551	86,449
Capital outlay	-	230,227	18,959	249,186
Debt service:				
Principal retirement	1,884	36,031	65,000	102,915
Interest and fiscal charges	4,825	6,907	22,707	34,439
Total expenditures	<u>1,864,536</u>	<u>273,165</u>	<u>865,495</u>	<u>3,003,196</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(186,458)</u>	<u>(38,838)</u>	<u>140,357</u>	<u>(84,939)</u>
Other financing sources (uses):				
Transfers in	-	-	254,200	254,200
Transfers out	-	(24,152)	(254,200)	(278,352)
Total other financing sources (uses)	<u>-</u>	<u>(24,152)</u>	<u>-</u>	<u>(24,152)</u>
Net change in fund balances	(186,458)	(62,990)	140,357	(109,091)
Fund balances at beginning of year (restated) .	<u>150,320</u>	<u>524,777</u>	<u>624,074</u>	<u>1,299,171</u>
Fund balances (deficit) at end of year	<u>\$ (36,138)</u>	<u>\$ 461,787</u>	<u>\$ 764,431</u>	<u>\$ 1,190,080</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, 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 \$ (109,091)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. Depreciation expense exceeds capital outlays in the current period accordingly.

Capital asset additions	\$ 119,698	
Current year depreciation	(218,434)	
Total		(98,736)

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

Income taxes	(91,101)	
Property and other taxes	1,877	
Fines and forfeitures	(3,029)	
Intergovernmental	8,409	
Accrued interest	21	
Total		(83,823)

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

102,915

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

276

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.

(37,234)

Change in net assets of governmental activities \$ (225,693)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, 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>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Municipal income taxes	\$ 683,790	\$ 613,234	\$ 942,245	\$ 329,011
Property and other taxes	271,220	259,255	159,789	(99,466)
Charges for services	116,711	111,562	68,760	(42,802)
Licenses and permits	7,545	7,212	4,445	(2,767)
Fines and forfeitures	172,323	164,721	101,524	(63,197)
Intergovernmental	467,106	446,501	275,196	(171,305)
Rental Income	9,027	8,628	5,318	(3,310)
Investment income	69,072	66,025	40,694	(25,331)
Other	152,525	145,796	89,860	(55,936)
Total revenues.	<u>1,949,319</u>	<u>1,822,934</u>	<u>1,687,831</u>	<u>(135,103)</u>
Expenditures:				
Current:				
General government	604,873	643,420	621,937	21,483
Security of persons and property	1,116,039	1,187,160	1,147,521	39,639
Community environment	66,458	70,693	68,333	2,360
Leisure time activity	31,946	33,982	32,847	1,135
Total expenditures	<u>1,819,316</u>	<u>1,935,255</u>	<u>1,870,638</u>	<u>64,617</u>
Net change in fund balance	130,003	(112,321)	(182,807)	(70,486)
Fund balance at beginning of year	100,992	100,992	100,992	-
Prior year encumbrances appropriated	<u>15,037</u>	<u>15,037</u>	<u>15,037</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ 246,032</u>	<u>\$ 3,708</u>	<u>\$ (66,778)</u>	<u>\$ (70,486)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2005

