

**CITY OF BROOKVILLE
MONTGOMERY COUNTY**

REGULAR AUDIT

JANUARY 1, 2011 – DECEMBER 31, 2011





Dave Yost • Auditor of State

City Council
City of Brookville
301 Sycamore Street
Brookville, Ohio 45309

We have reviewed the *Independent Auditors' Report* of the City of Brookville, Montgomery County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 28, 2012

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**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

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INDEPENDENT AUDITORS' REPORT

City of Brookville
Montgomery County
301 Sycamore Street
Brookville, Ohio 45309

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brookville, Montgomery County, Ohio (the City), as of and for the year ended December 31, 2011, 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brookville, Montgomery County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General and Street Construction, Maintenance and Repair funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3A, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 59 *Financial Instruments Omnibus*. As disclosed in Note 3B, the City reclassified funds and restated fund balances. In addition, as disclosed in Note 3C, the City restated net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Wilson, Shannon & Snow, Inc.

CERTIFIED PUBLIC ACCOUNTANTS

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City of Brookville
Montgomery County
Independent Auditors' Report

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

Wilson, Shuman & Snow, Inc.

May 18, 2012

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The management's discussion and analysis of the City of Brookville's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2011. 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 2011 are as follows:

- The total net assets of the City increased \$396,787 from the 2010 restated net assets. Net assets of governmental activities increased \$513,340 or 5.28% over the 2010 restated balance of \$9,730,495 and net assets of business-type activities decreased \$116,553 or 3.31% under 2010.
- General revenues accounted for \$3,261,988 of total governmental activities revenue. Program specific revenues accounted for \$2,227,839 or 40.58% of total governmental activities revenue.
- The City had \$4,854,421 in expenses related to governmental activities; \$2,227,839 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$2,626,582 were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$3,261,988.
- The general fund had revenues and other financing sources of \$4,211,900 in 2011. This represents an increase of \$280,040 from 2010's restated revenues. The expenditures and other financing uses of the general fund, which totaled \$3,744,110 in 2011, decreased \$131,205 from 2010's restated expenditures. The net increase in fund balance for the general fund was \$467,790 or 40.35%.
- The street construction maintenance and repair fund had revenues and other financing sources of \$732,560 in 2011. The expenditures of the street construction maintenance and repair fund, totaled \$755,997 in 2011. The net decrease in fund balance for the street construction maintenance and repair fund was \$23,437.
- The capital improvement fund had revenues and other financing sources of \$858,686 in 2011. The expenditures of the capital improvement fund, totaled \$1,629,530 in 2011. The net decrease in fund balance for the capital improvement fund was \$770,844.
- The fire capital improvement fund had revenues of \$280,216 in 2011. The expenditures of the fire capital improvement fund, totaled \$328,754 in 2011. The net decrease in fund balance for the fire capital improvement fund was \$48,538.
- Net assets for the business-type activities, which are made up of the water, sewer, and refuse enterprise funds, decreased in 2011 by \$116,553. This decrease in net assets was due primarily to operating expenses exceeding operating revenues.
- In the general fund, the actual revenues and other financing sources came in \$49,648 higher than they were in the final budget and actual expenditures and other financing uses were \$246,929 less than the amount in the final budget.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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.

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 2011?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

The City's statement of net assets and statement of activities can be found on pages 17-18 of this report.

Reporting the City's Most Significant Funds

Fund Financial Statements

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

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 11.

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 year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, the street construction maintenance and repair fund, the capital improvement fund and the fire capital improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 19-24 of this report.

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, and refuse management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 25-27 of this report.

Fiduciary Funds

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

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-58 of this report.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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 2011 compared to 2010.

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	Restated <u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	Restated <u>2010</u>
<u>Assets</u>						
Current and other assets	\$ 4,073,836	\$ 3,336,031	\$ 950,281	\$ 1,007,722	\$ 5,024,117	\$ 4,343,753
Capital assets, net	8,833,973	8,594,571	3,061,563	3,237,873	11,895,536	11,832,444
Total assets	<u>12,907,809</u>	<u>11,930,602</u>	<u>4,011,844</u>	<u>4,245,595</u>	<u>16,919,653</u>	<u>16,176,197</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	1,551,417	1,945,002	391,512	467,189	1,942,929	2,412,191
Other liabilities	1,112,557	255,105	213,484	255,005	1,326,041	510,110
Total liabilities	<u>2,663,974</u>	<u>2,200,107</u>	<u>604,996</u>	<u>722,194</u>	<u>3,268,970</u>	<u>2,922,301</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	7,203,505	6,758,881	2,708,595	2,803,350	9,912,100	9,562,231
Restricted	409,022	904,278	-	-	409,022	904,278
Unrestricted	2,631,308	2,067,336	698,253	720,051	3,329,561	2,787,387
Total net assets	<u>\$ 10,243,835</u>	<u>\$ 9,730,495</u>	<u>\$ 3,406,848</u>	<u>\$ 3,523,401</u>	<u>\$ 13,650,683</u>	<u>\$ 13,253,896</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the City's assets exceeded liabilities by \$13,650,683. At year-end, net assets were \$10,243,835 and \$3,406,848 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 68.44% and 76.31% of total assets for the governmental activities and business-type activities, respectively. Capital assets include land, land improvements, buildings and improvements, equipment, vehicles, software, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2011, were \$7,203,505 and \$2,708,595 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$409,022 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 \$2,631,308 may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The following table shows the comparative analysis of changes in net assets for 2011 compared to 2010.

	Change in Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	Restated <u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	Restated <u>2010</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,104,968	\$ 998,732	\$ 1,799,618	\$ 1,764,367	\$ 2,904,586	\$ 2,763,099
Operating grants and contributions	583,483	372,013	-	-	583,483	372,013
Capital grants and contributions	539,388	104,643	-	-	539,388	104,643
Total program revenues	<u>2,227,839</u>	<u>1,475,388</u>	<u>1,799,618</u>	<u>1,764,367</u>	<u>4,027,457</u>	<u>3,239,755</u>
General revenues:						
Property taxes	166,058	139,985	-	-	166,058	139,985
Income taxes	2,549,295	2,441,640	-	-	2,549,295	2,441,640
Unrestricted grants and entitlements	526,246	379,944	-	-	526,246	379,944
Investment earnings	11,307	10,576	-	-	11,307	10,576
Miscellaneous	9,082	19,667	6,290	-	15,372	19,667
Gain on sale of capital assets	-	14,066	-	-	-	14,066
Total general revenues	<u>3,261,988</u>	<u>3,005,878</u>	<u>6,290</u>	<u>-</u>	<u>3,268,278</u>	<u>3,005,878</u>
Total revenues	<u>5,489,827</u>	<u>4,481,266</u>	<u>1,805,908</u>	<u>1,764,367</u>	<u>7,295,735</u>	<u>6,245,633</u>
Expenses:						
General government	1,014,898	1,153,191	-	-	1,014,898	1,153,191
Security of persons and property	2,221,201	2,223,821	-	-	2,221,201	2,223,821
Public health and welfare	200,000	-	-	-	200,000	-
Transportation	1,110,275	1,077,075	-	-	1,110,275	1,077,075
Leisure time activity	240,897	195,441	-	-	240,897	195,441
Interest and fiscal charges	67,150	71,132	-	-	67,150	71,132
Water	-	-	987,497	957,498	987,497	957,498
Sewer	-	-	677,110	769,419	677,110	769,419
Refuse	-	-	379,920	369,068	379,920	369,068
Total expenses	<u>4,854,421</u>	<u>4,720,660</u>	<u>2,044,527</u>	<u>2,095,985</u>	<u>6,898,948</u>	<u>6,816,645</u>
Increase (decrease) in net assets before transfers	635,406	(239,394)	(238,619)	(331,618)	396,787	(571,012)
Transfers	<u>(122,066)</u>	<u>-</u>	<u>122,066</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	513,340	(239,394)	(116,553)	(331,618)	396,787	(571,012)
Net assets at beginning of year	<u>9,730,495</u>	<u>9,969,889</u>	<u>3,523,401</u>	<u>3,855,019</u>	<u>13,253,896</u>	<u>13,824,908</u>
Net assets at end of year	<u>\$ 10,243,835</u>	<u>\$ 9,730,495</u>	<u>\$ 3,406,848</u>	<u>\$ 3,523,401</u>	<u>\$ 13,650,683</u>	<u>\$ 13,253,896</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Governmental Activities

Governmental activities net assets increased \$513,340 in 2011 compared to a \$239,394 decrease in net assets in 2010. This is a result of increasing revenues derived from charges for services and grants and contributions.

