

CITY OF WHITEHALL, OHIO

**BASIC
FINANCIAL STATEMENTS**

(AUDITED)

*FOR THE YEAR ENDED
DECEMBER 31, 2006*

KIM MAGGARD, CITY AUDITOR



Mary Taylor, CPA
Auditor of State

City Council
City of Whitehall
360 S. Yearling Road
Whitehall, Ohio 43213

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 10, 2007

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CITY OF WHITEHALL, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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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 Auditor's Report

Members of Council and Mayor
City of Whitehall
360 S. Yearling Road
Whitehall, OH 43213

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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, its major fund, and the aggregate remaining fund information of the City of Whitehall, Franklin County, Ohio as of December 31, 2006, and the respective changes in financial position, 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 basic financial statements, net assets of the governmental activity have been restated to retroactively report infrastructure capital assets acquired or constructed prior to December 31, 2002.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Julian & Grube, Inc
June 29, 2007

CITY OF WHITEHALL, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

The management's discussion and analysis of the City of Whitehall's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; 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 2006 are as follows:

- The total net assets of the City decreased \$188,271 or .72% compared to 2005.
- General revenues accounted for \$16,923,962 or 88.41% of total governmental activities revenue. Program specific revenues accounted for \$2,183,514 or 11.41% of total governmental activities revenue. The City also had a special item of \$35,336 or 0.18% of total governmental activities revenue.
- The City had \$19,331,083 in expenses related to governmental activities; \$2,183,514 of these expenses were 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 \$16,923,962 and a special item of \$35,336.
- The General Fund had revenues and other financing sources (including a special item) of \$17,613,729 in 2006. This represents an increase of \$592,583 from 2005 revenues. The expenditures and transfers out of the General Fund, which totaled \$17,486,506 in 2006, increased \$361,493 from 2005. The net increase in fund balance for the General Fund was \$127,223 or 2.98%.
- In the General Fund, the actual revenues and other financing sources (including a special item) came in \$1,132,143 lower than they were in the final budget and actual expenditures and other financing uses were \$878,206 less than the amount in the final budget. Budgeted expenditures and other financing uses increased \$2,019,208 from the original to the final budget.

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 WHITEHALL, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006

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 2006?" 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 governmental activities include the City's programs and services, 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.

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 two categories: governmental 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 fund, the General Fund, begins on page 9.

Governmental Funds

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

CITY OF WHITEHALL, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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 fund is the General 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 17 and 19 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. Agency funds are the City's only fiduciary fund type. The basic fiduciary fund financial statements can be found on page 22 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 23-48 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets provides the perspective of the City as a whole. The table below provides a summary of the City's net assets for 2006 compared to 2005. Net assets were restated at December 31, 2005 to retroactively report infrastructure capital assets acquired or constructed prior to December 31, 2002 (see Note 3.B. for further detail.)

| | Net Assets | |
|--|------------------------------------|--|
| | Governmental Activities 2006 | Restated Governmental Activities 2005 |
| | <u>2006</u> | <u>2005</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 11,886,374 | \$ 11,520,222 |
| Capital assets | <u>20,296,386</u> | <u>21,289,310</u> |
| Total assets | <u>32,182,760</u> | <u>32,809,532</u> |
| <u>Liabilities</u> | | |
| Long-term liabilities outstanding | 4,191,637 | 4,666,884 |
| Other liabilities | <u>2,132,226</u> | <u>2,095,480</u> |
| Total liabilities | <u>6,323,863</u> | <u>6,762,364</u> |
| <u>Net Assets</u> | | |
| Invested in capital assets, net of related debt | 17,566,906 | 18,271,955 |
| Restricted | 5,370,699 | 5,526,294 |
| Unrestricted | <u>2,921,292</u> | <u>2,248,919</u> |
| Total net assets | <u>\$ 25,858,897</u> | <u>\$ 26,047,168</u> |

CITY OF WHITEHALL, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$25,858,897.

Capital assets reported on the government-wide statements represent the largest portion of the City's net assets. At year-end, capital assets represented 63.07% of total assets. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$17,566,906 in the Governmental Activities. 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, \$5,370,699, 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 \$2,921,292 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal years 2006 and 2005.

| | Change in Net Assets | |
|--------------------------------------|------------------------------------|------------------------------------|
| | | (Restated) |
| | Governmental Activities 2006 | Governmental Activities 2005 |
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 1,101,175 | \$ 982,077 |
| Operating grants and contributions | 1,053,274 | 1,637,053 |
| Capital grants and contributions | <u>29,065</u> | <u>205,937</u> |
| Total program revenues | <u>2,183,514</u> | <u>2,825,067</u> |
| General revenues: | | |
| Property and lodging taxes | 648,931 | 539,109 |
| Income taxes | 13,475,672 | 13,210,790 |
| Unrestricted grants and entitlements | 1,851,955 | 1,764,876 |
| Investment earnings | 483,741 | 199,137 |
| Miscellaneous | <u>463,663</u> | <u>555,529</u> |
| Total general revenues | <u>16,923,962</u> | <u>16,269,441</u> |
| Total revenues | <u>19,107,476</u> | <u>19,094,508</u> |

CITY OF WHITEHALL, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Change in Net Assets

| | Governmental Activities <u>2006</u> | Governmental Activities <u>2005</u> |
|-------------------------------------|---|---|
| Expenses | | |
| General government | \$ 5,238,555 | \$ 5,178,228 |
| Security of persons and property | 10,146,621 | 9,420,783 |
| Public health and welfare | 109,630 | 174,091 |
| Transportation | 2,612,201 | 1,414,103 |
| Community environment | 63,321 | 216,485 |
| Leisure time activity | 620,978 | 637,330 |
| Utility services | 379,519 | 1,254,862 |
| Interest and fiscal charges | <u>160,258</u> | <u>173,948</u> |
| Total expenses | <u>19,331,083</u> | <u>18,469,830</u> |
| Special item | 35,336 | - |
| Change in net assets | <u>(188,271)</u> | <u>624,678</u> |
| Net assets at beginning of year | <u>26,047,168</u> | <u>25,422,490</u> |
| Net assets at end of year | <u>\$ 25,858,897</u> | <u>\$ 26,047,168</u> |

Governmental Activities

Governmental Activities net assets decreased \$188,271 in 2006. This decrease is a result of the spending level being set above the sources of income revenue.

Security of persons and property, which primarily supports the operations of the police and fire departments accounted for \$10,146,621 of the total expenses of the City. These expenses were partially funded by \$509,125 in direct charges to users of the services. Transportation expenses totaled \$2,612,201. Transportation expenses were partially funded by \$11,035 in direct charges to users of the services, \$930,494 in operating grants and contributions and \$29,065 in capital grants and contributions.

The state and federal government contributed to the City a total of \$1,053,274 in operating grants and contributions and \$29,065 in capital grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$930,494 subsidized transportation programs, and \$115,782 subsidized security of persons and property programs.

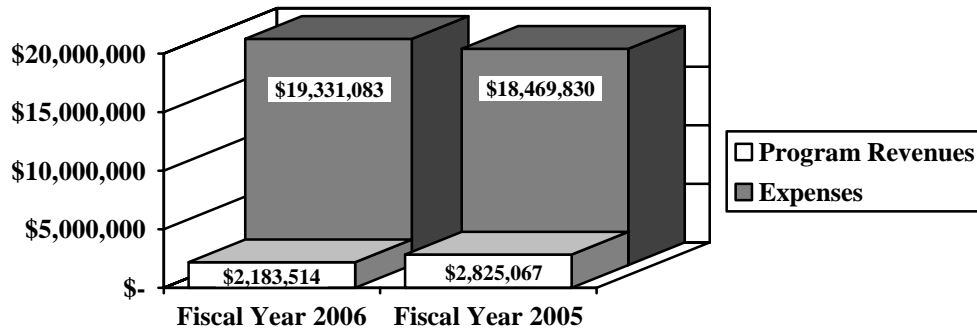
General revenues totaled \$16,923,962, and amounted to 88.41% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$14,017,444. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$1,851,955.