	Business-type Activities -Enterprise Funds			
	Water	Sewer	Ambulance Service	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 323,659	\$ 57,624	\$ 55,311	\$ 436,594
Receivables (net of allowance for uncollectibles):				
Accounts	94,787	71,177	22,393	188,357
Prepayments.	11,839	9,823	168	21,830
Total current assets	<u>430,285</u>	<u>138,624</u>	<u>77,872</u>	<u>646,781</u>
Noncurrent Assets:				
Restricted assets:				
Cash with fiscal agents.	175,913	-	-	175,913
Equity in pooled cash and cash equivalents	75,000	-	-	75,000
Capital assets:				
Land and construction in progress	74,323	37,235	-	111,558
Depreciable capital assets, net	2,697,222	3,286,653	219,284	6,203,159
Total capital assets	<u>2,771,545</u>	<u>3,323,888</u>	<u>219,284</u>	<u>6,314,717</u>
Total noncurrent assets	<u>3,022,458</u>	<u>3,323,888</u>	<u>219,284</u>	<u>6,565,630</u>
Total assets	<u>3,452,743</u>	<u>3,462,512</u>	<u>297,156</u>	<u>7,212,411</u>
Liabilities:				
Current liabilities:				
Accounts payable.	3,265	5,427	-	8,692
Accrued wages and benefits	8,343	8,342	323	17,008
Compensated absences	8,735	8,735	126	17,596
Due to other governments	6,335	7,238	52	13,625
Interfund loan payable.	-	118,000	-	118,000
Accrued interest payable	175	20,276	-	20,451
Notes	-	876,000	-	876,000
Current portion of revenue bonds	115,000	-	-	115,000
Current portion of capital lease obligation	-	-	21,487	21,487
Total current liabilities	<u>141,853</u>	<u>1,044,018</u>	<u>21,988</u>	<u>1,207,859</u>
Long-term liabilities:				
Revenue bonds	665,000	-	-	665,000
OPWC Loans	-	482,498	-	482,498
Capital lease obligation	-	-	22,782	22,782
Compensated absences	25,121	25,121	1	50,243
Total long-term liabilities	<u>690,121</u>	<u>507,619</u>	<u>22,783</u>	<u>1,220,523</u>
Total liabilities	<u>831,974</u>	<u>1,551,637</u>	<u>44,771</u>	<u>2,428,382</u>
Net assets:				
Invested in capital assets, net of related debt.	1,991,545	1,965,390	175,015	4,131,950
Restricted:				
Revenue bond renewal and replacement	60,000	-	-	60,000
Revenue bond future debt service	15,000	-	-	15,000
Revenue bond current debt service	175,913	-	-	175,913
Unrestricted	<u>378,311</u>	<u>(54,515)</u>	<u>77,370</u>	<u>401,166</u>
Total net assets	<u>\$ 2,620,769</u>	<u>\$ 1,910,875</u>	<u>\$ 252,385</u>	<u>\$ 4,784,029</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Ambulance Service	Total
Operating revenues:				
Charges for services	\$ 707,102	\$ 525,307	\$ 83,943	\$ 1,316,352
Other	3,706	3,862	-	7,568
Total operating revenues	<u>710,808</u>	<u>529,169</u>	<u>83,943</u>	<u>1,323,920</u>
Operating expenses:				
Personal services	333,843	349,684	41,983	725,510
Contract services	108,924	175,565	11,443	295,932
Materials and supplies	35,435	24,581	7,182	67,198
Depreciation	93,625	107,219	30,387	231,231
Other	1,403	223	-	1,626
Total operating expenses.	<u>573,230</u>	<u>657,272</u>	<u>90,995</u>	<u>1,321,497</u>
Operating income (loss)	<u>137,578</u>	<u>(128,103)</u>	<u>(7,052)</u>	<u>2,423</u>
Nonoperating revenues (expenses):				
Interest revenue.	2,854	-	-	2,854
Interest expense and fiscal charges	(48,435)	(24,324)	(3,885)	(76,644)
Total nonoperating revenues (expenses)	<u>(45,581)</u>	<u>(24,324)</u>	<u>(3,885)</u>	<u>(73,790)</u>
Income (loss) before transfers	91,997	(152,427)	(10,937)	(71,367)
Transfers in.	-	-	24,152	24,152
Changes in net assets	91,997	(152,427)	13,215	(47,215)
Net assets at beginning of year	<u>2,528,772</u>	<u>2,063,302</u>	<u>239,170</u>	<u>4,831,244</u>
Net assets at end of year	<u>\$ 2,620,769</u>	<u>\$ 1,910,875</u>	<u>\$ 252,385</u>	<u>\$ 4,784,029</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Ambulance Service	Total
Cash flows from operating activities:				
Cash received from customers	\$ 704,302	\$ 528,872	\$ 103,314	\$ 1,336,488
Cash received from other operations	3,706	3,862	-	7,568
Cash payments for personal services	(315,779)	(330,709)	(42,307)	(688,795)
Cash payments for contract services	(118,931)	(190,728)	(11,461)	(321,120)
Cash payments for materials and supplies	(36,762)	(20,007)	(7,668)	(64,437)
Cash payments for other expenses	(1,403)	(223)	-	(1,626)
Net cash provided by (used in) operating activities	<u>235,133</u>	<u>(8,933)</u>	<u>41,878</u>	<u>268,078</u>
Cash flows from noncapital financing activities:				
Cash received from interfund loans	-	118,000	-	118,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>118,000</u>	<u>-</u>	<u>118,000</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(353,000)	(15,582)	-	(368,582)
Principal retirement on revenue bonds	(105,000)	-	-	(105,000)
Principal retirement on notes	-	(936,000)	-	(936,000)
Sale of notes	-	876,000	-	876,000
Loan issuance	-	15,582	-	15,582
Interest and fiscal charges	(48,457)	(16,193)	-	(64,650)
Net cash used in capital and related financing activities	<u>(506,457)</u>	<u>(76,193)</u>	<u>-</u>	<u>(582,650)</u>
Cash flows from investing activities:				
Interest revenue	2,854	-	-	2,854
Net cash provided by investing activities	<u>2,854</u>	<u>-</u>	<u>-</u>	<u>2,854</u>
Net increase (decrease) in cash and cash equivalents	(268,470)	32,874	41,878	(193,718)
Cash and cash equivalents at beginning of year	843,042	24,750	13,433	881,225
Cash and cash equivalents at end of year	<u>\$ 574,572</u>	<u>\$ 57,624</u>	<u>\$ 55,311</u>	<u>\$ 687,507</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 137,578	\$ (128,103)	\$ (7,052)	\$ 2,423
Adjustments:				
Depreciation	93,625	107,219	30,387	231,231
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(2,800)	3,565	19,371	20,136
(Increase) in prepayments	(6,163)	(3,283)	(18)	(9,464)
(Decrease) in accounts payable	(5,515)	(7,650)	(486)	(13,651)
Increase (decrease) in accrued wages and benefits	(1,176)	(1,166)	69	(2,273)
(Decrease) in due to other governments	(1,097)	(196)	(123)	(1,416)
Increase (decrease) in compensated absences payable	21,987	21,987	(107)	43,867
(Decrease) in claims payable	(1,306)	(1,306)	(163)	(2,775)
Net cash provided by (used in) operating activities	<u>\$ 235,133</u>	<u>\$ (8,933)</u>	<u>\$ 41,878</u>	<u>\$ 268,078</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2005

	<u>Private-Purpose Trust</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 24,029
Total assets.	<u>24,029</u>
Net assets:	
Held in trust for other purposes	<u>24,029</u>
Total net assets	<u>\$ 24,029</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

	Private-Purpose Trust
Additions:	
Gifts and contributions.	\$ 7,000
Total Additions.	7,000
 Deductions:	
Other.	2,200
Changes in net assets	4,800
Net assets at the beginning of the year.	19,229
Net assets at the end of the year	\$ 24,029

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF CRESTLINE, OHIO

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

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

A. The City

The City of Crestline is a statutory municipal corporation operating under the laws of the State of Ohio. Crestline was incorporated as a city on April 29, 2001, by proclamation of the Secretary of State of Ohio as a result of the federal census of 2000.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council plus a council president, each elected to four-year terms. The Mayor, Auditor, Treasurer, and Solicitor are elected to four-year terms. The Service-Safety Director and Magistrate are appointed by the Mayor.