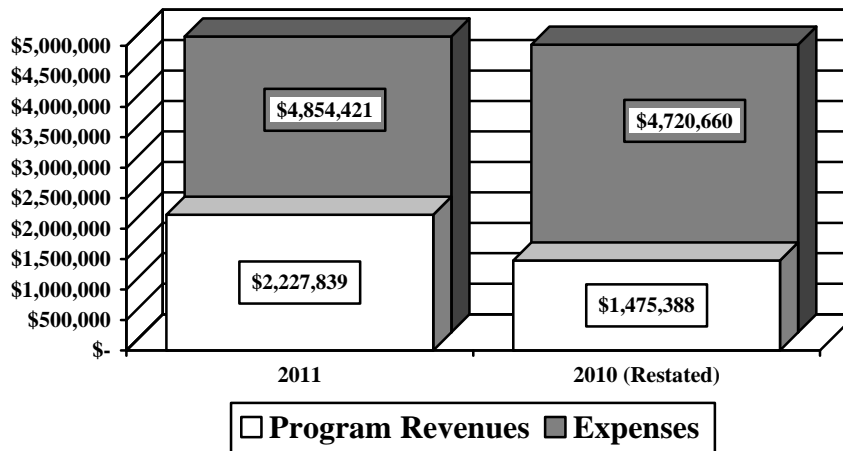
Security of persons and property which primarily supports the operations of the police and fire department accounted for \$2,221,201 or 45.76% of the total governmental expenses of the City. Security of persons and property expenses were partially funded by \$728,789 in direct charges to users of the services. General government expenses totaled \$1,014,898. General government expenses were partially funded by \$118,476 in direct charges to users of the services.

The State and federal government contributed to the City a total of \$583,483 in operating grants and contributions and \$539,388 in capital grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$3,261,988 and amounted to 59.42% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$2,715,353. 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 \$526,246.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services for 2011 compared to 2010. That is, it identifies the cost of these services supported by tax revenue and unrestricted state grants and entitlements.

Governmental Activities - Program Revenues vs. Total Expenses



**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

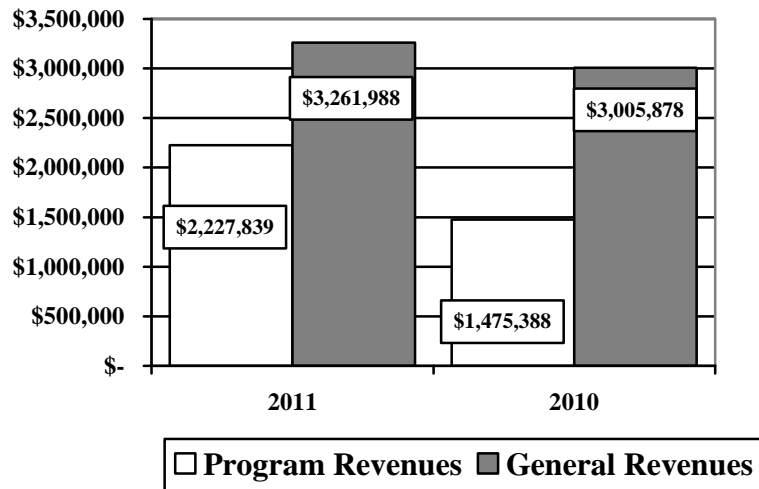
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Governmental Activities

	2011		2010 (Restated)	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Program Expenses:				
General government	\$ 1,014,898	\$ 896,422	\$ 1,153,191	\$ 1,064,399
Security of persons and property	2,221,201	1,491,137	2,223,821	1,368,578
Public health and welfare	200,000	-	-	-
Transportation	1,110,275	(5,826)	1,077,075	599,711
Leisure time activity	240,897	177,699	195,441	141,452
Interest and fiscal charges	<u>67,150</u>	<u>67,150</u>	<u>71,132</u>	<u>71,132</u>
Total	<u>\$ 4,854,421</u>	<u>\$ 2,626,582</u>	<u>\$ 4,720,660</u>	<u>\$ 3,245,272</u>

The dependence upon general revenues for governmental activities is apparent, with 54.11% of governmental expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2011 and 2010 as restated.

Governmental Activities – General and Program Revenues



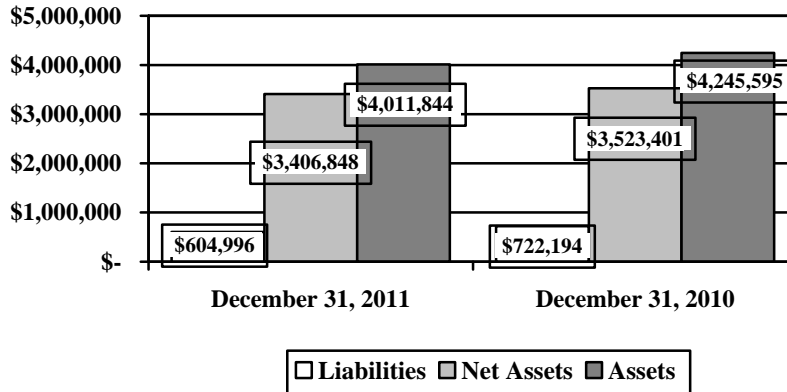
**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Business-type Activities

Business-type activities include the water, sewer, and refuse enterprise funds. These programs had program revenues of \$1,799,618 and expenses of \$2,044,527 for 2011. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business - Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

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

The City's governmental funds (as presented on the balance sheet on page 19) reported a combined fund balance of \$2,073,194 which is \$434,741 below last year's restated total of \$2,507,935. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2011 for all major and non-major governmental funds. The City restated December 31, 2010 balances as described in Note 3.B.

	(Deficit) Fund Balances 12/31/2011	Restated Fund Balances 12/31/2010	Increase (Decrease)
Major funds:			
General	\$ 1,627,011	\$ 1,159,221	\$ 467,790
Street construction maintenance and repair	153,032	176,469	(23,437)
Capital improvement	(172,005)	598,839	(770,844)
Fire capital improvement	451,948	500,486	(48,538)
Other nonmajor governmental funds	13,208	72,920	(59,712)
Total	\$ 2,073,194	\$ 2,507,935	\$ (434,741)

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

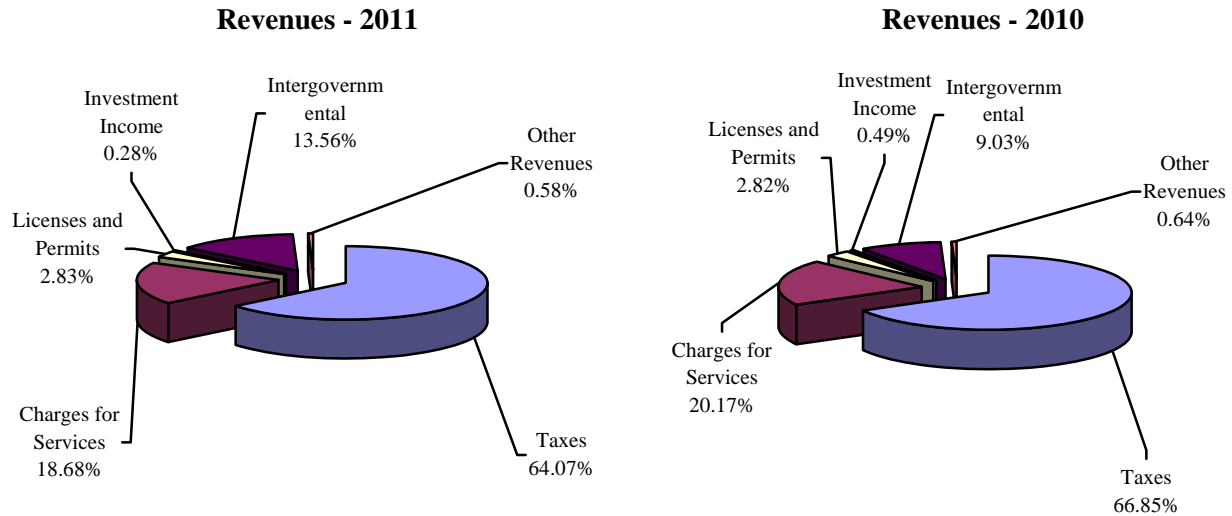
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

General Fund

The City's general fund balance increased \$467,790. The table that follows assists in illustrating the revenues of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 2,696,118	\$ 2,622,070	2.82 %
Charges for services	786,082	791,075	(0.63) %
Licenses, permits and fees	119,083	110,689	7.58 %
Investment income	11,812	19,215	(38.53) %
Intergovernmental	570,531	354,223	61.07 %
Other	<u>24,212</u>	<u>24,916</u>	(2.83) %
Total	<u>\$ 4,207,838</u>	<u>\$ 3,922,188</u>	7.28 %

The City's largest revenue source in the general fund was tax revenue, which represents 64.07% of all general fund revenue. Tax revenues increased 2.82% due to an increase in income tax revenues. Revenues related to licenses, permits and fees increased 7.58% due to an increase in revenues related rent and park permits, inspection fees and franchise fees. Investment income decreased 38.53% due to a decrease in interest rates and amounts being invested. The 61.07% increase in intergovernmental income is due an increase in estate tax receipts during 2011.