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 property and income taxes as well as unrestricted grants and entitlements to support its Governmental Activities.

CITY OF WHITEHALL, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Activities - Program Revenues vs. Total Expenses



Governmental Activities

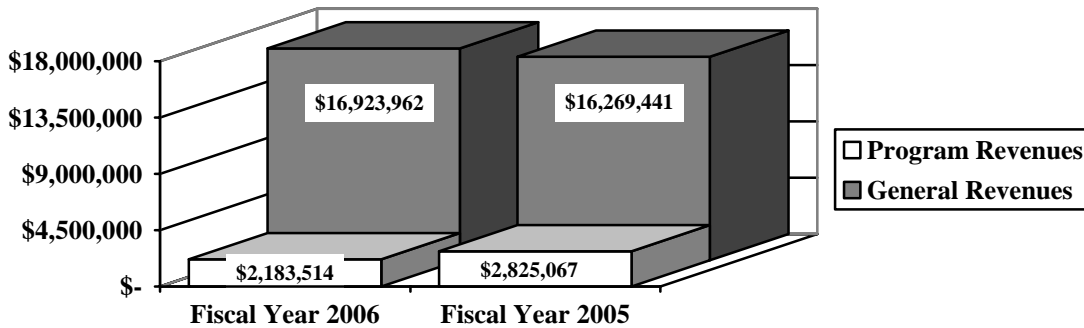
| | 2006 | | 2005 | |
|----------------------------------|------------------------|----------------------|------------------------|----------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Program Expenses: | | | | |
| General government | \$ 5,238,555 | \$ 4,771,549 | \$ 5,178,228 | \$ 4,766,646 |
| Security of persons and property | 10,146,621 | 9,521,714 | 9,420,783 | 8,856,783 |
| Public health and welfare | 109,630 | 109,630 | 174,091 | 94,752 |
| Transportation | 2,612,201 | 1,641,607 | 1,414,103 | (139,796) |
| Community environment | 63,321 | 63,321 | 216,485 | 151,221 |
| Leisure time activity | 620,978 | 499,971 | 637,330 | 486,347 |
| Utility services | 379,519 | 379,519 | 1,254,862 | 1,254,862 |
| Interest and fiscal charges | 160,258 | 160,258 | 173,948 | 173,948 |
| Total | <u>\$ 19,331,083</u> | <u>\$ 17,147,569</u> | <u>\$ 18,469,830</u> | <u>\$ 15,644,763</u> |

The dependence upon general revenues for Governmental Activities is apparent, with 87.73% of expenses supported through taxes and other general revenues.

CITY OF WHITEHALL, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Activities - General and Program Revenues



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 17) reported a combined fund balance of \$8,414,187 which is \$286,964 higher last year's total of \$8,127,223. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

| | <u>Fund Balances</u> <u>12/31/06</u> | <u>Fund Balances</u> <u>12/31/05</u> | <u>Increase</u> |
|-----------------------------------|---|---|-------------------|
| Major fund: | | | |
| General | \$ 4,391,787 | \$ 4,264,564 | \$ 127,223 |
| Other nonmajor governmental funds | <u>4,022,400</u> | <u>3,862,659</u> | <u>159,741</u> |
| Total | <u>\$ 8,414,187</u> | <u>\$ 8,127,223</u> | <u>\$ 286,964</u> |

General Fund

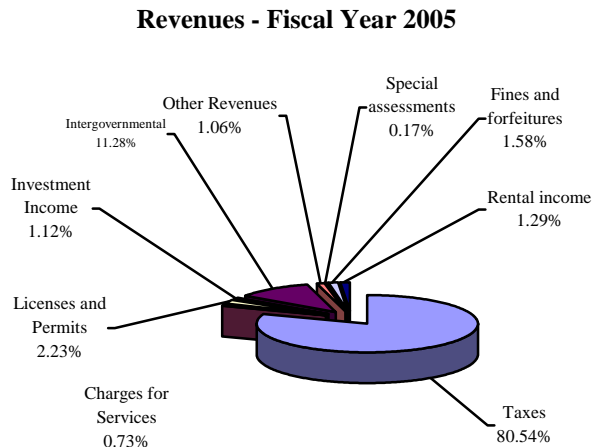
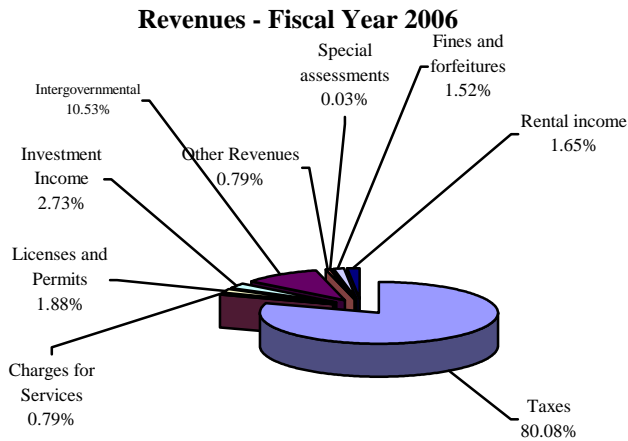
The City's General Fund balance increased \$127,223. The table that follows assists in illustrating the revenues of the General Fund.

CITY OF WHITEHALL, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

| | <u>2006</u> <u>Amount</u> | <u>2005</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Revenues</u> | | | |
| Taxes | \$ 13,917,738 | \$ 13,617,754 | 2.20 % |
| Charges for services | 137,777 | 122,763 | 12.23 % |
| Licenses and permits | 326,320 | 376,212 | (13.26) % |
| Fines and forfeitures | 264,966 | 267,187 | (0.83) % |
| Investment income | 475,190 | 189,053 | 151.35 % |
| Special assessments | 5,292 | 27,966 | (81.08) % |
| Intergovernmental | 1,829,333 | 1,907,290 | (4.09) % |
| Rental income | 286,434 | 217,869 | 31.47 % |
| Other | <u>137,343</u> | <u>179,317</u> | (23.41) % |
| Total | <u>\$ 17,380,393</u> | <u>\$ 16,905,411</u> | 2.81 % |

Tax revenue represents 80.08% of all General Fund revenue. Tax revenue increased slightly by 2.20% over prior year. The increase in investment income is due to increases in interest rates on the City's investments throughout the year. The decrease in special assessments revenue is due to a decrease in the collections for special assessments. All other revenue remained comparable to 2005.



CITY OF WHITEHALL, OHIO

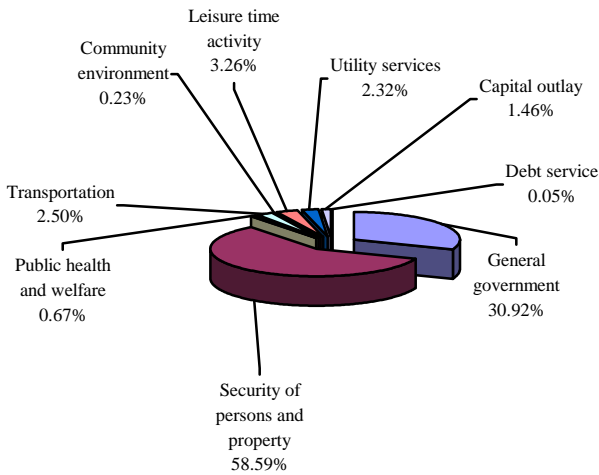
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The table that follows assists in illustrating the expenditures of the General Fund.