The City of Crestline is divided into various departments and financial management and control systems. Services provided include police protection, fire protection, street construction and maintenance, parks and recreation, and water, sewer, and ambulance services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Crestline consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City, this includes the Mayor's Court and all departments and activities that are directly operated by the elected City officials.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Crestline in 2005.

The City of Crestline participates in the Ohio Government Risk Management Plan, an insurance purchasing pool. This organization is presented in Note 18 to the basic financial statements.

CITY OF CRESTLINE, OHIO

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

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY - (Continued)

The financial statements of the City of Crestline have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its business-type activities or to its enterprise funds. The following are the more significant of the City's accounting policies.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial 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.

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 in nature 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 business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental 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.

B. 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. For the City, there are three categories of funds; governmental, proprietary, and fiduciary.

CITY OF CRESTLINE, OHIO

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

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

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

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

Capital Improvements Fund - This fund accounts for a portion of municipal income taxes designated for large equipment purchases.

Other governmental funds of the County are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities; (b) for the accumulation of resources for, and the repayment of, general long-term debt principal, interest and related costs and (c) for grants and other resources, the use of which is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows.

Enterprise Funds - 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:

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

Sewer Fund - This fund accounts for the provision of wastewater treatment service to residential and commercial users within the City.

Ambulance Services Fund - This fund accounts for the ambulance service to residential and commercial users within 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 not available to support the City's own programs. The City's private purpose trust fund accounts for resources provided to various organizations which are then generally used to benefit the community. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CITY OF CRESTLINE, OHIO

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

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

C. Measurement Focus

Government-Wide Financial Statements - The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and change in fund balance reflects 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 financial statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using 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 fund net assets. The statement of revenues, expenses, and change in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

D. 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; enterprise funds and fiduciary 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 - Revenues 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 the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days after year end.

CITY OF CRESTLINE, OHIO

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from income taxes is recognized in the year in which the income is earned. 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 the 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 both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest.

Deferred Revenues - Deferred revenues arise when assets are recognized before the revenue recognition criteria has been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2005 but were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis, 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.

E. Budgetary Process

All funds, except agency funds, are required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget indicates the projected revenues and expenditures for those funds receiving tax monies. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on expenditures at the level of control selected by City Council. The legal level of control has been established by City Council at the fund and department level for the General Fund and the fund level for all other funds.

CITY OF CRESTLINE, OHIO

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

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

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

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

F. Cash and Investments

To improve cash management, cash received by the City, except cash in segregated accounts or held by a trustee, is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately within departments of the City are recorded as "Cash in Segregated Accounts".

The City utilizes a financial institution as trustee to service its mortgage revenue bonded debt as principal and interest payments come due. Money held by the trustee is invested in mutual funds and is presented as "Cash with Fiscal Agents".

At December 31, 2005, the City had monies invested in nonnegotiable certificates of deposit, federal agency securities, and U.S. government money market mutual funds. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices or current share price for mutual funds.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2005 was \$37,256 which includes \$36,680 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

CITY OF CRESTLINE, OHIO

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

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

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Restricted assets represent certain resources which are segregated from other resources of the City to comply with various covenants established by bond financing agreements. These assets are generally held in separate accounts of the City or by a trustee. The various covenants place restrictions on the use of these resources, require minimum balances to be maintained in certain accounts, and establish annual amounts to be accumulated for specific purposes.

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on 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 reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure assets were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings	50 years	50 years
Land Improvements	20-50 years	100 years
Streets	10-75 years	N/A
Bridges	50 years	N/A
Water, Sewer, and Storm Water Lines	N/A	50 years
Equipment	8-40 years	10-50 years
Vehicles	8-15 years	8-15 years

CITY OF CRESTLINE, OHIO

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

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

J. Interfund Receivables/Payables

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund loans receivable/payable". Interfund balances between governmental funds are eliminated on the statement of net assets. Interfund loans between governmental and business-type activities appear as internal balances on the statement of net assets.

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.

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year end taking into consideration any limits specified in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service with the City.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise 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, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. The police and fire pension liability and capital leases are recognized as liabilities on the fund financial statements when due.

CITY OF CRESTLINE, OHIO

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

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

M. 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 balance 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 constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for construction, repair, and maintenance of streets and highways, the community development block grant program, and various police and fire department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The City's Water enterprise fund has restricted net assets relative to those resources necessary to comply with various covenants of bond financing agreements.

N. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for non current notes receivable, prepayments, debt service and encumbrances.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water, sewer, and ambulance services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating.

P. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial 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 enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. 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 management and are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items in 2005.

CITY OF CRESTLINE, OHIO

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

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

R. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

For fiscal year 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-002, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified 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 modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-002 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The City has presented a prior period adjustment to properly record income taxes receivable on the statement of net assets in governmental activities.