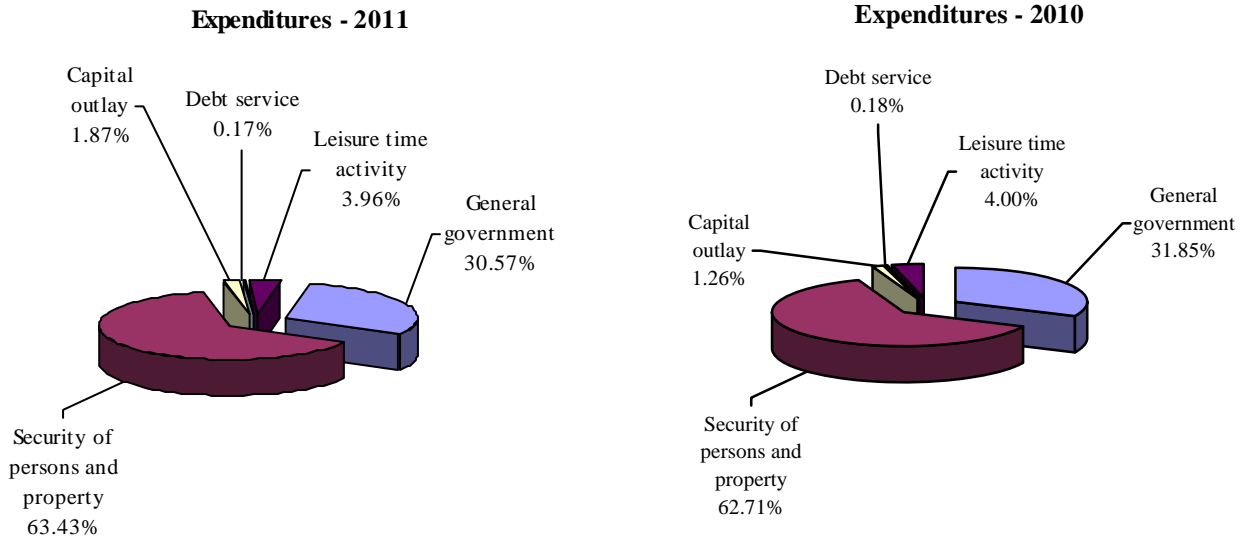
**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Percentage <u>Change</u>
<u>Expenditures</u>			
General government	\$ 947,473	\$ 962,157	(1.53) %
Security of persons and property	1,965,499	1,894,224	3.76 %
Leisure time activity	122,719	120,718	1.66 %
Capital outlay	58,017	38,013	52.62 %
Debt service	<u>5,245</u>	<u>5,402</u>	(2.91) %
Total	<u>\$ 3,098,953</u>	<u>\$ 3,020,514</u>	2.60 %

Expenditures increased by 2.60% during 2011. Below is a breakdown of expenses when compared for 2011 compared to 2010.



Budgeting Highlights

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

Budgetary information is presented for the general fund and for the street construction maintenance and repair fund. In the general fund, the actual revenues and financing sources came in \$49,648 higher than they were in the final budget and actual expenditures and other financing uses were \$246,929 less than the amount in the final budget. Budgeted revenues and other financing sources increased \$540,000 from an original budget of \$3,620,644 to a final budget of \$4,160,644. Budgeted expenditures and other financing uses decreased \$42,000 from an original budget of \$3,929,572 to a final budget of \$3,971,572.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Street Construction Maintenance and Repair Fund

The street construction maintenance and repair fund had revenues and other financing sources of \$732,560 in 2011. The expenditures of the street construction maintenance and repair fund, totaled \$755,997 in 2011. The net decrease in fund balance for the street construction maintenance and repair fund was \$23,437.

Capital Improvement Fund

The capital improvement fund had revenues and other financing sources of \$858,686 in 2011. The expenditures of the capital improvement fund, totaled \$1,629,530 in 2011. The net decrease in fund balance for the capital improvement fund was \$770,844.

Fire Capital Improvement Fund

The fire capital improvement fund had revenues of \$280,216 in 2011. The expenditures of the fire capital improvement fund, totaled \$328,754 in 2011. The net decrease in fund balance for the fire capital improvement fund was \$48,538.

Proprietary Funds

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

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the City had \$11,895,536 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, software, vehicles and infrastructure. Of this total, \$8,833,973 was reported in governmental activities and \$3,061,563 was reported in business-type activities. See Note 10 for further description of capital assets. The following table shows 2011 balances compared to 2010.

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

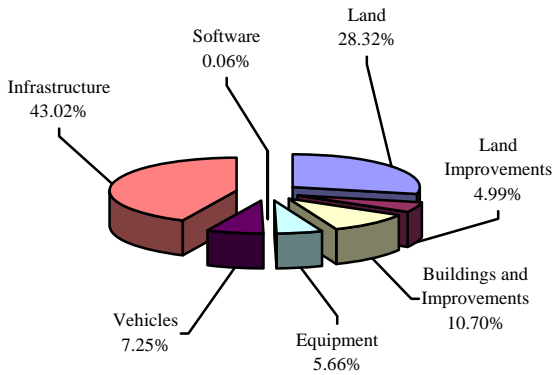
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	Restated <u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	Restated <u>2010</u>
Land	\$ 2,502,218	\$ 2,502,218	\$ 32,388	\$ 32,388	\$ 2,534,606	\$ 2,534,606
Land improvements	441,050	469,880	2,210,442	2,566,887	2,651,492	3,036,767
Buildings and improvements	945,395	927,507	161,066	168,111	1,106,461	1,095,618
Equipment	499,611	329,479	67,748	40,252	567,359	369,731
Software	5,355	6,024	-	-	5,355	6,024
Vehicles	640,778	740,709	15,240	18,338	656,018	759,047
Infrastructure	<u>3,799,566</u>	<u>3,618,754</u>	<u>574,679</u>	<u>411,897</u>	<u>4,374,245</u>	<u>4,030,651</u>
Totals	<u>\$ 8,833,973</u>	<u>\$ 8,594,571</u>	<u>\$ 3,061,563</u>	<u>\$ 3,237,873</u>	<u>\$ 11,895,536</u>	<u>\$ 11,832,444</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

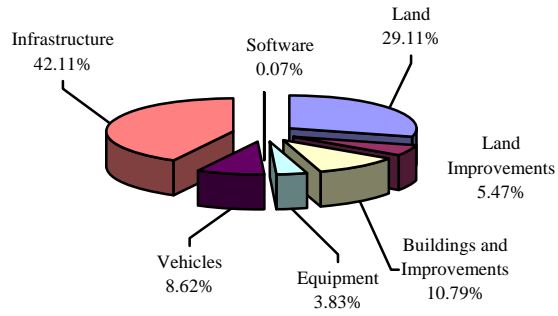
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The following graphs show the breakdown of governmental capital assets by category for 2011 and 2010.

Capital Assets - Governmental Activities 2011



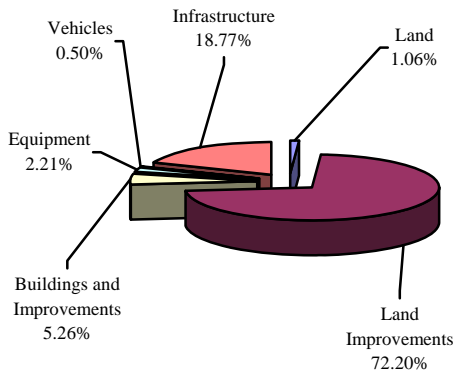
Capital Assets - Governmental Activities 2010



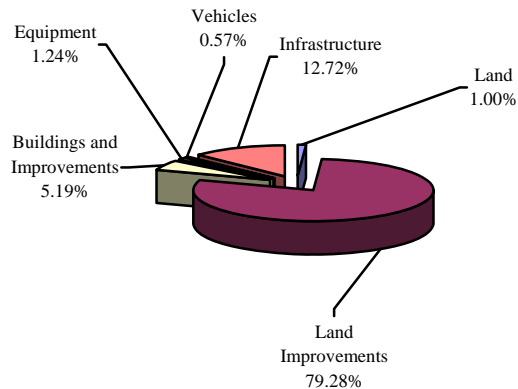
Infrastructure is the largest capital asset category for the City's governmental activities. Infrastructure includes bridges and streets. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 43.02% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2011 and 2010.

Capital Assets - Business - Type Activities 2011



Capital Assets - Business - Type Activities 2010



The City's largest business-type capital asset category is land improvements which include water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's land improvements (cost less accumulated depreciation) represents approximately 72.20% of the City's total business-type capital assets.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Debt Administration

The City had the following long-term obligations outstanding at December 31, 2011 and 2010:

	Governmental Activities	
	2011	2010
Note payable	\$ 933,000	\$ 980,000
OPWC loan	13,781	15,504
Capital lease payable	8,530	12,904
Fire truck lease obligation	-	77,282
Equipment lease obligation	75,157	-
Bond anticipation note	400,000	750,000
Compensated absences	120,949	109,312
Total long-term obligations	\$ 1,551,417	\$ 1,945,002
	Business-type Activities	
	2011	2010
OPWC loans	\$ 352,968	\$ 434,523
Compensated absences	38,544	32,666
Total long-term obligations	\$ 391,512	\$ 467,189

See Note 14 to the basic financial statements for detail on the City's long-term obligations.

Economic Conditions and Outlook

Historic, unprecedented, troubling, these are just a few adjectives used all too frequently when describing our economic conditions that continued through the first quarter of 2011. In 2011, I can also add the term roller coaster ride. Seldom have local governments faced such uncertain times. Declining real estate values, rising foreclosures, reduced consumer spending and increased business closures are changing the landscape of many communities and eroding local government revenue. At the same time, demand for public services is increasing, as a concerned public looks to its local government for assistance.

The City's Administration considers the impact of various economic factors when establishing the fiscal year budget. The continued challenges resulting from: local and regional loss of employment, reduction of revenue due to unprecedented interest rates, a non-existent residential building market and sluggish economic development have yielded significant influence on the objectives established in the budget the last few years.