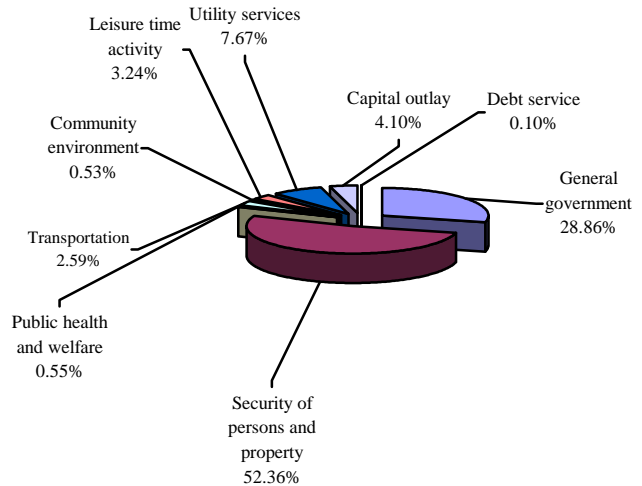
| | <u>2006</u> <u>Amount</u> | <u>2005</u> <u>Amount</u> | <u>Percentage</u> <u>Change</u> |
|----------------------------------|------------------------------|------------------------------|------------------------------------|
| <u>Expenditures</u> | | | |
| General government | \$ 5,054,508 | \$ 4,725,288 | 6.97 % |
| Security of persons and property | 9,576,588 | 8,572,998 | 11.71 % |
| Public health and welfare | 108,844 | 90,000 | 20.94 % |
| Transportation | 408,244 | 424,127 | (3.74) % |
| Community environment | 36,863 | 86,733 | (57.50) % |
| Leisure time activity | 532,318 | 529,773 | 0.48 % |
| Utility services | 379,519 | 1,254,862 | (69.76) % |
| Capital outlay | 238,320 | 670,830 | (64.47) % |
| Debt service | 8,605 | 15,728 | (45.29) % |
| Total | <u>\$16,343,809</u> | <u>\$16,370,339</u> | (0.16) % |

The most significant decreases were in the areas of capital outlay and utility services. During 2006, the City entered into a contract with Rumpke Refuse for refuse services which decreased the City's utility services expenditures significantly. The decrease in capital outlay expenditures was a result of the City spending less on capital projects in 2006 than in prior years. The decrease in community environment expenditures was caused by a decrease in engineering costs during 2006. All other expenditures remained comparable to 2005.

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



CITY OF WHITEHALL, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

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. In the General Fund, one of the most significant changes was between the original and final budgeted amount in the area of revenues, which increased \$1,573,877 from \$16,945,102 to \$18,518,979. Actual revenues and other sources (including a special item) of \$17,386,837 were less than final budgeted revenues by \$1,132,142. The actual expenditures and other uses of \$18,919,049 were \$878,205 lower than final budgeted expenditures and other uses of \$19,797,254. Final budgeted expenditures and other uses were \$2,019,207 more than original budgeted expenditures of \$17,778,047.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$20,296,386 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles and infrastructure. The following table shows fiscal 2006 balances compared to 2005:

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

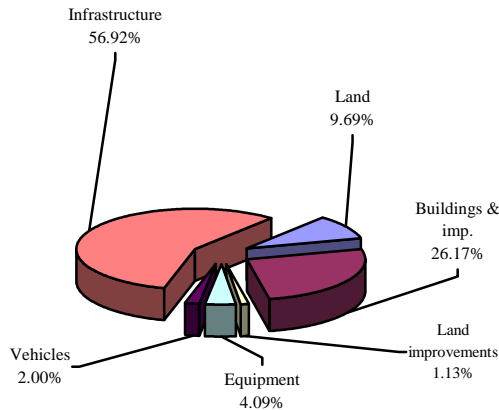
| | Governmental Activities | |
|----------------------------|-------------------------|------------------|
| | 2006 | Restated 2005 |
| Land | \$ 1,966,482 | \$ 2,026,482 |
| Land improvements | 229,308 | 236,715 |
| Buildings and improvements | 5,310,844 | 5,491,028 |
| Equipment | 830,750 | 934,588 |
| Vehicles | 405,368 | 450,409 |
| Infrastructure | 11,553,634 | 12,150,088 |
| Totals | \$ 20,296,386 | \$ 21,289,310 |

CITY OF WHITEHALL, OHIO

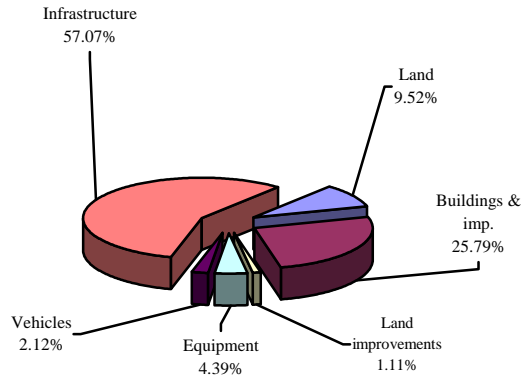
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

**Capital Assets - Governmental Activities
2006**



**Capital Assets - Governmental Activities
2005**



The City's largest capital asset category is infrastructure. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 56.92% of the City's total governmental capital assets.

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2006 and 2005:

| | <u>Governmental Activities</u> | |
|---------------------------------|--------------------------------|-------------------------|
| | <u>2006</u> | <u>2005</u> |
| Compensated absences | \$ 1,462,157 | \$ 1,324,254 |
| General obligation bonds | 2,715,000 | 3,000,000 |
| Capital lease obligation | <u>14,480</u> | <u>21,613</u> |
| Total long-term obligations | <u>\$4,191,637</u> | <u>\$ 4,345,867</u> |

Economic Conditions and Next Year's General Fund Budget Outlook

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 budget. Many of our City's revenues are influenced by the economy. The continued challenges resulting from regional losses of employment and the statewide recession have impacted the 2006 financial forecast. The City Income Tax revenue forecast, particularly, is highly influenced by economic conditions. Due to considerable amounts of end-of-year tax payments received in 2006, but posted to 2007, income tax collection decreased 3.71% over 2005 collections. However, this problem will not exist in fiscal year 2007. The primary objectives for the 2006 budget include continued improvement service delivery to constituents as well as striving to maintain fiscal stability through 2006.

CITY OF WHITEHALL, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Despite the uncertainty surrounding the economy, the City continues to carefully monitor two primary sources of revenue - local income taxes and shared intergovernmental (State) revenue. Commercial construction during the last half of 2006 was up and with other developmental projects in the works for 2007; the City anticipates a rise in revenue due to building fees and permits.

When considering the economic health of the city, the unreserved fund balance serves as a useful indicator of the City's net resources available for spending at year-end. The City's unreserved fund balance has been shrinking, especially due to increased expenditures in the General Fund. During this time of statewide recession, the administration should strongly consider the effect of downward pressures on future revenue and the impact it has upon maintaining current citywide services to residents and taxpayers. In order to achieve this, administration must be committed to making comprehensive efforts to reduce costs.

The annual unemployment rate for Franklin County remained at approximately 5%. In order to meet the challenges of 2007, a strong and balanced commitment to cost containment and continued revenue enhancement in respect to the General Fund is essential. The City's financial position will remain stable only if thorough and conservative financial management is practiced while aggressively seeking new sources of revenue.

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 contact Ms. Kim Maggard, City Auditor, City of Whitehall, 360 S. Yearling Road, Whitehall, Ohio 43213.