The implementation of GASB Statement No. 40 did not have any effect on financial statements of the City, however, additional note disclosure can be found in Note 5. The implementation of GASB Technical Bulletin No. 2004-002 had the following effect on the fund balances of the major and nonmajor funds of the City as they were previously reported as of December 31, 2004:

	General	Capital Improvement	Nonmajor	Total
Fund balance December 31, 2004	\$ 167,740	\$ 524,777	\$ 643,571	\$ 1,336,088
GASB Technical Bulletin 2004-002	(17,420)	-	(19,497)	(36,917)
Restated fund balance, December 31, 2004	\$ 150,320	\$ 524,777	\$ 624,074	\$ 1,299,171

The prior period adjustment had the following effect on governmental activities net assets:

	Total
Net assets December 31, 2004	\$ 6,840,943
Income taxes receivable adjustment	109,970
Restated Governmental activities net assets, December 31, 2004	\$ 6,950,913

CITY OF CRESTLINE, OHIO

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balances

Fund balances at December 31, 2005, included the following individual fund deficits:

<u>Major</u>	<u>Deficit</u>
General	\$ 36,138
 <u>Nonmajor</u>	
Police pension	7,103
Fire pension	7,103
Swimming pool capital assets	46,120

Contrary to ORC section 5705.10, the General fund had a negative fund balance at year end. The remaining funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur.

C. Compliance

- i.* At December 31, 2005, the City had a negative cash balance in the following fund contrary to Ohio Revised Code 5705.10:

<u>Major</u>	<u>Deficit</u>
General Fund	\$ 64,507

- ii.* At December 31, 2005, the City had expenditures in excess of appropriations in the following funds contrary to Ohio Revised Code Section 5705.41(B):

<u>Fund Type/Fund</u>	<u>Excess</u>
Major Fund:	
Capital Projects Fund:	
Capital Improvements Fund	\$ 70,359
Nonmajor Fund:	
Special Revenue Fund:	
Public Works Project	152,515

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and change in fund balance on the basis of 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 Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual 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 the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

CITY OF CRESTLINE, OHIO

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

	<u>General</u>
Budget basis	\$ (182,807)
Net adjustment for revenue accruals	(9,753)
Net adjustment for expenditure accruals	(6,200)
Adjustment for encumbrances	<u>12,302</u>
GAAP basis	<u>\$ (186,458)</u>

NOTE 5 - 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 Finance Director by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies 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;

CITY OF CRESTLINE, OHIO

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

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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 State Treasury Asset Reserve of Ohio (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 Finance Director or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agents

At year-end, the City had \$175,913 on deposit with Huntington Bank. Information regarding the City's Water System Revenue Bonds can be obtained from the city auditor. This amount is not included in the City's depository balance below.

B. Cash on Hand

At year-end, the District had \$1,000 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents." This amount is not included in the City's depository balance below.

CITY OF CRESTLINE, OHIO

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

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

C. Cash in Segregated Accounts

At year-end, the City had \$15,263 deposited with a financial institution for monies related to the Mayor’s Court which reported as a component of the City’s general fund. This amount is included in the City’s depository balance below.

D. Deposits with Financial Institutions

At December 31, 2005, the carrying amount of all City deposits was \$649,629. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2005, \$590,518 of the City’s bank balance of \$690,518 was exposed to custodial risk as discussed below, while \$100,000 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.

E. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>6 months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>	<u>Greater than 24 Months</u>
FHLB	\$ 235,674	\$ 44,451	\$ -	\$ -	\$ -	\$ 191,223
FHLMC	144,711	-	-	-	63,224	81,487
FNMA	578,661	-	221,132	121,258	-	236,271
Money market fund	13,000	13,000	-	-	-	-
	<u>\$ 972,046</u>	<u>\$ 57,451</u>	<u>\$ 221,132</u>	<u>\$ 121,258</u>	<u>\$ 63,224</u>	<u>\$ 508,981</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: STAR Ohio carries a rating of AAAM by Standard & Poor’s. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The City’s investments in federal agency securities carry a rating of AAA by Standard & Poor’s and Aaa by Moody’s.

CITY OF CRESTLINE, OHIO

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

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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>
FHLB	\$ 235,674	24.24 %
FHLMC	144,711	14.89 %
FNMA	578,661	59.53 %
Money market fund	<u>13,000</u>	<u>1.34 %</u>
	<u>\$ 972,046</u>	<u>100.00 %</u>

F. 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	\$ 649,629
Investments	972,046
Cash with fiscal agents	175,913
Cash on hand	<u>1,000</u>
Total	<u>\$ 1,798,588</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,087,052
Business type activities	687,507
Private-purpose trust fund	<u>24,029</u>
Total	<u>\$ 1,798,588</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2005, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues, municipal income taxes, other local taxes, property taxes, and notes.

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant program. The notes have an annual interest rate of 5 percent and are repaid over periods ranging from 7 to 10 years. Notes receivable, in the amount of \$5,963, will not be received within one year.

CITY OF CRESTLINE, OHIO

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

NOTE 6 - RECEIVABLES - (Continued)

A summary of the intergovernmental receivables follows:

<u>Governmental Activities</u>	<u>Amounts</u>
<u>Major Fund</u>	
General Fund	
Homestead and Rollback	\$ 9,099
Local Government	119,725
Total General Fund	<u>128,824</u>
<u>Nonmajor Funds</u>	
Street Construction and Maintenance	
Gasoline Tax	60,886
Motor Vehicle and License Tax	15,706
State Highway	
Gasoline Tax	4,937
Motor Vehicle License Tax	1,273
Permissive Tax	
Permissive Tax	21,397
Police Pension	
Homestead and Rollback	806
Fire Pension	
Homestead and Rollback	806
City Hall Bond Retirement	
Homestead and Rollback	<u>4,028</u>
Total Nonmajor Funds	<u>109,839</u>
Total	<u>\$ 238,663</u>

NOTE 7 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 2 percent based on all income earned within the City as well as on the income of residents earned outside the City. In the latter case, the City allows a credit of 75 percent of the tax paid to another municipality. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. The City's income tax is distributed to the General Fund, Street Construction and Maintenance special revenue fund, and Capital Improvements capital projects fund.