Despite the uncertainty still surrounding the economy, the City continues to carefully monitor two primary sources of revenue, local income taxes and shared intergovernmental (state) revenue. Due to the economic climate that we are still facing, we were thrilled to see several of our larger employers begin to bring their work force back to their pre-2008 employment numbers. Several employers added new employees to their work force. We continued to see employment growth at our two businesses in the NorthBrook Industrial Park. These additional jobs helped offset some of the income tax revenue we lost due to job cutbacks with other employers. Two of our larger employers in the Mosier Industrial Park hired additional employees in 2011 due to expansions.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

The enacted fiscal year 2012-2013 biennial State of Ohio budget, made important changes to the funding of the State's general-purpose revenue sharing funds, the Local Government Fund (LGF). The City, along with other municipalities throughout the State, saw a major cutback in Local Government Fund (LGF) distributions. Beginning August 2011 through June 2012, the LGF distribution that we received in previous years was cut 25%. Beginning August 2012, the LGF distribution will be cut an additional 25%.

A substantial portion of our general fund revenues (61.8%) comes from the City's 1.75 percent income tax. The City received income tax cash receipts totaling \$2,596,988 in 2011 a gain of \$187,642 or 7.8% from the previous year. The City received \$449,402 in inheritance, or estate tax during 2011, which was a \$366,192 increase compared to 2010. This inheritance tax will be eliminated beginning January 1, 2013.

In order to stabilize the impact of the fluctuations in these revenue streams, City Council continues to pursue economic development and job creation, in order to maintain the community's reputation for high public safety standards and adoption of a budget designed to promote long-term fiscal stability. A strong and sound economy is vital to maintaining and improving the quality of life here in the City.

The City continues to spend its valuable resources on public safety. The City's dedication to public safety is evident in the fact that 34.6% and 18.8% of the general fund expenditures are spent towards police and fire protection, respectively.

In 2011, the City's general fund cash balance equaled the 2002 cash balance of \$1.2 million. Most of that can be attributed to the increase in inheritance (estate) tax and income tax, and the close monitoring of expenses which included a hold, or zero increase, in wages during 2011. Overall, the City still experienced a successful year in 2011. Service levels were maintained and the City started and completed several capital improvement projects that will have a lasting impact on the City for years to come. As the City continues to acquire new businesses and assisting existing businesses with their expansions, balances in the general fund should stabilize and continue to grow.

Contacting the City's Financial Management

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

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Governmental Activities	Business-type Activities	Total
Assets:			
Equity in pooled cash and cash equivalents	\$ 2,133,719	\$ 387,173	\$ 2,520,892
Receivables (net of allowances for uncollectibles):			
Income taxes	443,823	-	443,823
Real and other taxes	127,101	-	127,101
Accounts	172,483	564,712	737,195
Accrued interest	2,464	-	2,464
Special assessments	721	-	721
Due from other governments	608,266	-	608,266
Notes receivable	120,821	-	120,821
Prepayments	52,798	14,342	67,140
Materials and supplies inventory	23,643	14,054	37,697
Land held for resale	357,997	-	357,997
Internal balance	30,000	(30,000)	-
Capital assets:			
Land	2,502,218	32,388	2,534,606
Depreciable capital assets, net	6,331,755	3,029,175	9,360,930
Total capital assets, net	8,833,973	3,061,563	11,895,536
Total assets	12,907,809	4,011,844	16,919,653
Liabilities:			
Accounts payable	74,009	201,231	275,240
Accrued wages and benefits payable	11,712	2,996	14,708
Due to other governments	53,037	8,837	61,874
Pension obligation payable	40,985	420	41,405
Unearned revenue	121,865	-	121,865
Accrued interest payable	10,949	-	10,949
Notes payable	800,000	-	800,000
Long-term liabilities:			
Due within one year	525,922	102,853	628,775
Due in more than one year	1,025,495	288,659	1,314,154
Total liabilities	2,663,974	604,996	3,268,970
Net assets:			
Invested in capital assets, net or related debt	7,203,505	2,708,595	9,912,100
Restricted for:			
Debt service	536	-	536
Capital projects	178,716	-	178,716
Other purposes	229,770	-	229,770
Unrestricted	2,631,308	698,253	3,329,561
Total net assets	\$ 10,243,835	\$ 3,406,848	\$ 13,650,683

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 1,014,898	\$ 118,476	\$ -	\$ -	\$ (896,422)	\$ -	\$ (896,422)
Security of persons and property	2,221,201	728,789	1,275	-	(1,491,137)	-	(1,491,137)
Public health and welfare	200,000	-	200,000	-	-	-	-
Transportation	1,110,275	199,803	376,910	539,388	5,826	-	5,826
Leisure time activity	240,897	57,900	5,298	-	(177,699)	-	(177,699)
Interest and fiscal charges	67,150	-	-	-	(67,150)	-	(67,150)
Total governmental activities	<u>4,854,421</u>	<u>1,104,968</u>	<u>583,483</u>	<u>539,388</u>	<u>(2,626,582)</u>	<u>-</u>	<u>(2,626,582)</u>
Business-type activities:							
Water	987,497	947,941	-	-	-	(39,556)	(39,556)
Sewer	677,110	477,084	-	-	-	(200,026)	(200,026)
Refuse	379,920	374,593	-	-	-	(5,327)	(5,327)
Total business-type activities	<u>2,044,527</u>	<u>1,799,618</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(244,909)</u>	<u>(244,909)</u>
Total primary government	<u>\$ 6,898,948</u>	<u>\$ 2,904,586</u>	<u>\$ 583,483</u>	<u>\$ 539,388</u>	<u>(2,626,582)</u>	<u>(244,909)</u>	<u>(2,871,491)</u>
General revenues:							
Property taxes levied for:							
General purposes					166,058	-	166,058
Income taxes levied for:							
General purposes					2,549,295	-	2,549,295
Grants and entitlements not restricted to specific programs							
					526,246	-	526,246
Investment earnings					11,307	-	11,307
Miscellaneous					9,082	6,290	15,372
Total general revenues					<u>3,261,988</u>	<u>6,290</u>	<u>3,268,278</u>
Transfers					(122,066)	122,066	-
Total general revenues and transfers					<u>3,139,922</u>	<u>128,356</u>	<u>3,268,278</u>
Change in net assets					513,340	(116,553)	396,787
Net assets at beginning of year (restated)					<u>9,730,495</u>	<u>3,523,401</u>	<u>13,253,896</u>
Net assets at end of year					<u>\$ 10,243,835</u>	<u>\$ 3,406,848</u>	<u>\$ 13,650,683</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>General</u>	<u>Street Construction, Maintenance & Repair</u>	<u>Capital Improvement</u>	<u>Fire Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash and cash equivalents	\$ 1,243,834	\$ 128,077	\$ 296,747	\$ 451,878	\$ 13,183	\$ 2,133,719
Receivables (net of allowances for uncollectibles):						
Income taxes	443,823	-	-	-	-	443,823
Real and other taxes	127,101	-	-	-	-	127,101
Accounts	172,308	150	-	-	25	172,483
Accrued interest	2,455	9	-	-	-	2,464
Special assessments	-	-	721	-	-	721
Due from other governments	109,553	148,643	350,000	70	-	608,266
Notes receivable	120,821	-	-	-	-	120,821
Advances to other funds	30,000	-	-	-	-	30,000
Prepayments	44,055	8,743	-	-	-	52,798
Materials and supplies inventory	14,447	9,196	-	-	-	23,643
Land held for resale	-	-	357,997	-	-	357,997
Total assets	<u>\$ 2,308,397</u>	<u>\$ 294,818</u>	<u>\$ 1,005,465</u>	<u>\$ 451,948</u>	<u>\$ 13,208</u>	<u>\$ 4,073,836</u>
Liabilities:						
Accounts payable	\$ 50,298	\$ 7,911	\$ 15,800	\$ -	\$ -	\$ 74,009
Accrued wages and benefits payable	9,918	1,794	-	-	-	11,712
Due to other governments	46,384	6,653	-	-	-	53,037
Pension obligation payable	40,734	251	-	-	-	40,985
Notes payable	-	-	800,000	-	-	800,000
Accrued interest payable	-	-	10,949	-	-	10,949
Unearned revenue	121,865	-	-	-	-	121,865
Deferred revenue	412,187	125,177	350,721	-	-	888,085
Total liabilities	<u>681,386</u>	<u>141,786</u>	<u>1,177,470</u>	<u>-</u>	<u>-</u>	<u>2,000,642</u>
Fund balances:						
Nonspendable	88,502	17,939	-	-	-	106,441
Restricted	-	135,093	-	-	2,593	137,686
Committed	-	-	-	451,948	10,615	462,563
Assigned	433,040	-	-	-	-	433,040
Unassigned (deficit)	1,105,469	-	(172,005)	-	-	933,464
Total fund balances (deficit)	<u>1,627,011</u>	<u>153,032</u>	<u>(172,005)</u>	<u>451,948</u>	<u>13,208</u>	<u>2,073,194</u>
Total liabilities and fund balances	<u>\$ 2,308,397</u>	<u>\$ 294,818</u>	<u>\$ 1,005,465</u>	<u>\$ 451,948</u>	<u>\$ 13,208</u>	<u>\$ 4,073,836</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total governmental fund balances		\$ 2,073,194
 <i>Amounts reported for governmental activities on 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.		8,833,973
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Income taxes receivable	\$ 230,382	
Real and other taxes receivable	20,495	
Charges for services receivable	120,896	
Intergovernmental receivable	513,619	
Special assessments receivable	721	
Investment income receivable	1,972	
Total	888,085	888,085
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	(120,949)	
Bond anticipation note payable	(400,000)	
Capital lease payable	(83,687)	
Note payable	(933,000)	
Loan payable	(13,781)	
Total	(1,551,417)	(1,551,417)
Net assets of governmental activities		\$ 10,243,835