**BASIC
FINANCIAL STATEMENTS**

CITY OF WHITEHALL, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

| | <u>Governmental Activities</u> |
|---|---|
| Assets: | |
| Equity in pooled cash and cash equivalents | \$ 7,439,093 |
| Cash in segregated accounts | 1,179 |
| Receivables (net of allowances for uncollectibles): | |
| Income taxes | 1,954,405 |
| Property and other taxes | 549,177 |
| Accounts | 364,354 |
| Special assessments | 12,414 |
| Accrued interest | 59,685 |
| Due from other governments | 1,240,790 |
| Prepayments | 154,341 |
| Materials and supplies inventory | 110,936 |
| Capital assets: | |
| Land | 1,966,482 |
| Depreciable capital assets, net | 18,329,904 |
| Total capital assets, net | <u>20,296,386</u> |
| Total assets | <u>32,182,760</u> |
| Liabilities: | |
| Accounts payable | 252,265 |
| Accrued wages and benefits | 160,108 |
| Due to other governments | 1,101,530 |
| Deferred revenue | 408,211 |
| Accrued interest payable | 12,095 |
| Claims payable | 198,017 |
| Long-term liabilities: | |
| Due within one year | 837,479 |
| Due in more than one year | <u>3,354,158</u> |
| Total liabilities | <u>6,323,863</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 17,566,906 |
| Restricted for: | |
| Street maintenance and repair | 1,000,140 |
| Tourism activities and economic development | 415,561 |
| Fire department equipment | 784,676 |
| Community development | 869,441 |
| Capital projects | 506,178 |
| Human services programs | 1,794,703 |
| Unrestricted | <u>2,921,292</u> |
| Total net assets | <u>\$ 25,858,897</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WHITEHALL, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

| | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense)</u> |
|---|----------------------|-------------------------|----------------------|----------------------|----------------------|
| | | <u>Charges for</u> | <u>Operating</u> | <u>Capital</u> | <u>Revenue and</u> |
| | | <u>Services</u> | <u>Grants and</u> | <u>Grants and</u> | <u>Changes in</u> |
| | | | <u>Contributions</u> | <u>Contributions</u> | <u>Net Assets</u> |
| Governmental Activities: | | | | | Governmental |
| | | | | | Activities |
| General government | \$ 5,238,555 | \$ 460,008 | \$ 6,998 | \$ - | \$ (4,771,549) |
| Security of persons and property. | 10,146,621 | 509,125 | 115,782 | - | (9,521,714) |
| Public health and welfare | 109,630 | - | - | - | (109,630) |
| Transportation | 2,612,201 | 11,035 | 930,494 | 29,065 | (1,641,607) |
| Community environment. | 63,321 | - | - | - | (63,321) |
| Leisure time activity. | 620,978 | 121,007 | - | - | (499,971) |
| Utility services | 379,519 | - | - | - | (379,519) |
| Interest and fiscal charges. | 160,258 | - | - | - | (160,258) |
| Total governmental activities | <u>\$ 19,331,083</u> | <u>\$ 1,101,175</u> | <u>\$ 1,053,274</u> | <u>\$ 29,065</u> | <u>(17,147,569)</u> |

General Revenues:

| | |
|---|----------------------|
| Property and other taxes levied for: | |
| General purposes | 541,772 |
| Income taxes levied for: | |
| General purposes | 13,475,672 |
| Lodging taxes levied for: | |
| Special revenue | 107,159 |
| Grants and entitlements not restricted to specific programs | |
| Operating | 1,851,955 |
| Investment earnings | 483,741 |
| Miscellaneous | 463,663 |
| Total general revenues. | <u>16,923,962</u> |
| Special item - gain on sale of land | 35,336 |
| Total general revenues and special item. | <u>16,959,298</u> |
| Change in net assets. | (188,271) |
| Net assets at beginning of year (restated) | <u>26,047,168</u> |
| Net assets at end of year | <u>\$ 25,858,897</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WHITEHALL, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Assets: | | | |
| Equity in pooled cash and cash equivalents | \$ 3,550,088 | \$ 3,889,005 | \$ 7,439,093 |
| Cash in segregated accounts | 1,179 | - | 1,179 |
| Receivables (net of allowance for uncollectibles): | | | |
| Income taxes | 1,954,405 | - | 1,954,405 |
| Property and other taxes | 543,525 | 5,652 | 549,177 |
| Accounts | 118,048 | 246,306 | 364,354 |
| Interfund loans | 77,209 | - | 77,209 |
| Accrued interest | 59,685 | - | 59,685 |
| Special assessments | 12,414 | - | 12,414 |
| Due from other funds | - | 1,855 | 1,855 |
| Due from other governments | 839,107 | 401,683 | 1,240,790 |
| Prepayments. | 154,341 | - | 154,341 |
| Materials and supplies inventory | 22,897 | 88,039 | 110,936 |
| Total assets | <u>\$ 7,332,898</u> | <u>\$ 4,632,540</u> | <u>\$ 11,965,438</u> |
| Liabilities: | | | |
| Accounts payable | \$ 186,654 | \$ 65,611 | \$ 252,265 |
| Accrued wages and benefits. | 158,583 | 1,525 | 160,108 |
| Compensated absences payable. | 46,884 | - | 46,884 |
| Interfund loan payable. | - | 77,209 | 77,209 |
| Due to other funds | 1,855 | - | 1,855 |
| Due to other governments. | 1,078,449 | 23,081 | 1,101,530 |
| Claims payable. | 27 | - | 27 |
| Deferred revenue | 1,468,659 | 442,714 | 1,911,373 |
| Total liabilities | <u>2,941,111</u> | <u>610,140</u> | <u>3,551,251</u> |
| Fund Balances: | | | |
| Reserved for encumbrances | 584,219 | 438,996 | 1,023,215 |
| Reserved for prepayments | 154,341 | - | 154,341 |
| Reserved for materials and supplies inventory. | 22,897 | 88,039 | 110,936 |
| Reserved for insurance contingency | 960,059 | - | 960,059 |
| Designated for budget stabilization | 400,000 | - | 400,000 |
| Unreserved, undesignated, reported in: | | | |
| General fund | 2,270,271 | - | 2,270,271 |
| Special revenue funds | - | 1,825,156 | 1,825,156 |
| Capital projects funds | - | 1,670,209 | 1,670,209 |
| Total fund balances. | <u>4,391,787</u> | <u>4,022,400</u> | <u>8,414,187</u> |
| Total liabilities and fund balances | <u>\$ 7,332,898</u> | <u>\$ 4,632,540</u> | <u>\$ 11,965,438</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WHITEHALL, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

| | | |
|--|------------------|----------------------|
| Total governmental fund balances | | \$ 8,414,187 |
| <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. | | 20,296,386 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. | | |
| Property taxes | \$ 136,356 | |
| Income taxes | 390,608 | |
| Charges for services | 224,573 | |
| Special assessments | 12,414 | |
| Intergovernmental revenues | 710,158 | |
| Interest revenue | <u>29,053</u> | |
| Total | | 1,503,162 |
| 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: | | |
| Accrued interest payable | 12,095 | |
| General obligation bonds | 2,715,000 | |
| IBNR payable | 197,990 | |
| Capital lease payable | 14,480 | |
| Compensated absences | <u>1,415,273</u> | |
| Total | | <u>(4,354,838)</u> |
| Net assets of governmental activities | | <u>\$ 25,858,897</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WHITEHALL, OHIO