CITY OF CRESTLINE, OHIO

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

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Crestline. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2005, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2005 operations.

Collectible delinquent real property taxes have been recorded as a receivable and revenue on the full accrual basis. On the modified accrual basis, the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2005, was \$7.20 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	\$ 44,520,240
Public Utility Property	1,980,400
Tangible Personal Property	<u>1,914,554</u>
Total	<u>\$ 48,415,194</u>

CITY OF CRESTLINE, OHIO

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

NOTE 9 - CAPITAL ASSETS

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

<u>Governmental Activities:</u>	<u>Balance</u> 12/31/04	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 12/31/05
<i>Capital assets, not being depreciated:</i>				
Land	\$ 380,645	\$ -	\$ -	\$ 380,645
Construction in progress	-	19,455	-	19,455
Total capital assets, not being depreciated	<u>380,645</u>	<u>19,455</u>	<u>-</u>	<u>400,100</u>
<i>Capital assets, being depreciated:</i>				
Buildings	1,765,363	-	-	1,765,363
Land improvements	92,868	-	-	92,868
Equipment	261,029	-	-	261,029
Vehicles	981,279	20,761	-	1,002,040
Infrastructure:				
Streets	5,244,246	79,482	-	5,323,728
Bridges	56,486	-	-	56,486
Total capital assets, being depreciated	<u>8,401,271</u>	<u>100,243</u>	<u>-</u>	<u>8,501,514</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(696,219)	(1,596)	-	(697,815)
Land improvements	(41,790)	(33,695)	-	(75,485)
Equipment	(148,154)	(14,484)	-	(162,638)
Vehicles	(629,939)	(60,406)	-	(690,345)
Infrastructure:				
Streets	(1,699,394)	(107,123)	-	(1,806,517)
Bridges	(28,250)	(1,130)	-	(29,380)
Total accumulated depreciation	<u>(3,243,746)</u>	<u>(218,434)</u>	<u>-</u>	<u>(3,462,180)</u>
Total capital assets, being depreciated, net	<u>5,157,525</u>	<u>(118,191)</u>	<u>-</u>	<u>5,039,334</u>
Governmental activities capital assets, net	<u>\$ 5,538,170</u>	<u>\$ (98,736)</u>	<u>\$ -</u>	<u>\$ 5,439,434</u>

CITY OF CRESTLINE, OHIO

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

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-Type Activities:</u>	<u>Balance</u> <u>12/31/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/05</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 111,558	\$ -	\$ -	\$ 111,558
Total capital assets, not being depreciated	<u>111,558</u>	<u>-</u>	<u>-</u>	<u>111,558</u>
<i>Capital assets, being depreciated:</i>				
Buildings	2,159,900	-	-	2,159,900
Land improvements	133,000	-	-	133,000
Water, Sewer, and Storm Water Lines	2,037,540	368,582	-	2,406,122
Equipment	4,518,775	-	-	4,518,775
Vehicles	<u>477,216</u>	<u>-</u>	<u>-</u>	<u>477,216</u>
Total capital assets, being depreciated	<u>9,326,431</u>	<u>368,582</u>	<u>-</u>	<u>9,695,013</u>
<i>Less: accumulated depreciation:</i>				
Buildings	(695,940)	(43,090)	-	(739,030)
Land improvements	(113,050)	(1,330)	-	(114,380)
Water, Sewer, and Storm Water Lines	(838,741)	(44,437)	-	(883,178)
Equipment	(1,372,143)	(114,991)	-	(1,487,134)
Vehicles	<u>(240,749)</u>	<u>(27,383)</u>	<u>-</u>	<u>(268,132)</u>
Total accumulated depreciation	<u>(3,260,623)</u>	<u>(231,231)</u>	<u>-</u>	<u>(3,491,854)</u>
Total capital assets, being depreciated, net	<u>6,065,808</u>	<u>137,351</u>	<u>-</u>	<u>6,203,159</u>
Business-type activities capital assets, net	<u>\$ 6,177,366</u>	<u>\$ 137,351</u>	<u>\$ -</u>	<u>\$ 6,314,717</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 8,550
Security of persons and property	83,246
Leisure time activity	7,841
Transportation	<u>118,797</u>
Total depreciation expense	<u>\$ 218,434</u>

CITY OF CRESTLINE, OHIO

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

NOTE 10 - INTERFUND TRANSACTIONS

- A. Due from/to other funds consisted of the following at December 31, 2005, as reported on the fund financial statements:

<u>Due To other Funds</u>	<u>Due From other Funds</u>
	Nonmajor <u>Governmental</u>
General	\$ <u>79,483</u>

These balances resulted from a time lag between the dates that (1) interfund goods and services are provided, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

- B. Short-term interfund loans consisted of the following at December 31, 2005, as reported on the fund financial statements:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Improvements	Sewer fund	\$ <u>118,000</u>

This interfund balance is expected to be repaid in the next fiscal year as resources become available. On the statement of net assets this interfund activity appears as internal balances between governmental and business-type activities.