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Street Construction,			Fire Capital Improvement	Other	Total
	General	Maintenance & Repair	Capital Improvement		Governmental Funds	Governmental Funds
Revenues:						
Municipal income taxes	\$2,543,824	\$ -	\$ -	\$ -	\$ -	\$ 2,543,824
Real and other taxes	152,294	-	-	-	-	152,294
Charges for services	786,082	23,640	11,101	166,093	-	986,916
Licenses, permits and fees	119,083	-	-	-	-	119,083
Intergovernmental	570,531	301,742	72,794	111,018	200,000	1,256,085
Special assessments	-	-	2,481	-	-	2,481
Investment income	11,812	237	2,220	-	-	14,269
Rental income	18,909	-	-	-	-	18,909
Donations	4,193	-	-	3,105	-	7,298
Other	1,110	73,409	-	-	1,275	75,794
Total revenues	4,207,838	399,028	88,596	280,216	201,275	5,176,953
Expenditures:						
Current:						
General government	947,473	-	-	-	-	947,473
Security of persons and property	1,965,499	-	-	-	5,974	1,971,473
Public health and welfare	-	-	-	-	200,000	200,000
Transportation	-	679,117	-	-	-	679,117
Leisure time activity	122,719	-	-	-	-	122,719
Capital outlay	58,017	75,157	846,271	249,312	-	1,228,757
Debt service:						
Principal retirement	4,374	1,723	750,000	77,282	47,000	880,379
Interest and fiscal charges	871	-	31,039	2,160	33,080	67,150
Note issuance costs	-	-	2,220	-	-	2,220
Total expenditures	3,098,953	755,997	1,629,530	328,754	286,054	6,099,288
Excess (deficiency) of revenues over (under) expenditures	1,108,885	(356,969)	(1,540,934)	(48,538)	(84,779)	(922,335)
Other financing sources (uses):						
Sale of capital assets	4,062	8,375	-	-	-	12,437
Sale of notes	-	-	400,000	-	-	400,000
Capital lease transaction	-	75,157	-	-	-	75,157
Transfers in	-	250,000	370,090	-	195,157	815,247
Transfers out	(645,157)	-	-	-	(170,090)	(815,247)
Total other financing sources (uses)	(641,095)	333,532	770,090	-	25,067	487,594
Net change in fund balances	467,790	(23,437)	(770,844)	(48,538)	(59,712)	(434,741)
Fund balances at beginning of year (restated)	1,159,221	176,469	598,839	500,486	72,920	2,507,935
Fund balances (deficit) at end of year	\$1,627,011	\$ 153,032	\$ (172,005)	\$ 451,948	\$ 13,208	\$ 2,073,194

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, 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, 2011

Net change in fund balances - total governmental funds		\$ (434,741)
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		
Capital asset additions	\$ 795,468	
Current year depreciation	(552,129)	
Total		243,339
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.		
		(3,937)
Proceeds of notes and capital leases are reported as an other financing source in the governmental funds, however, in the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(475,157)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	5,471	
Real and other taxes	13,764	
Charges for services	(1,031)	
Licenses, permits and fees	(9,832)	
Intergovernmental revenues	307,237	
Special assessments	(10)	
Investment income	(505)	
Other		
Total		315,094
Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets		
		880,379
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.		
		(11,637)
Change in net assets of governmental activities		\$ 513,340

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, 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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Municipal income taxes	\$ 2,236,124	\$ 2,569,973	\$ 2,596,988	\$ 27,015
Real and other taxes	131,069	150,637	150,153	(484)
Charges for services	629,579	723,574	731,180	7,606
Licenses, permits and fees	68,821	79,099	79,931	832
Intergovernmental	525,588	604,057	618,425	14,368
Investment income	9,769	11,227	11,345	118
Rental income	15,959	18,341	18,534	193
Donations	4	5	5	-
Total revenues	<u>3,616,913</u>	<u>4,156,913</u>	<u>4,206,561</u>	<u>49,648</u>
Expenditures:				
Current:				
General government	1,027,133	1,027,133	974,145	52,988
Security of persons and property	2,026,282	2,038,282	1,957,806	80,476
Capital outlay	76,000	76,000	52,535	23,465
Total expenditures	<u>3,129,415</u>	<u>3,141,415</u>	<u>2,984,486</u>	<u>156,929</u>
Excess of revenues over expenditures	<u>487,498</u>	<u>1,015,498</u>	<u>1,222,075</u>	<u>206,577</u>
Other financing sources (uses):				
Sale of capital assets	3,731	3,731	3,731	-
Advances out and not repaid	-	(30,000)	(30,000)	-
Transfers out	(800,157)	(800,157)	(710,157)	90,000
Total other financing sources (uses)	<u>(796,426)</u>	<u>(826,426)</u>	<u>(736,426)</u>	<u>90,000</u>
Net change in fund balance	(308,928)	189,072	485,649	296,577
Fund balance at beginning of year	699,515	699,515	699,515	-
Prior year encumbrances appropriated	<u>3,415</u>	<u>3,415</u>	<u>3,415</u>	<u>-</u>
Fund balance at end of year	<u>\$ 394,002</u>	<u>\$ 892,002</u>	<u>\$ 1,188,579</u>	<u>\$ 296,577</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
STREET CONSTRUCTION, MAINTENANCE AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Charges for services	\$ 78,378	\$ 98,180	\$ 98,722	\$ 542
Intergovernmental	239,783	300,366	302,025	1,659
Investment income	183	230	231	1
Other	58,281	73,006	73,409	403
Total revenues	<u>376,625</u>	<u>471,782</u>	<u>474,387</u>	<u>2,605</u>
Expenditures:				
Current:				
Transportation	735,041	829,698	746,119	83,579
Debt service:				
Principal retirement	1,800	1,800	1,723	77
Total expenditures	<u>736,841</u>	<u>831,498</u>	<u>747,842</u>	<u>83,656</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(360,216)</u>	<u>(359,716)</u>	<u>(273,455)</u>	<u>86,261</u>
Other financing sources:				
Sale of capital assets	8,375	8,375	8,375	-
Transfers in	250,000	250,000	250,000	-
Total other financing sources	<u>258,375</u>	<u>258,375</u>	<u>258,375</u>	<u>-</u>
Net change in fund balance	(101,841)	(101,341)	(15,080)	86,261
Fund balance at beginning of year	134,539	134,539	134,539	-
Prior year encumbrances appropriated	3,841	3,841	3,841	-
Fund balance at end of year	<u>\$ 36,539</u>	<u>\$ 37,039</u>	<u>\$ 123,300</u>	<u>\$ 86,261</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Refuse	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 153,592	\$ 127,041	\$ 106,540	\$ 387,173
Accounts	293,512	153,123	118,077	564,712
Prepayments	3,503	7,645	3,194	14,342
Materials and supplies inventory	13,179	875	-	14,054
Total current assets	<u>463,786</u>	<u>288,684</u>	<u>227,811</u>	<u>980,281</u>
Noncurrent assets:				
Capital assets:				
Land	-	32,388	-	32,388
Depreciable capital assets, net	385,148	2,640,227	3,800	3,029,175
Total capital assets, net	<u>385,148</u>	<u>2,672,615</u>	<u>3,800</u>	<u>3,061,563</u>
Total assets	<u>848,934</u>	<u>2,961,299</u>	<u>231,611</u>	<u>4,041,844</u>
Liabilities:				
Current liabilities:				
Accounts payable	176,271	11,839	13,121	201,231
Accrued wages and benefits payable	886	1,013	1,097	2,996
Compensated absences payable - current	6,488	7,469	8,124	22,081
Due to other governments	2,602	2,989	3,246	8,837
Pension obligation payable	124	142	154	420
Advances from other funds	-	30,000	-	30,000
OPWC loans payable	35,579	45,193	-	80,772
Total current liabilities	<u>221,950</u>	<u>98,645</u>	<u>25,742</u>	<u>346,337</u>
Long-term liabilities:				
Compensated absences payable	4,877	5,564	6,022	16,463
OPWC loans payable	37,380	234,816	-	272,196
Total long-term liabilities	<u>42,257</u>	<u>240,380</u>	<u>6,022</u>	<u>288,659</u>
Total liabilities	<u>264,207</u>	<u>339,025</u>	<u>31,764</u>	<u>634,996</u>
Net assets:				
Invested in capital assets, net of related debt	312,189	2,392,606	3,800	2,708,595
Unrestricted	272,538	229,668	196,047	698,253
Total net assets	<u>\$ 584,727</u>	<u>\$ 2,622,274</u>	<u>\$ 199,847</u>	<u>\$ 3,406,848</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Refuse	Total
Operating revenues:				
Charges for services	\$ 943,441	\$ 469,540	\$ 374,593	\$ 1,787,574
Tap-in fees	4,500	7,544	-	12,044
Other operating revenues	3,145	3,145	-	6,290
Total operating revenues	951,086	480,229	374,593	1,805,908
Operating expenses:				
Personal services	151,091	173,104	188,109	512,304
Contract services	755,967	127,933	163,182	1,047,082
Materials and supplies	20,219	22,412	28,123	70,754
Depreciation	55,297	353,661	506	409,464
Total operating expenses	982,574	677,110	379,920	2,039,604
Operating income (loss)	(31,488)	(196,881)	(5,327)	(233,696)
Nonoperating expenses:				
Interest and fiscal charges	(4,923)	-	-	(4,923)
Total nonoperating expenses	(4,923)	-	-	(4,923)
Loss before capital contributions	(36,411)	(196,881)	(5,327)	(238,619)
Capital contributions	19,053	103,013	-	122,066
Change in net assets	(17,358)	(93,868)	(5,327)	(116,553)
Net assets at beginning of year	602,085	2,716,142	205,174	3,523,401
Net assets at end of year	\$ 584,727	\$ 2,622,274	\$ 199,847	\$ 3,406,848