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

| | <u>General</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|---|---|
| Revenues: | | | |
| Municipal income taxes | \$ 13,444,458 | \$ - | \$ 13,444,458 |
| Property and other taxes | 473,280 | 107,159 | 580,439 |
| Charges for services | 137,777 | 289,954 | 427,731 |
| Licenses and permits | 326,320 | - | 326,320 |
| Fines and forfeitures | 264,966 | 37,645 | 302,611 |
| Intergovernmental | 1,829,333 | 1,094,263 | 2,923,596 |
| Special assessments | 5,292 | - | 5,292 |
| Investment income | 475,190 | 5,755 | 480,945 |
| Rental income | 286,434 | - | 286,434 |
| Other | 137,343 | - | 137,343 |
| Total revenues | <u>17,380,393</u> | <u>1,534,776</u> | <u>18,915,169</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 5,054,508 | 218,824 | 5,273,332 |
| Security of persons and property | 9,576,588 | 145,006 | 9,721,594 |
| Public health and welfare | 108,844 | - | 108,844 |
| Transportation | 408,244 | 1,306,838 | 1,715,082 |
| Community environment | 36,863 | 25,424 | 62,287 |
| Leisure time activity | 532,318 | - | 532,318 |
| Utility services | 379,519 | - | 379,519 |
| Capital outlay | 238,320 | 238,613 | 476,933 |
| Debt service: | | | |
| Principal retirement | 7,133 | 285,000 | 292,133 |
| Interest and fiscal charges | 1,472 | 160,027 | 161,499 |
| Total expenditures | <u>16,343,809</u> | <u>2,379,732</u> | <u>18,723,541</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>1,036,584</u> | <u>(844,956)</u> | <u>191,628</u> |
| Other financing sources (uses): | | | |
| Transfers in | 138,000 | 1,142,697 | 1,280,697 |
| Transfers out | <u>(1,142,697)</u> | <u>(138,000)</u> | <u>(1,280,697)</u> |
| Total other financing sources (uses) | <u>(1,004,697)</u> | <u>1,004,697</u> | <u>-</u> |
| Special item: | | | |
| Sale of land | <u>95,336</u> | <u>-</u> | <u>95,336</u> |
| Net change in fund balances | 127,223 | 159,741 | 286,964 |
| Fund balances at beginning of year | <u>4,264,564</u> | <u>3,862,659</u> | <u>8,127,223</u> |
| Fund balances at end of year | <u>\$ 4,391,787</u> | <u>\$ 4,022,400</u> | <u>\$ 8,414,187</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WHITEHALL, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Net change in fund balances - total governmental funds \$ 286,964

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

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

| | | |
|---------------------------|-------------|-----------|
| Capital asset additions | \$ 344,555 | |
| Current year depreciation | (1,264,902) | |
| | | |
| Total | | (920,347) |

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (72,577)

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

| | | |
|----------------------------|--------|---------|
| Property taxes | 68,492 | |
| Income taxes | 31,214 | |
| Charges for services | 32,629 | |
| Special assessments | 5,661 | |
| Intergovernmental revenues | 51,515 | |
| Interest revenue | 2,796 | |
| | | |
| Total | | 192,307 |

Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 292,133

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 1,241

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.

| | | |
|----------------------|----------|--------|
| IBNR payable | 123,027 | |
| Compensated absences | (91,019) | |
| | | |
| | | 32,008 |

Change in net assets of governmental activities \$ (188,271)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WHITEHALL, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|---------------------|---------------------|---------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Municipal income taxes | \$ 12,481,782 | \$ 13,567,896 | \$ 12,738,434 | \$ (829,462) |
| Property and other taxes | 463,745 | 504,098 | 473,280 | (30,818) |
| Charges for services | 93,472 | 101,606 | 95,394 | (6,212) |
| Licenses and permits. | 318,969 | 346,724 | 325,527 | (21,197) |
| Fines and forfeitures. | 264,276 | 287,272 | 269,710 | (17,562) |
| Intergovernmental | 1,845,673 | 2,006,276 | 1,883,624 | (122,652) |
| Special assessments | 16,449 | 17,880 | 16,787 | (1,093) |
| Investment income | 334,865 | 364,004 | 341,751 | (22,253) |
| Rental income | 296,034 | 321,794 | 302,121 | (19,673) |
| Other | 139,510 | 151,649 | 136,550 | (15,099) |
| Total revenues. | <u>16,254,775</u> | <u>17,669,199</u> | <u>16,583,178</u> | <u>(1,086,021)</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 5,059,850 | 5,615,646 | 5,413,447 | 202,199 |
| Security of persons and property | 9,835,908 | 9,824,770 | 9,650,368 | 174,402 |
| Public health and welfare. | 95,300 | 95,300 | 95,277 | 23 |
| Transportation | 445,450 | 467,171 | 433,835 | 33,336 |
| Community environment | 60,000 | 71,647 | 69,908 | 1,739 |
| Leisure time activity | 530,939 | 558,304 | 549,721 | 8,583 |
| Utility services | 534,600 | 843,475 | 652,939 | 190,536 |
| Capital outlay. | 640,000 | 836,244 | 498,857 | 337,387 |
| Total expenditures | <u>17,202,047</u> | <u>18,312,557</u> | <u>17,364,352</u> | <u>948,205</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(947,272)</u> | <u>(643,358)</u> | <u>(781,174)</u> | <u>(137,816)</u> |
| Other financing sources (uses): | | | | |
| Transfers in. | 690,327 | 754,444 | 676,462 | (77,982) |
| Transfers out | (576,000) | (1,484,697) | (1,484,697) | - |
| Advances in. | - | - | 31,861 | 31,861 |
| Advances out | - | - | (70,000) | (70,000) |
| Total other financing sources (uses) | <u>114,327</u> | <u>(730,253)</u> | <u>(846,374)</u> | <u>(116,121)</u> |
| Special item: | | | | |
| Sale of land | - | 95,336 | 95,336 | - |
| Net change in fund balance | (832,945) | (1,278,275) | (1,532,212) | (253,937) |
| Fund balance at beginning of year | <u>3,660,288</u> | <u>3,660,288</u> | <u>3,660,288</u> | <u>-</u> |
| Prior year encumbrances appropriated | <u>549,122</u> | <u>549,122</u> | <u>549,122</u> | <u>-</u> |
| Fund balance at end of year. | <u>\$ 3,376,465</u> | <u>\$ 2,931,135</u> | <u>\$ 2,677,198</u> | <u>\$ (253,937)</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WHITEHALL, OHIO

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2006**

| | <u>Agency</u> |
|--|-------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 387,272 |
| Total assets | <u>\$ 387,272</u> |
| Liabilities: | |
| Accounts payable | \$ 8,814 |
| Due to other governments | 378,458 |
| Total liabilities | <u>\$ 387,272</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE CITY

The City of Whitehall (the "City") is a home rule corporation established under the laws of the State of Ohio that operates under its own Charter. The current Charter, which provides for the Mayor-Council form of government, was adopted November 8, 1966, and became effective December 31, 1966.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

For financial reporting purposes, the City's financial statements include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete. The City has no component units, but is a member of an insurance purchasing pool for workers' compensation which is described in Note 12.

To provide necessary services to its citizens, the City is divided into various departments including police, fire fighting and prevention, emergency medical services, street maintenance, parks and recreation, public service and planning, and zoning. The operation of each of these departments is directly controlled by the City, through the budgetary process and therefore is included as a part of the reporting entity.

B. Basis of Presentation - Fund Accounting

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

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

C. Fund Accounting

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

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund.

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

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary funds are agency funds. The City's agency funds include activity for COBRA extended benefits, electrical inspector fees, inspection deposits, plumbing permits, acreage fees and Christmas tree lot bonds.

D. Measurement Focus and Basis of Accounting

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

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

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Agency funds also 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 Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

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

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

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. For all funds, Council appropriations are made by department to personal services, travel and education, contractual services, supplies and materials, and capital outlay. This is known as the legal level of budgetary control. The City's Charter allows department heads to make budgetary modifications up to \$2,000. Budgetary modifications over \$2,000 may only be made by resolution of the City Council at the legal level of control.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Tax Budget - A tax budget of estimated revenue and expenditures for all funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year. All funds, except agency funds, are legally required to be budgeted; however, only governmental funds are legally required to be reported.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the City Auditor determines, and the Budget Commission agrees, that estimates need to be either increased or decreased. The amounts reported on the budgetary statement reflect the amounts in the original and final amended official certificate of estimated resources issued during 2006.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the legal level of budgetary control. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The appropriations for a fund may only be modified during the year by department heads, if the amount is less than \$2,000, or by an ordinance of Council. The amounts on the budgetary statement reflect the final appropriation amounts, including all amendments and modifications legally enacted.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Cash and Cash Equivalents

Cash balances of the City's funds are pooled and invested in investments maturing within ten years in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents."

During fiscal year 2006, investments were limited to negotiable and nonnegotiable certificates of deposit, federal agency securities, money market mutual funds, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio).

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

CITY OF WHITEHALL, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. During fiscal 2006, interest revenue credited to the general fund amounted to \$475,190 which includes \$241,524 assigned from other City funds.