- C. Interfund transfers for the year ended December 31, 2005, consisted of the following, as reported in the fund financial statements:

<u>Transfers to</u>	<u>Transfers From</u>		
	<u>Capital Improvements</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Nonmajor governmental	\$ -	\$ 254,200	\$ 254,200
Ambulance	<u>24,152</u>	<u>-</u>	<u>24,152</u>
Total	<u>\$ 24,152</u>	<u>\$ 254,200</u>	<u>\$ 278,352</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires 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. The transfer from the Capital Improvement fund to the Ambulance fund was recorded to move principal and interest payments on a capital lease obligation to the proper fund that utilizes the related capital asset.

The transfers during 2005 were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

CITY OF CRESTLINE, OHIO

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

NOTE 11 - RISK MANAGEMENT

A. Property and Casualty Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted for the following insurance coverage.

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General Liability		\$ 0
Each Occurrence	\$1,000,000	
Annual Aggregate	3,000,000	0
Employers Liability	1,000,000	0
Employee Benefits Liability		
Each Occurrence	1,000,000	0
Annual Aggregate	3,000,000	0
Law Enforcement Officers Liability		
Each Occurrence	1,000,000	2,500
Annual Aggregate	3,000,000	2,500
Public Officials Liability		
Each Occurrence	1,000,000	1,000
Annual Aggregate	3,000,000	1,000
Property (building and contents)	12,265,348	1,000
Boiler and Machinery	12,210,348	1,000 - 10,000
Inland Marine		
Special Property	474,459	1,000
Electronic Equipment	138,000	500
Automobile Coverage		
Liability	1,000,000	0
Medical Payments	5,000	0

There has been no significant reduction in insurance coverage from 2004, and no insurance settlement has exceeded insurance coverage during the last three years.

For 2005, the City participated in the Ohio Government Risk Management (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

Workers' Compensation coverage is provided by the State of Ohio. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

CITY OF CRESTLINE, OHIO

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

NOTE 11 - RISK MANAGEMENT - (Continued)

B. Employee Health Benefits

During 2005, the City switched from being partially self-insured for employee health benefits to a fully insured program through traditional insurance carriers. Medical insurance is provided by Anthem and dental is provided by Delta Dental. The risk of loss transfers entirely to the insurance carriers. The City pays 100% of the premiums.

NOTE 12 - 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, 2004, 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 \$118,924, \$111,116, and \$68,145, respectively; 100% has been contributed for 2004 and 2003. 92.66% has been contributed for 2005 with the remainder being reported as a liability. The City and plan members did not make any contributions to the member-directed plan for 2005.

CITY OF CRESTLINE, OHIO

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

NOTE 12 - 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 11.75% for police officers and 16.25% for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for the police and firefighters were \$140,890 for the year ended December 31, 2005, \$146,422 for the year ended December 31, 2004, and \$91,314 for the year ended December 31, 2003. The full amount has been contributed for 2004 and 2003. 71.29% and 74.90%, respectively, have been contributed for 2005 with the remainder being reported as a liability.

NOTE 13 - 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 2005 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 OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% 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.

CITY OF CRESTLINE, OHIO

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

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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 \$35,107. The actual contribution and the actuarially required contribution amounts are the same. OPERS 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.

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.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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.

CITY OF CRESTLINE, OHIO

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

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The City's actual contributions for 2005 that were used to fund postemployment benefits was \$23,837 for police and \$26,635 for firefighters. 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.

NOTE 14 - COMPENSATED ABSENCES

The criterion for determining vacation and sick leave benefits is derived from negotiated agreements and State laws.

City employees earn and accumulate vacation at varying rates depending on length of service. Current policy credits vacation leave on the employee's anniversary date. Employees are paid for 100 percent of earned unused vacation leave upon termination.

Sick leave is earned at various rates as defined by City policy and union contracts. All employees with ten or more years of full-time service with the City, who elect to retire, are entitled to receive one-third of the value of their accumulated unused sick leave up to a maximum of three hundred twenty hours, except for the police and fire departments. Police department employees are entitled to receive one-half of the value of their accumulated unused sick leave up to a maximum of 1,440 hours. Fire department employees are entitled to receive one-third of the value of their accumulated unused sick leave. Compensated absences are recorded in the fund from which the liability is recorded.

NOTE 15 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2005, were as follows:

	Interest	Balance			Balance
	<u>Rate</u>	<u>12/31/04</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/05</u>
Governmental Activities					
General Obligation Bond Anticipation Notes					
Capital Projects Fund					
2004 Swimming Pool Note	2.80%	\$ 150,000	\$ -	\$(150,000)	\$ -
2005 Swimming Pool Note	4.50%	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>100,000</u>
Total Governmental Activities		<u>\$ 150,000</u>	<u>\$ 100,000</u>	<u>\$ (150,000)</u>	<u>\$ 100,000</u>

According to Ohio law, notes can be issued in anticipation of bond proceeds and levies or for up to 50 percent of anticipated revenue collections. The liability for all notes is presented in the fund receiving the proceeds.

All of the City's bond anticipation notes are backed by the full faith and credit of the City of Crestline and have a maturity of one year. The swimming pool notes were issued for improving the swimming pool facility by reconstructing and renovating the pool and bathhouse, installing a new filter system, and improving the site.