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Business-type Activities - Enterprise Funds

	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Cash flows from operating activities:				
Cash received from customers	\$ 948,355	\$ 462,070	\$ 374,200	\$ 1,784,625
Cash received from tap-in fees	4,500	7,544	-	12,044
Cash received from other operations	3,145	3,145	-	6,290
Cash payments for personal services	(147,882)	(169,800)	(184,371)	(502,053)
Cash payments for contract services	(768,456)	(164,900)	(162,799)	(1,096,155)
Cash payments for materials and supplies	(18,107)	(22,183)	(27,713)	(68,003)
Net cash provided by (used in) operating activities	<u>21,555</u>	<u>115,876</u>	<u>(683)</u>	<u>136,748</u>
Cash flows from noncapital financing activities:				
Cash received from interfund loans	-	30,000	-	30,000
Net cash provided by noncapital financing activities	<u>-</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	(111,088)	-	(111,088)
Principal retirement on OPWC loans	(33,862)	(47,693)	-	(81,555)
Interest and fiscal charges	(4,923)	-	-	(4,923)
Net cash used in capital and related financing activities	<u>(38,785)</u>	<u>(158,781)</u>	<u>-</u>	<u>(197,566)</u>
Net decrease in cash and cash equivalents	(17,230)	(12,905)	(683)	(30,818)
Cash and cash equivalents at beginning of year	170,822	139,946	107,223	417,991
Cash and cash equivalents at end of year	<u>\$ 153,592</u>	<u>\$ 127,041</u>	<u>\$ 106,540</u>	<u>\$ 387,173</u>
Reconciliation of operating (loss) to net cash provided by (used in) operating activities:				
Operating loss	\$ (31,488)	\$ (196,881)	\$ (5,327)	\$ (233,696)
Adjustments:				
Depreciation	55,297	353,661	506	409,464
Changes in assets and liabilities:				
Decrease in accounts receivable	2,609	222	-	2,831
Increase (decrease) in accrued wages and benefits	4,914	(7,470)	(393)	(2,949)
Increase in materials and supplies inventory	(754)	(2,396)	(109)	(3,259)
Increase (decrease) in pension obligation payable	(11,749)	(34,122)	1,379	(44,492)
Decrease in accounts payable	(120)	(243)	(59)	(422)
Increase in compensated absences payable	1,017	1,166	1,269	3,452
Increase in intergovernmental payable	1,846	1,973	2,059	5,878
Increase in prepayments	(17)	(34)	(8)	(59)
Net cash provided by (used in) operating activities	<u>\$ 21,555</u>	<u>\$ 115,876</u>	<u>\$ (683)</u>	<u>\$ 136,748</u>

Non-Cash Transactions: During 2011 the water and sewer enterprise funds received \$19,053 and \$103,013, respectively, in capital contributions from the governmental funds.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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**CITY OF BROOKVILLE
MONTGOMERY COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 1 - DESCRIPTION OF THE CITY

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Presentation - Fund Accounting

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

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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

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

C. Fund Accounting

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

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

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Street construction, maintenance and repair fund - This fund accounts for and reports all transactions relating to street maintenance and construction.

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

Fire capital improvement fund - The fire capital improvement fund accounts for and reports revenues collected through EMS receipts to be used for construction and improvements relating to the fire department.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Other governmental funds of the City are used to account for (a) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (b) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

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

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

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

Refuse fund - The refuse fund accounts for and reports the operations providing refuse removal to the residents and commercial users located within the City.

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

D. Measurement Focus and Basis of Accounting

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

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

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.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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

E. Basis of Accounting

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

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

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Property taxes for which there is an enforceable legal claim as of December 31, 2011, but which were levied to finance year 2012 operations, and other revenues received in advance of the year for which they were intended to finance, have been recorded as unearned revenue. Income taxes, special assessments not received within the available period, grants and entitlements received before the eligibility requirements are met, and delinquent property taxes due at December 31, 2011, are recorded as deferred revenue on the governmental fund financial statements.

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

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

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code (ORC) and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The Montgomery County Commissioners waived the requirement to file a tax budget for 2011. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources. All funds, other than agency funds, are legally required to be budgeted and appropriated.

The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources which states the projected revenue of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to January 1, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and need not be reappropriated.

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

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

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

G. Cash and Cash Equivalents

Cash balances of the City's funds are pooled and invested in investments in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank accounts is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During 2011, investments were limited to negotiable and nonnegotiable certificates of deposit, federal securities, investments in State Treasury Asset Reserve of Ohio (STAR Ohio) and U.S. Government money markets. 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.

The City has invested funds in STAR Ohio during 2011. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on December 31, 2011.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2011 amounted to \$11,812, which included \$6,573 assigned from other funds of the City.

For purpose of the statement of cash flows and for 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 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.

I. Notes Receivable

Notes receivable represent the right to receive repayment for a mortgage note made by the City. This note is based upon written agreements between the City and the note recipient.

J. Capital Assets

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

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Land improvements	20 years	20 years
Buildings and improvements	20 - 50 years	20 - 50 years
Equipment	5 - 20 years	5 - 20 years
Software	5 - 10 years	5 - 10 years
Vehicles	8 - 10 years	8 - 10 years
Infrastructure	20 years	20 years

K. Compensated Absences

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

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

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

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

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Interfund Activity

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

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

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council, which includes giving the Finance Director the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

O. Estimates

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

P. 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 excluding \$200,000 in unspent bond anticipation note proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets restricted for other purposes consist primarily of street construction maintenance and repair and programs to enhance the security of persons and property.

Q. Prepayments

Payments made to vendors for services that will benefit beyond December 31, 2011 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.

R. 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 Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2011.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

S. Assets Held for Resale

As part of the economic development program, the City has acquired land within its Industrial Park. The City's intent is for the land to be sold to businesses to promote economic development within the City. Transactions are conducted through the City's Capital Improvement Fund.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the City has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the City.

B. Fund Reclassifications/Fund Balance Restatement

Fund reclassifications are required in order to report funds in accordance with GASB Statement No 54. In addition, the City had land held for resale that was previously not reported in the fund financial statements. These fund reclassifications had the following effect on the City's governmental fund balances as previously reported:

	General	Street Construction Maintenance and Repair	Capital Improvement	Fire Capital Improvement	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 1,145,345	\$ 176,469	\$ 149,392	\$ 500,486	\$ 86,796	\$ 2,058,488
Fund reclassifications:						
Parks and recreation fund	<u>13,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,876)</u>	<u>-</u>
Total fund reclassifications	<u>13,876</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(13,876)</u>	<u>-</u>
Land held for resale:						
Capital improvement fund	<u>-</u>	<u>-</u>	<u>449,447</u>	<u>-</u>	<u>-</u>	<u>449,447</u>
Total land held for resale	<u>-</u>	<u>-</u>	<u>449,447</u>	<u>-</u>	<u>-</u>	<u>449,447</u>
Restated fund balance at January 1, 2011	<u>\$ 1,159,221</u>	<u>\$ 176,469</u>	<u>\$ 598,839</u>	<u>\$ 500,486</u>	<u>\$ 72,920</u>	<u>\$ 2,507,935</u>

The fund reclassifications did not have an effect on net assets as previously reported.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Restatement of Net Assets

The City has presented a correction to capital assets of the governmental activities due to the removal of land held for resale which is now reported at fair value as an asset in the capital improvement fund. This adjustment had the following effect on net assets at the beginning of the year:

	<u>Governmental Activities</u>
Net assets, December 31, 2010	\$ 9,809,030
Restatement of capital assets	<u>(78,535)</u>
Restated net assets, December 31, 2010	<u>\$ 9,730,495</u>

D. Deficit Fund Balances

Fund balances at December 31, 2011 included the following individual fund deficits:

<u>Major governmental fund</u>	<u>Deficit</u>
Capital improvement fund	\$ 172,005

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the City Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

A. Cash on Hand

At year end, the City had \$200 in undeposited cash on hand which is included on the financial statements of the City as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At December 31, 2011, the carrying amount of all City deposits was \$895,936. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2011, \$271,764 of the City's bank balance of \$1,017,733 was exposed to custodial risk as discussed below, while \$745,969 was covered by the FDIC.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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. The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

C. Investments

As of December 31, 2011, the City had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</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>
FHLMC	\$ 150,000	\$ 150,000	\$ -	\$ -	\$ -	\$ -
STAR Ohio	460,440	460,440	-	-	-	-
U.S. Government money market	14,316	14,316	-	-	-	-
Negotiable CD's	<u>1,000,000</u>	<u>-</u>	<u>100,000</u>	<u>100,000</u>	<u>350,000</u>	<u>450,000</u>
Total	<u>\$ 1,624,756</u>	<u>\$ 624,756</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 350,000</u>	<u>\$ 450,000</u>

The weighted average maturity of investments is 1.22 years.