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

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

H. Inventories of Materials and Supplies

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

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

I. Capital Assets

These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 for all capital assets. The City's infrastructure consists of streets and curbs, traffic signals/lights, and water/sewer improvements. 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.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> |
|----------------------------|--|
| Land improvements | 20 - 50 years |
| Buildings and improvements | 20 - 50 years |
| Equipment | 5 - 30 years |
| Vehicles | 3 - 10 years |
| Infrastructure | 25 years |

J. Compensated Absences

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

In conformity with GASB Statement No. 16, "Accounting for Compensated Absences", vacation and compensatory benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future.

The total liability for vacation leave, compensatory time and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus applicable additional salary related payments. City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation and sick leave at various rates.

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

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

CITY OF WHITEHALL, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditures/expense in the year in which it was consumed.

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." All other outstanding balances between funds are reported as "due to/from other funds." These amounts are eliminated in the governmental columns of the statement of net assets.

N. Interfund Activity

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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements.

O. Fund Balance Reserves and Designations

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

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

The City reports amounts set-aside by City Council for budget stabilization as a designation of fund balance in the governmental funds.

CITY OF WHITEHALL, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

P. Estimates

The preparation of the financial statements in conformity with GAAP 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.

Q. Net Assets

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

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

R. Rental Income

On April 1, 2001, the City entered into a lease agreement with Four Seasons Golf Center, LLC for the lease of a City owned golf facility. The lease is for a one-hundred twenty month term and calls for regular scheduled rent payments plus additional rent payments as defined by the agreement. The City recognized \$72,716 in receipts related to this lease in 2006. Activity related to this lease has been included as a component of "rental income" in the financial statements.

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. During fiscal year 2006, the City sold land with a book value of \$60,000 for \$95,336 for a gain of \$35,336. A special item has been reported for the sale of land on the statement of revenues, expenditures, and changes in fund balances, and for the gain on sale of land on the statement of activities.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

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

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Restatement of Net Assets

The City has presented a prior period adjustment to restate net assets at December 31, 2005 to retroactively report infrastructure capital assets acquired or constructed prior to December 31, 2002 in accordance with GASB Statement No. 34. See Note 9 for details regarding the effects on capital assets. The following is the effect on net assets previously reported as of December 31, 2005:

| | Governmental Activities |
|--|----------------------------|
| Net Assets, December 31, 2005 | \$ 17,540,008 |
| Adjustment for infrastructure | 8,507,160 |
| Restated net assets, December 31, 2005 | \$ 26,047,168 |

C. Deficit Fund Balances

The following funds had deficit fund balances as of December 31, 2006:

| | Deficit Fund Balance |
|------------------------------------|-------------------------|
| <u>Nonmajor Governmental Funds</u> | |
| Permissive Tax | \$ 19,704 |
| SWACO Grant | 1,529 |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end.

The deficit fund balance in the SWACO Grant special revenue fund is a result of the application of GAAP, namely in the recognition of a liability for interfund loans attributable to a prior year. The deficit fund balance in the Permissive Tax special revenue fund is a result of a negative balance in the \$5.00 Permissive Tax account held with the Franklin County Engineer. These deficits will be eliminated by intergovernmental revenues not recognized at December 31.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

CITY OF WHITEHALL, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. 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 City Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the City had \$1,179 in undeposited cash on hand which is included on the financial statements of the City as part of "Cash in Segregated Accounts"

B. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$3,264,422. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$2,997,753 of the City's bank balance of \$3,630,301 was exposed to custodial risk as discussed below, while \$632,548 was covered by the 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.

C. Investments

As of December 31, 2006, the City had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities</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> |
| STAR Ohio | \$ 420,480 | \$ 420,480 | \$ - | \$ - | \$ - | \$ - |
| FHLMC | 447,084 | 248,390 | 198,694 | - | - | - |
| FHLB | 1,641,804 | 198,562 | 842,079 | 273,710 | 247,578 | 79,875 |
| FNMA | 1,665,584 | 1,289,068 | - | 376,516 | - | - |
| Money Market Mutual Funds | 386,991 | 386,991 | - | - | - | - |
| | <u>\$4,561,943</u> | <u>\$2,543,491</u> | <u>\$1,040,773</u> | <u>\$ 650,226</u> | <u>\$ 247,578</u> | <u>\$ 79,875</u> |

The weighted average maturity of investments is .58 years.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: The City’s investment policy states that the City will minimize interest rate risk by investing operating funds primarily in shorter-term securities and by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. With certain limitations, the City’s investment policy states that the maximum maturity period for securities bearing interest at a fixed rate should be no greater than five years.

In addition, eligible investments bearing interest rates at a variable rate must have a maturity no greater than two years. The Ohio Revised Code requires repurchase agreements to not exceed 30 days and the market value of securities for repurchase agreements must exceed the principal value by an amount greater than or equal to two percent.

Credit Risk: The Federal Home Loan Mortgage Notes, Federal Home Loan Bank Bonds and the Federal National Mortgage Association Notes were rated AAA and Aaa by Standard and Poor’s and Moody’s Investor Services, respectively. Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City’s investment policy limits investments to those authorized by State Statute.

Concentration of Credit Risk: The City’s investment policy provides for diversification by security type and institution. With the exception of direct obligations of the U.S. Treasury and STAR Ohio, no more than 49 percent of the City’s total investment portfolio is to be invested in a single security type or with a single financial institution.

The following table includes the percentage of each investment type held by the City at December 31, 2006:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|---------------------------|---------------------|-------------------|
| STAR Ohio | \$ 420,480 | 9.22% |
| FHLMC | 447,084 | 9.80% |
| FHLB | 1,641,804 | 35.99% |
| FNMA | 1,665,584 | 36.51% |
| Money Market Mutual Funds | <u>386,991</u> | <u>8.48%</u> |
| | <u>\$ 4,561,943</u> | <u>100.00%</u> |

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities and money market fund are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty’s trust department or agent but not in the City’s name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. 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, 2006:

| | |
|---|---------------------|
| <u>Cash and Investments per footnote</u> | |
| Carrying amount of deposits | \$ 3,264,422 |
| Investments | 4,561,943 |
| Cash on hand | <u>1,179</u> |
| Total | <u>\$ 7,827,544</u> |
| <u>Cash and investments per Statement of Net Assets</u> | |
| Governmental activities | \$ 7,440,272 |
| Agency funds | <u>387,272</u> |
| Total | <u>\$ 7,827,544</u> |

NOTE 5 - INTERFUND TRANSFERS

A. Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported in the fund financial statements:

Transfers to nonmajor governmental funds from:

| | |
|--------------|--------------|
| General fund | \$ 1,142,697 |
|--------------|--------------|

Transfers to general fund from:

| | |
|-------------------------------|---------------------|
| Nonmajor special revenue fund | <u>138,000</u> |
| Total transfers | <u>\$ 1,280,697</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. All transfers were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Ohio Revised Code Section 5739.09 permits the City of deposit a portion of revenues derived from a hotel and lodging tax into the general fund. The City deposits the entire amount into the economic development fund and then transfers a portion of the monies into the general fund.

B. Due from/to other funds consisted of the following at December 31, 2006, as reported on the fund financial statements:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------------|---------------------|---------------|
| Nonmajor Special Revenue Funds | General Fund | \$ 1,855 |

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 5 - INTERFUND TRANSFERS - (Continued)

The balances resulted from the time lag between the dates in which payments between the funds are made.