CITY OF CRESTLINE, OHIO

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

NOTE 16 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Principal Outstanding 12/31/04	Issued	Retired	Principal Outstanding 12/31/05	Amount Due in One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1992 City Hall Bonds	5.88%	\$ 325,000	\$ -	\$ (65,000)	\$ 260,000	\$ 65,000
Other Long-Term Obligations						
Capital leases payable		114,729	-	(36,031)	78,698	38,199
Police and fire pension liability		114,013	-	(1,884)	112,129	1,965
Compensated absences payable		<u>71,171</u>	<u>76,877</u>	<u>(39,643)</u>	<u>108,405</u>	<u>29,545</u>
Total other long-term obligations		<u>299,913</u>	<u>76,877</u>	<u>(77,558)</u>	<u>299,232</u>	<u>69,709</u>
Total governmental long-term liabilities		<u>\$ 624,913</u>	<u>\$ 76,877</u>	<u>\$ (142,558)</u>	<u>\$ 559,232</u>	<u>\$ 134,709</u>
<u>Business-Type Activities</u>						
Mortgage Revenue Bonds						
1996 Water Bonds		\$ 885,000	\$ -	\$ (105,000)	\$ 780,000	\$ 115,000
OPWC loans		466,916	15,582	-	482,498	-
Bond Anticipation Notes		936,000	876,000	(936,000)	876,000	876,000
Other Long-Term Obligations						
Capital leases payable		64,536	-	(20,267)	44,269	21,487
Compensated absences payable		<u>23,972</u>	<u>63,084</u>	<u>(19,217)</u>	<u>67,839</u>	<u>17,596</u>
Total other long-term obligations		<u>88,508</u>	<u>63,084</u>	<u>(39,484)</u>	<u>112,108</u>	<u>39,083</u>
Total business-type long-term liabilities		<u>\$ 2,376,424</u>	<u>\$ 954,666</u>	<u>\$ (1,080,484)</u>	<u>\$ 2,250,606</u>	<u>\$ 1,030,083</u>

General Obligation Bonds

The City Hall Bonds were issued for constructing, furnishing, and equipping new facilities to house municipal operations, including the police and fire departments. The bonds pledge the full faith and credit and taxing ability of the City. As of December 31, 2005, the balance of unpaid principal was \$260,000, with future annual principal payments of \$65,000 through 2009.

Mortgage Revenue Bonds

Mortgage revenue bonds are special obligations of the City secured by a mortgage upon all assets of the respective system. These bonds are payable solely from the gross revenues of the respective system after provisions for reasonable operating and maintenance expenses. The bond indentures have certain restrictive covenants and principally require that bond reserve funds be maintained and charges for services to customers be in sufficient amounts to satisfy the obligations under the indenture agreements. In addition, special provisions exist regarding covenant violations, redemptions of principal, and maintenance of properties.

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of fund net assets. At December 31, 2005, restricted assets relating to the 1996 water mortgage revenue bonds were as follows:

CITY OF CRESTLINE, OHIO

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

NOTE 16 - LONG-TERM OBLIGATIONS - (Continued)

Restricted Assets Held by the City	
Renewal and Replacement	\$ 60,000
Future Debt Service	15,000
Restricted Assets Held by the Trustees	
Current Debt Service	175,913

Water Mortgage Revenue Bonds

The Water Mortgage Revenue Bonds were issued in 1996 to finance improvements to the water system. Payment of the bonds is secured by a pledge of the net revenues of the Water enterprise fund. As of December 31, 2005, the balance of unpaid principal was \$780,000, with future annual payments ranging from \$115,000 to \$150,000 through 2011.

The bonds maturing on or after December 1, 2007, are subject to prior redemption, by and at the sole option of the City, either in whole or in part, on any date on or after December 1, 2006, in integral multiple of \$5,000, at the following redemption prices (expressed as percentages of the principal amount redeemed) plus accrued interest to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Price</u>
December 1, 2006 through November 30, 2007	102 percent
December 1, 2007 through November 30, 2008	101 percent
December 1, 2008 and thereafter	100 percent

Bond Anticipation Note – Business-type activities

The sewer improvement notes were issued for improving the quality and capacity of treatment and retention capacity at the wastewater treatment plant by constructing an aeration tank, sludge holding tanks, and providing pumping, piping, and electrical facilities.

Capital Leases Payable

Capital lease obligations will be paid from the fund that maintains custody of the related assets.

Police and Fire Pension Liability

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire personnel in 1967. The liability is payable semiannually from the Police Pension and Fire Pension special revenue funds.

Compensated Absences Payable

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, Street Construction and Maintenance special revenue fund, and the Water, Sewer, and Ambulance enterprise funds.

OPWC Loans

OPWC loans consist of money owed to the Ohio Public Works Commission for the replacement of the West Side Storm Sewer and upgrades to the City's wastewater treatment plant. The loans are interest free. OPWC loans are payable solely from the gross revenues of the Sewer enterprise fund. As of December 31, 2005, the project was not completed and the loan was not finalized, therefore, a final amortization schedule is not presented.

CITY OF CRESTLINE, OHIO

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

NOTE 16 - LONG-TERM OBLIGATIONS - (Continued)

At December 31, 2005, the City's voted legal debt margin and unvoted legal debt margin was \$5,049,288 and \$2,002,836, respectively.