Interest Rate Risk: The City limits its investments to those authorized by State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Credit Risk: STAR Ohio and the U.S. Government money market carry a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The federal agency security carries a rating of AA+ and Aaa by Standards & Poor's and Moody, respectively. The City's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

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 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.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2011:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
FHLMC	\$ 150,000	9.24
STAR Ohio	460,440	28.33
U.S. Government money market	14,316	0.88
Negotiable CD's	<u>1,000,000</u>	<u>61.55</u>
Total	<u>\$ 1,624,756</u>	<u>100.00</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 895,936
Investments	1,624,756
Cash on hand	<u>200</u>
Total	<u>\$ 2,520,892</u>
 <u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 2,133,719
Business-type activities	<u>387,173</u>
Total	<u>\$ 2,520,892</u>

NOTE 5 - INTERFUND TRANSFERS

A. Interfund transfers for the year ended December 31, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	
Street construction, maintenance and repair	\$ 250,000
Capital improvement	200,000
Nonmajor governmental funds	195,157
 <u>Transfers from nonmajor governmental fund to:</u>	
Capital improvement	<u>170,090</u>
Total transfers	<u>\$ 815,247</u>

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

During 2011, the bond retirement fund (a nonmajor governmental fund) transferred \$170,090 to the capital improvement fund in order to record principal and interest payments related to notes payable in the appropriate funds.

The water and sewer enterprise funds received \$122,066 in capital contributions from governmental activities during 2011. This amount, which is not included in the schedule above, is shown as a transfer on the statement of revenues, expenses and changes in net assets - proprietary funds. This amount is included in transfers in governmental activities and business-type activities on the statement of net activities.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 5 - INTERFUND TRANSFERS – (Continued)

Interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Interfund transfers between governmental activities and business-type activities are reported as transfers on the statement of activities.

All transfers were in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Long-term advances to/from other funds at December 31, 2011 as reported on the fund financial statements, consisted of the following:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Sewer fund	<u>\$ 30,000</u>

Advances between governmental funds and business-type activities are reported as an internal balance on the government-wide statement of net assets.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

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. Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Brookville. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real property taxes, public utility taxes, delinquent tangible personal property taxes and other outstanding delinquencies which are measurable as of December 31, 2011 and for which there is an enforceable legal claim. In the governmental funds, the current portion receivable has been offset by unearned revenue since the current taxes were not levied to finance 2011 operations and the collection of delinquent taxes has been offset by deferred revenue since the collection of the taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2011 was \$1.3 mills per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

Real property tax	\$ 104,127,570
Public utility personal property	<u>1,987,720</u>
Total assessed value	<u>\$ 106,115,290</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 7 - LOCAL INCOME TAX

The 1.75 percent City income tax, which is not subject to renewal, is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income tax on income they earn outside the City; however, full credit is allowed for all income taxes these residents pay to other municipalities as long as the City they work in has an income tax that is equal or greater than the City's 1.75 percent. If a resident works somewhere, where the tax is less than 1.75 percent or there is no income tax, they will have to pay the difference or all, depending on where they work. Employers within the city are required to withhold income tax on employee compensation and remit the tax to the City at least quarterly. Major employers are required to remit withholdings to the City monthly. Corporations and self-employed individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually with the City. Income tax revenue is reported to the extent that it is measurable and available to finance current operations at December 31, 2011. Income tax revenue for 2011 was \$2,543,824 as reported in the fund financial statements. Income tax revenue is reported in the general fund.

NOTE 8 - RECEIVABLES

Receivables at December 31, 2011, consisted of taxes, accounts (billings for user charged services), special assessments, accrued interest and intergovernmental receivables arising from grants, entitlements and shared revenue. All intergovernmental receivables have been classified as "due from other governments" on the basic financial statements. Receivables have been recorded to the extent that they are measurable at December 31, 2011.

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

Governmental activities:

Income taxes	\$ 443,823
Real and other taxes	127,101
Accounts	172,483
Accrued interest	2,464
Special assessments	721
Due from other governments	608,266

Business-type activities:

Accounts	564,712
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Receivables have been disaggregated on the face of the basic financial statements. The only receivables not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

NOTE 9 - NOTES RECEIVABLE

During 2007, the City loaned Western Ohio Properties, LLC. ("Western Ohio"), \$207,821, to assist in financing the cost of land at the City's industrial park. In consideration of the repayment of the note, Western Ohio shall begin making monthly payments of \$1,500 on April 15, 2008 and continue on the 15th day of each month until April 4, 2011, when the remaining principal at that time on the note shall become due and payable in full. During 2011, Western Ohio Properties, LLC. did not make any payments on the outstanding note. The City is taking legal action against Western Ohio Properties, LLC. for the remaining balance owed of \$120,821.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to the removal of land held-for-resale:

	Balance <u>12/31/10</u>	<u>Adjustments</u>	Restated Balance <u>12/31/10</u>
Governmental activities:			
Capital assets, not being depreciated:			
Land	\$ 3,030,200	\$ (527,982)	\$ 2,502,218
Total capital assets, not being depreciated	<u>3,030,200</u>	<u>(527,982)</u>	<u>2,502,218</u>
Capital assets, being depreciated:			
Land improvements	1,647,854	-	1,647,854
Buildings and improvements	1,747,479	-	1,747,479
Furniture and equipment	743,276	-	743,276
Software	6,693	-	6,693
Vehicles	2,006,385	-	2,006,385
Infrastructure	<u>4,529,713</u>	<u>-</u>	<u>4,529,713</u>
Total capital assets, being depreciated	<u>10,681,400</u>	<u>-</u>	<u>10,681,400</u>
<i>Less: accumulated depreciation:</i>	<u>(4,589,047)</u>	<u>-</u>	<u>(4,589,047)</u>
Governmental activities capital assets, net	<u>\$ 9,122,553</u>	<u>\$ (527,982)</u>	<u>\$ 8,594,571</u>

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**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - CAPITAL ASSETS - (Continued)

B. Governmental activities capital asset activity for the year ended December 31, 2011, was as follows:

<u>Governmental activities:</u>	Restated Balance 12/31/10	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/11
<i>Capital assets, not being depreciated:</i>				
Land	\$ 2,502,218	\$ -	\$ -	\$ 2,502,218
Total capital assets, not being depreciated	<u>2,502,218</u>	<u>-</u>	<u>-</u>	<u>2,502,218</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,647,854	23,830	-	1,671,684
Buildings and improvements	1,747,479	68,119	-	1,815,598
Equipment	743,276	229,588	(6,070)	966,794
Software	6,693	-	-	6,693
Vehicles	2,006,385	56,373	(9,000)	2,053,758
Infrastructure	<u>4,529,713</u>	<u>417,558</u>	<u>-</u>	<u>4,947,271</u>
Total capital assets, being depreciated	<u>10,681,400</u>	<u>795,468</u>	<u>(15,070)</u>	<u>11,461,798</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(1,177,974)	(52,660)	-	(1,230,634)
Buildings and improvements	(819,972)	(50,231)	-	(870,203)
Equipment	(413,797)	(59,456)	6,070	(467,183)
Software	(669)	(669)	-	(1,338)
Vehicles	(1,265,676)	(152,367)	5,063	(1,412,980)
Infrastructure	<u>(910,959)</u>	<u>(236,746)</u>	<u>-</u>	<u>(1,147,705)</u>
Total accumulated depreciation	<u>(4,589,047)</u>	<u>(552,129)</u>	<u>11,133</u>	<u>(5,130,043)</u>
Total capital assets, being depreciated, net	<u>6,092,353</u>	<u>243,339</u>	<u>(3,937)</u>	<u>6,331,755</u>
Governmental activities capital assets, net	<u>\$ 8,594,571</u>	<u>\$ 243,339</u>	<u>\$ (3,937)</u>	<u>\$ 8,833,973</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 47,938
Security of persons and property	151,487
Transportation	277,539
Leisure time activity	<u>75,165</u>
Total depreciation expense - governmental activities	<u>\$ 552,129</u>