- C. Interfund loans consisted of the following at December 31, 2006, as reported on the fund financial statements:

| <u>Receivable Fund</u> | <u>Payable Funds</u> | <u>Amount</u> |
|------------------------|--------------------------------|---------------|
| General | Nonmajor special revenue funds | \$ 77,209 |

All interfund loans are expected to be repaid within the next fiscal year.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property taxes and public utility taxes are levied after October 1 on the assessed value as of the prior January 1, the tax lien date. Assessed values are established by state law at 35 percent of appraised market value, as established by the County Auditor. All real property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semiannually. The first payment for 2006 was due January 1, with the remainder payable June 20.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, is 18.75% for 2006. This percentage will be reduced to 12.5% for 2007, 6.25% for 2008, and zero for 2009. 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.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

The Franklin County Treasurer collects property taxes on behalf of all taxing districts in Franklin County, including the City. The Franklin County Auditor periodically remits to the City its portion of the taxes collected. The full rate for all City operations for the year ended December 31, 2006, was \$1.50 per \$1,000.00 of assessed value.

CITY OF WHITEHALL, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values of real and tangible personal property, upon which taxes for 2006 were collected, are as follows:

| <u>Category</u> | <u>Assessed Value</u> |
|----------------------------|-----------------------|
| Residential | \$ 142,849,450 |
| Commercial | 96,604,340 |
| Industrial | <u>8,630,150</u> |
| Total real estate | <u>248,083,940</u> |
| Public utility - real | 34,590 |
| Public utility - personal | <u>11,255,800</u> |
| Total public utility | <u>11,290,390</u> |
| Tangible personal property | <u>35,343,823</u> |
| Grand total | <u>\$ 294,718,153</u> |

Accrued taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable and unpaid as of December 31, 2006. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2006 operations. Accordingly, the receivable is offset by a credit to "Deferred Revenue."

NOTE 7 - LOCAL INCOME TAX

The City levies a municipal income tax of 2.0% on all salaries, wages, commissions and other compensation; on net profits earned within the City; and on incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100% for any income tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employees' compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax revenue has been reported as revenue in the general fund to the extent that it was measurable and available to finance current operations at December 31. Income tax revenue for 2006 was \$13,444,458.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2006.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - RECEIVABLES - (Continued)

A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities:

| | |
|----------------------------|------------------------|
| Income taxes | \$1,954,405 |
| Real and other taxes | 549,177 |
| Accounts | 364,354 |
| Accrued interest | 59,685 |
| Special assessments | 12,414 |
| Due from other governments | <u>1,240,790</u> |
| Total | <u>\$4,180,825</u> |

Receivables have been disaggregated on the face of the financial statements. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

NOTE 9 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated to retroactively include infrastructure capital assets acquired or constructed prior to December 31, 2002 in accordance with GASB Statement No. 34. Previously, only infrastructure capital assets acquired or constructed in fiscal years 2003 through 2005 were included in the City's capital asset balances. The effect on capital assets is as follows:

| <u>Governmental Activities:</u> | Balance <u>12/31/05</u> | <u>Adjustments</u> | Restated Balance <u>12/31/05</u> |
|--|----------------------------|-------------------------|--|
| Land | \$ 2,026,482 | \$ - | \$ 2,026,482 |
| Land improvements | 537,282 | - | 537,282 |
| Buildings and improvements | 8,901,809 | - | 8,901,809 |
| Equipment | 2,206,877 | - | 2,206,877 |
| Vehicles | 1,883,150 | - | 1,883,150 |
| Infrastructure | 3,712,194 | 15,936,156 | 19,648,350 |
| Less: accumulated depreciation | <u>(6,485,644)</u> | <u>(7,428,996)</u> | <u>(13,914,640)</u> |
| Total | <u>\$ 12,782,150</u> | <u>\$ 8,507,160</u> | <u>\$ 21,289,310</u> |

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

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

| | Restated Balance 12/31/05 | Additions | Disposals | Balance 12/31/06 |
|---|---------------------------------|---------------------|--------------------|----------------------|
| <u>Governmental Activities:</u> | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 2,026,482 | \$ - | \$ (60,000) | \$ 1,966,482 |
| Total capital assets, not being depreciated | <u>2,026,482</u> | <u>-</u> | <u>(60,000)</u> | <u>1,966,482</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 537,282 | - | - | 537,282 |
| Buildings and improvements | 8,901,809 | - | - | 8,901,809 |
| Equipment | 2,206,877 | 93,860 | (14,197) | 2,286,540 |
| Vehicles | 1,883,150 | 88,671 | (19,619) | 1,952,202 |
| Infrastructure | <u>19,648,350</u> | <u>162,024</u> | <u>-</u> | <u>19,810,374</u> |
| Total capital assets, being depreciated | <u>33,177,468</u> | <u>344,555</u> | <u>(33,816)</u> | <u>33,488,207</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (300,567) | (7,407) | - | (307,974) |
| Buildings and improvements | (3,410,781) | (180,184) | - | (3,590,965) |
| Equipment | (1,272,289) | (194,930) | 11,429 | (1,455,790) |
| Vehicles | (1,432,741) | (123,903) | 9,810 | (1,546,834) |
| Infrastructure | <u>(7,498,262)</u> | <u>(758,478)</u> | <u>-</u> | <u>(8,256,740)</u> |
| Total accumulated depreciation | <u>(13,914,640)</u> | <u>(1,264,902)</u> | <u>21,239</u> | <u>(15,158,303)</u> |
| Total capital assets, being depreciated, net | <u>19,262,828</u> | <u>(920,347)</u> | <u>(12,577)</u> | <u>18,329,904</u> |
| Governmental activities capital assets, net | <u>\$ 21,289,310</u> | <u>\$ (920,347)</u> | <u>\$ (72,577)</u> | <u>\$ 20,296,386</u> |

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

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

Governmental activities:

| | |
|--|---------------------|
| General government | \$ 29,410 |
| Security of persons and property | 286,580 |
| Transportation | 862,629 |
| Community environment | 584 |
| Leisure time activity | <u>85,699</u> |
| Total depreciation expense - governmental activities | <u>\$ 1,264,902</u> |

NOTE 10 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During a prior fiscal year, the City entered into capital lease agreements for the acquisition of copier equipment.

The terms of the lease agreements provide an option to purchase the equipment. These leases meet the criteria of a capital lease as defined by Financial Accounting Standards Board (FASB) Statement No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfer benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital assets consisting of equipment have been capitalized in the amount of \$21,072. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2006 was \$6,322, leaving a current book value of \$14,750. A corresponding liability was recorded in the government-wide financial statements. Principal payments in the 2006 fiscal year totaled \$7,133 paid by the general fund.

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, 2006:

| <u>Year Ending</u> <u>December 31</u> | <u>Equipment</u> |
|---|------------------|
| 2007 | \$ 8,603 |
| 2008 | <u>7,001</u> |
| Total minimum lease payments | 15,604 |
| Less: amount representing interest | <u>(1,124)</u> |
| Present value of future minimum lease payment | <u>\$ 14,480</u> |

The City does not have capitalized lease obligations after fiscal year 2008.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG -TERM OBLIGATIONS

- A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

| <u>Governmental Activities:</u> | Balance 12/31/05 | <u>Additions</u> | <u>Reductions</u> | Balance at 12/31/06 | Amounts Due in <u>One Year</u> |
|---------------------------------|---------------------|---------------------|-----------------------|------------------------|--------------------------------------|
| General obligation bonds | \$ 3,000,000 | \$ - | \$ (285,000) | \$ 2,715,000 | \$ 300,000 |
| Capital lease obligation | 21,613 | - | (7,133) | 14,480 | 7,725 |
| Compensated absences | <u>1,324,254</u> | <u>1,093,909</u> | <u>(956,006)</u> | <u>1,462,157</u> | <u>529,754</u> |
| Total | <u>\$ 4,345,867</u> | <u>\$ 1,093,909</u> | <u>\$ (1,248,139)</u> | <u>\$ 4,191,637</u> | <u>\$ 837,479</u> |

Compensated absences are paid primarily from the general fund and the street maintenance repair fund.