The following is a summary of the City's future annual debt service requirements for governmental activities:

Fiscal Year Ending December 31,	Governmental Activities					
	G. O. Bonds			Police and Fire Pension		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 65,000	\$ 15,275	\$ 80,275	\$ 1,965	\$ 4,745	\$ 6,710
2007	65,000	11,465	76,465	2,049	4,661	6,710
2008	65,000	7,638	72,638	2,137	4,572	6,709
2009	65,000	3,819	68,819	2,229	4,481	6,710
2010	-	-	-	2,325	4,385	6,710
2011 - 2015	-	-	-	13,210	20,339	33,549
2016 - 2020	-	-	-	16,303	17,248	33,551
2021 - 2025	-	-	-	20,117	13,430	33,547
2026 - 2030	-	-	-	24,824	8,724	33,548
2031 - 2035	-	-	-	26,970	2,920	29,890
Total	\$ 260,000	\$ 38,197	\$ 298,197	\$ 112,129	\$85,505	\$ 197,634

The City's future annual debt service requirements payable from the enterprise funds are as follows:

Fiscal Year Ending December 31,	Business-Type Activities		
	Mortgage Revenue Bonds		
	Principal	Interest	Total
2006	\$ 115,000	\$ 44,190	\$ 159,190
2007	120,000	37,980	157,980
2008	125,000	31,380	156,380
2009	130,000	24,380	154,380
2010	140,000	16,970	156,970
2011	150,000	8,850	158,850
Total	\$ 780,000	\$ 163,750	\$ 943,750

NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE

In previous years, the City entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for the governmental funds and as a reduction of the liability in the enterprise funds.

CITY OF CRESTLINE, OHIO

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

NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE - (Continued)

Principal payments in 2005 were \$36,031 for governmental funds and \$20,267 for the enterprise funds.

	Governmental Activities	Business-Type Activities
Property under capital lease	\$ 299,944	\$ 169,187
Less: accumulated depreciation	(99,980)	(56,395)
Total	\$ 199,964	\$ 112,792

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</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 38,199	\$ 4,738	\$ 21,487	\$ 2,665
2007	40,499	2,438	22,782	1,370
Total	\$ 78,698	\$ 7,176	\$ 44,269	\$ 4,035

NOTE 18 - INSURANCE PURCHASING POOL

The City participates in the Ohio Government Risk Management Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business and affairs are conducted by an eleven member board consisting of public officials selected from the membership. Financial information can be obtained from Ohio Government Risk Management Plan, 420 Madison Avenue, Toledo, Ohio 43204.

NOTE 19 - CONTINGENCIES

A. Litigation

The City is party to other legal proceedings as a defendant. The outcome of the legal proceedings is not presently determinable.

B. Federal and State Grants

For the period January 1, 2005, to December 31, 2005, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.



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

Members of Council and Mayor
City of Crestline
100 North Seltzer Street
Crestline, Ohio 44827

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Crestline (the "City"), Crawford County, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 27, 2006. As disclosed in Note 3 to the financial statements, the City implemented Governmental Accounting Standards Board (GASB) Technical Bulletin 2004-002, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers" for the year ended December 31, 2005 and for restatement of income tax receivable as disclosed in Note 3. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

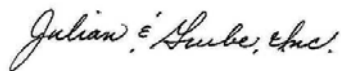
In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 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. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Crestline in a separate letter dated June 27, 2006.

Members of Council and Mayor
City of Crestline

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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-COC-001, 2005-COC-002 and 2005-COC-003. We also noted certain immaterial instances of noncompliance or others matters that we have reported to the management of the City in a separate letter dated June 27, 2006.

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



Julian & Grube, Inc.
June 27, 2006

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2005-COC-001

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.

It was noted during the audit that at December 31, 2005, the City had a negative cash balance in the following fund:

<u>Major Fund</u>	<u>Deficit</u>
General Fund	\$64,507

The City has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end. It was noted that the City Auditor paid a significant amount of vendor invoices prior to leaving office at December 31, 2005 which caused the deficit.

We recommend that the City properly expend monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the City should advance or transfer funds with proper Council approval. Cash management policies may also benefit the City to maintain positive fund balances.

Client Response: The City Auditor will utilize advances when a negative fund occurs.

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)	
Finding Number	2005-COC-002

Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.

It was noted during the audit that in the year ended December 31, 2005, the City had expenditures in excess of appropriations in the following funds:

<u>Fund Type/Fund</u>	<u>Excess</u>
Major Fund:	
Capital Projects Fund:	
Capital Improvements Fund	\$ 70,359
 Nonmajor Fund:	
Special Revenue Fund:	
Public Works Project	152,515

With expenditures exceeding appropriations, the City is expending monies that have not been appropriated and approved by Council. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the City comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: The City Auditor is attempting to prepare additional appropriation modifications and have them approved by City Council.

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (Continued)	
Finding Number	2005-COC-003

Ohio Revised Code Section 5705.38 in part requires the annual appropriation measure to be passed on or about the first day of each fiscal year. Temporary appropriations may be adopted until April 1 if the taxing authority wishes to postpone the passage of the annual appropriation measure until the county budget commission sends out the amended certificate based on year end balances.

It was noted during the audit that for the year ended December 31, 2005, the City's permanent appropriation measure was not passed until April 18, 2005.

Without timely approval, the City may be operating without appropriation guidelines and thus cause the City to spend funds improperly.

We recommend that Council adopt approval procedures for the appropriation measures and include these procedures in an accounting policies and procedures manual. We recommend that the City Auditor develop a tickler file including all significant due dates of the budgeting process.

Client Response: The new City Auditor has passed the permanent appropriation measure prior to the March 31st requirement. It was noted that the permanent appropriation measure was passed on March 13, 2006.

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-COC-001	Ohio Revised Code Section 5705.39 in part requires that the total appropriation from each fund should not exceed estimated resources.	Yes	Finding No Longer Valid.
2004-COC-002	Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.	No	Reissued as finding 2005-COC-002.



**Auditor of State
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CITY OF CRESTLINE

CRAWFORD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 21, 2006**