- B. On July 11, 1995, the City issued a general obligation bond for \$2,005,000 in order to fund waterline replacements. This bond is scheduled to mature on December 1, 2010. Principal and interest payments are made out of the debt service fund. The following is a description of the general obligation bond payable as of December 31, 2006:

| <u>Interest Rates</u> | <u>Issue Date</u> | <u>Maturity Date</u> | Bond Outstanding <u>12/31/05</u> | Retired in 2006 <u>in 2006</u> | Bond Outstanding <u>12/31/06</u> |
|--|-----------------------|--------------------------|--|--------------------------------------|--|
| Variable 3.9% - 5.65% (Average = 5.278%) | 7/11/1995 | 12/1/2010 | <u>\$ 835,000</u> | <u>\$ (150,000)</u> | <u>\$ 685,000</u> |

- C. On September 24, 1997, the City issued a general obligation bond for \$3,065,000 for the construction of a fire house and a senior citizen center. The bond is scheduled to mature December 1, 2017. Principal and interest payments are made out of the debt service fund. The following is a description of the general obligation bond payable as of December 31, 2006:

| <u>Interest Rates</u> | <u>Issue Date</u> | <u>Maturity Date</u> | Bond Outstanding <u>12/31/05</u> | Retired in 2006 <u>in 2006</u> | Bond Outstanding <u>12/31/06</u> |
|---------------------------|-----------------------|--------------------------|--|--------------------------------------|--|
| 5.179% | 9/24/1997 | 12/1/2017 | <u>\$ 2,165,000</u> | <u>\$ (135,000)</u> | <u>\$ 2,030,000</u> |

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 11 - LONG -TERM OBLIGATIONS - (Continued)

D. The following is a summary of the City’s future annual debt service requirements to maturity for the general obligation bonds payable:

| Year Ending <u>December 31</u> | Principal on <u>Bonds</u> | Interest on <u>Bonds</u> | <u>Total</u> |
|-----------------------------------|------------------------------|-----------------------------|---------------------|
| 2007 | \$ 300,000 | \$ 145,139 | \$ 445,139 |
| 2008 | 315,000 | 128,479 | 443,479 |
| 2009 | 330,000 | 112,783 | 442,783 |
| 2010 | 350,000 | 90,074 | 440,074 |
| 2011 | 170,000 | 76,680 | 246,680 |
| 2012 - 2016 | 1,015,000 | 234,090 | 1,249,090 |
| 2017 | <u>235,000</u> | <u>12,690</u> | <u>247,690</u> |
| Total | <u>\$ 2,715,000</u> | <u>\$ 799,935</u> | <u>\$ 3,514,935</u> |

E. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2006, the City’s total debt margin was \$28,230,406 and the unvoted debt margin was \$16,209,498.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

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 2006, the City was insured through the Acordia for all property, general liability, auto, public official liability, errors and omissions and law enforcement liability. Real property contents are 90% coinsured. The City has transferred its risk of loss to the insurance carrier to the extent of the limits shown below:

| <u>Type of Coverage</u> | <u>Limits of Coverage</u> | <u>Deductible</u> |
|-----------------------------|-------------------------------|-------------------|
| Property | \$10,702,727 | \$ 1,000 |
| General liability | | |
| Per occurrence | 1,000,000 | 0 |
| Aggregate | 2,000,000 | 0 |
| Vehicles | | |
| Comprehensive | 1,000,000 | 1,000 |
| Collision | 1,000,000 | 1,000 |
| Inland Marine | 50,000 | 250 |
| Law enforcement | 1,000,000 | 10,000 |
| Public officials | 1,000,000 | 10,000 |
| Boiler and machinery | 3,000,000 | 1,000 |

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 12 - RISK MANAGEMENT - (Continued)

B. Health Insurance

During a prior period, the City established a Risk Management program (within its general fund) to account for and finance its uninsured risks of loss. Under this program, the City provides coverage for up to a maximum of \$60,000 per person per year, to a group claims maximum of \$1,483,608 for 2006. The City purchases commercial insurance for claims in excess of coverage provided by the Plan and for all other risks of loss.

All funds of the City participate in the program. Payments are based on actuarial estimates of the amounts needed to pay prior-year and current-year claims and to establish a reserve for catastrophic losses. That reserve was \$960,059 at December 31, 2006 and is reported as a reservation of fund balance in the general fund. The claims liability reported in the general fund at December 31, 2006 is based on the requirements of GASB Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by Statement No. 30 "Risk Financing Omnibus", which requires that a liability for claims be reported at the estimated ultimate cost of settling the claims if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The changes in claims liability during the fiscal years ended December 31, 2006 and 2005 are as follows:

| <u>Year</u> | <u>Beginning of Year Liability</u> | <u>Current Year Claims and Changes in Estimates</u> | <u>Claims Payments</u> | <u>End of Year Liability</u> |
|-------------|--|---|----------------------------|----------------------------------|
| 2006 | \$ 551,318 | \$ 1,130,307 | \$(1,483,608) | \$ 198,017 |
| 2005 | 291,388 | 1,766,414 | (1,506,484) | 551,318 |

Of the claims liability, \$27 will be liquidated using expendable available resources and, therefore, is reported as a liability of the general fund. The remaining claims liability of \$197,990 is reported in the long-term obligations and is shown as "incurred but not reported claims" on the statement of net assets.

C. Workers' Compensation

The City participates in the Ohio Municipal League (OML) public entity insurance purchasing pool for workers' compensation. The Group Rating Plan is administered by Gates McDonald Company. The OML Group Rating Plan is intended to achieve lower workers' compensation premium rates for the participants, and result in the establishment of a safer working environment. There are no additional contributions required by a participant other than their annual fee.

There were no significant reductions in insurance coverage from the prior year in any category of risk. Claims have not exceeded coverage limitations in any of the past three years.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - 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) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions. The City's contributions to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$631,609, \$658,140, and \$668,713, respectively; 90.85% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$57,811, is recorded as a liability.

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.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to OP&F for the years ended December 31, 2006, 2005, and 2004 were \$1,683,221, \$1,245,221, and \$1,598,854, respectively; 75.71% has been contributed for 2006 and 100% for 2005 and 2004. The unpaid contribution to fund pension obligations for 2006, in the amount of \$408,868, is recorded as a liability.

NOTE 14 - 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 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, 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 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus and an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

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

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$207,463. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 14 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$334,511 for police and \$271,750 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

CITY OF WHITEHALL, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

| | <u>General</u> |
|---|-------------------|
| Budget basis | \$ (1,532,212) |
| Net adjustment for revenue accruals | 797,215 |
| Net adjustment for expenditure accruals | 293,714 |
| Net adjustment for other sources/(uses) | (158,323) |
| Adjustment for encumbrances | <u>726,829</u> |
| GAAP basis | <u>\$ 127,223</u> |

NOTE 16 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2006.

B. Litigation

The City is currently not involved in litigation that the City's legal counsel anticipates a loss.



Julian & Grube, Inc.
Serving Ohio Local Governments

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

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

Members of Council and Mayor
City of Whitehall
360 S. Yearling Road
Whitehall, OH 43213

We have audited the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the City of Whitehall, as of and for the year ended December 31, 2006, which collectively comprise the City of Whitehall's basic financial statements and have issued our report thereon dated June 29, 2007. As disclosed in Note 3 to the basic financial statements, net assets of the governmental funds have been restated to retroactively report infrastructure capital assets acquired or constructed prior to December 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits conducted 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 of Whitehall's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Whitehall's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Whitehall's internal control over financial reporting.

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

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

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

Members of Council and Mayor
City of Whitehall

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City of Whitehall in a separate letter dated June 29, 2007.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
June 29, 2007

**CITY OF WHITEHALL
FRANKLIN COUNTY, OHIO**

**STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i> |
|-----------------------|---|-------------------------|---|
| 2005-001 | The City failed to establish procedures to determine whether a service organization for health and dental claims processing has sufficient controls in place. | Yes | N/A |



Mary Taylor, CPA
Auditor of State

CITY OF WHITEHALL

FRANKLIN 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 20, 2007