C. Business-type activities capital asset activity for the year ended December 31, 2011 was as follows:

<u>Business-type activities:</u>	<u>Balance</u> <u>12/31/10</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/11</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 32,388	\$ -	\$ -	\$ 32,388
Total capital assets, not being depreciated	<u>32,388</u>	<u>-</u>	<u>-</u>	<u>32,388</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	8,805,192	-	-	8,805,192
Buildings and improvements	352,271	-	-	352,271
Equipment	88,064	36,641	-	124,705
Vehicles	138,638	-	-	138,638
Infrastructure	<u>576,368</u>	<u>196,513</u>	<u>-</u>	<u>772,881</u>
Total capital assets, being depreciated	<u>9,960,533</u>	<u>233,154</u>	<u>-</u>	<u>10,193,687</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(6,238,305)	(356,445)	-	(6,594,750)
Buildings and improvements	(184,160)	(7,045)	-	(191,205)
Equipment	(47,812)	(9,145)	-	(56,957)
Vehicles	(120,300)	(3,098)	-	(123,398)
Infrastructure	<u>(164,471)</u>	<u>(33,731)</u>	<u>-</u>	<u>(198,202)</u>
Total accumulated depreciation	<u>(6,755,048)</u>	<u>(409,464)</u>	<u>-</u>	<u>(7,164,512)</u>
Total capital assets, being depreciated, net	<u>3,205,485</u>	<u>(176,310)</u>	<u>-</u>	<u>3,029,175</u>
Business-type activities capital assets, net	<u>\$ 3,237,873</u>	<u>\$ (176,310)</u>	<u>\$ -</u>	<u>\$ 3,061,563</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 10 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to the enterprise funds as follows:

Business-type activities:

Water	\$ 55,297
Sewer	353,661
Refuse	<u>506</u>
Total depreciation expense - business-type activities	<u>\$ 409,464</u>

NOTE 11 - VACATION AND SICK LEAVE LIABILITY

Vacation and sick leave accumulated by governmental fund type employees has been recorded in the statement of net assets to the extent they were not paid using current expendable available resources. Vacation and sick leave earned by proprietary funds type employees is expensed when earned and has been recorded in the fund. Upon termination of City service, fully vested employees are entitled to a percentage of their accumulated sick leave based on their years of service. At December 31, 2011, vested benefits for vacation leave for governmental fund type employees, net of amounts paid using current expendable available resources, totaled \$52,973 and vested benefits for sick leave, totaled \$67,976. For proprietary fund types, vested benefits for vacation leave totaled \$22,081 and vested benefits for sick leave totaled \$16,463 at December 31, 2011. Included in the vested benefits for sick leave figures is an additional liability to accrue and record termination (severance) payments for employees expected to become eligible to retire in the future in accordance with GASB Statement No. 16.

NOTE 12 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$21,914. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2011 was \$16,471, leaving a current book value of \$5,443. A corresponding liability was recorded in the government-wide financial statements. Principal payments in 2011 totaled \$4,374 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, 2011.

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2012	\$ 4,459
2013	4,459
2014	<u>371</u>
Total future minimum lease payments	9,289
Less: amount representing interest	<u>(759)</u>
Present value of net minimum lease payments	<u>\$ 8,530</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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

B. During 2007, the City entered into a capital lease agreement for a new fire truck. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, capital lease transactions are accounted for as capital outlay expenditure and other financing source in the appropriate fund.

Capital assets consisting of vehicles have been capitalized in the amount of \$421,361. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2011 was \$184,345, leaving a current book value of \$237,016. A corresponding liability was recorded in the government-wide financial statements. Principal payments in 2011 totaled \$77,282, paid by the fire capital improvement fund. During 2011, the capital lease obligation had been paid in full.

C. During the current year, the City entered into capital lease agreement for a backhoe. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. At inception, capital lease transactions are accounted for as capital outlay expenditure and other financing source in the appropriate fund.

Capital assets consisting of furniture and equipment have been capitalized in the amount of \$75,157. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of December 31, 2011 was \$3,758, leaving a current book value of \$71,399. A corresponding liability was recorded in the government-wide financial statements. The City will begin making principal payments in 2012.

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, 2011.

<u>Year Ending December 31,</u>	<u>Governmental Activities</u>
2012	\$ 19,484
2013	19,484
2014	19,484
2015	<u>19,484</u>
Total future minimum lease payments	77,936
Less: amount representing interest	<u>(2,779)</u>
Present value of net minimum lease payments	<u>\$ 75,157</u>

NOTE 13 - SHORT-TERM OBLIGATIONS

The City's short-term note activity for the year ended December 31, 2011, was as follows:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/10</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/11</u>
Governmental activities:						
Bond anticipation note	4/19/2011	1.63%	\$ -	\$ 200,000	\$ -	\$ 200,000
Bond anticipation note	9/14/2011	1.63%	<u>-</u>	<u>600,000</u>	<u>-</u>	<u>600,000</u>
Total			<u>\$ -</u>	<u>\$ 800,000</u>	<u>\$ -</u>	<u>\$ 800,000</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 13 - SHORT-TERM OBLIGATIONS - (Continued)

The bond anticipation notes issued on September 14, 2011 were for street improvements and accounted for in the capital improvements fund. The bond anticipation notes issued on April 19, 2011 were for various purposes and represent the portion of the 2011 note issuance that will be retired when the notes are refinanced as general obligation bonds on April 18, 2013 (See Note 22 for detail).

The City's bond anticipation notes are backed by the full faith and credit of the City and have a maturity of one year.

NOTE 14 - LONG-TERM OBLIGATIONS

A. During 2011, the following changes occurred in governmental activities long-term obligations:

	Balance	Additions	Reductions	Balance	Amounts Due in
Governmental activities:	<u>12/31/10</u>	<u> </u>	<u> </u>	<u>12/31/11</u>	<u>One Year</u>
Bond anticipation note	\$ 750,000	\$ 400,000	\$ (750,000)	\$ 400,000	\$ 400,000
Note payable	980,000	-	(47,000)	933,000	49,000
OPWC loan payable	15,504	-	(1,723)	13,781	1,723
Capital lease obligations	12,904	-	(4,374)	8,530	3,918
Fire truck lease obligation	77,282	-	(77,282)	-	-
Equipment lease	-	75,157	-	75,157	18,308
Compensated absences	<u>109,312</u>	<u>55,558</u>	<u>(43,921)</u>	<u>120,949</u>	<u>52,973</u>
Total governmental activities long-term obligations	<u>\$ 1,945,002</u>	<u>\$ 530,715</u>	<u>\$ (924,300)</u>	<u>\$ 1,551,417</u>	<u>\$ 525,922</u>

Compensated absences: Compensated absences are reported in the statement of net assets and will be paid from the fund from which the employee's salaries are paid which will primarily be the general fund and the street construction, maintenance and repair fund.

Note payable: In 2006, the City entered into a 20 year note to provide long-term financing for the industrial park. A portion of the note, \$700,000, bears a fixed rate of 4.62% while the remaining \$465,000 is variable. The notes are scheduled to mature on January 1, 2026, however the City consistently pays the principal and interest prior to the due date. Payments of principal and interest on the note are made from the debt service fund (a nonmajor governmental fund).

Bond anticipation note: On April 19, 2011, the City issued a \$400,000 bond anticipation note bearing a 1.625% interest rate. This note matures on April 19, 2012. In accordance with FASB Statement No. 6, "Classification of Short-Term Obligations Expected to Be Refinanced", the note is considered a long-term obligation since it was refinanced prior to the issuance of the financial statements (See Note 22). Payments of principal and interest are paid from the capital improvement fund.

OPWC loan payable: The City entered into a debt financing arrangement through the Ohio Public Works Commission (OPWC) to fund improvements for the West Westbrook Road improvement project. The initial loan amount was for \$17,227, with semi-annual payments in January and July. Payments during 2011 totaled \$1,723. The loan matures January 1, 2020. Principal payments are made from the street construction, maintenance and repair fund.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The following is the summary of the City's future annual principal requirements for the OPWC loan:

Year Ending December 31,	OPWC Loan	
	Total	
2012	\$	1,723
2013		1,723
2014		1,723
2015		1,723
2016		1,722
2017 - 2019		5,167
Total	\$	<u>13,781</u>

The following is the summary of the City's future annual principal and interest requirements for the note payable:

Year Ending December 31,	Note Payable		
	Principal	Interest	Total
2012	\$ 49,000	\$ 40,800	\$ 89,800
2013	52,000	38,591	90,591
2014	54,000	36,261	90,261
2015	56,000	33,840	89,840
2016	59,000	31,331	90,331
2017 - 2021	335,000	114,650	449,650
2022 - 2025	328,000	34,241	362,241
Total	\$ <u>933,000</u>	\$ <u>329,714</u>	\$ <u>1,262,714</u>

B. During 2011, the following changes occurred in the City's business-type long-term liabilities:

Business-type activities:	Interest Rate	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Amounts
						Due in One Year
<u>OPWC loans</u>						
Water tower	5.00%	\$ 106,821	\$ -	\$ (33,862)	\$ 72,959	\$ 35,579
Wolf Creek sanitary trunk main	0.00%	7,500	-	(5,000)	2,500	2,500
Wastewater treatment plant	0.00%	<u>320,202</u>	-	<u>(42,693)</u>	<u>277,509</u>	<u>42,693</u>
Total OPWC loans		<u>434,523</u>	-	<u>(81,555)</u>	<u>352,968</u>	<u>80,772</u>
<u>Other long-term obligations</u>						
Compensated absences		<u>32,666</u>	<u>24,631</u>	<u>(18,753)</u>	<u>38,544</u>	<u>22,081</u>
Total business-type activities long-term obligations		<u>\$ 467,189</u>	<u>\$ 24,631</u>	<u>\$ (100,308)</u>	<u>\$ 391,512</u>	<u>\$ 102,853</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 14 - LONG-TERM OBLIGATIONS - (Continued)

The City has entered into three debt financing arrangements through the Ohio Public Works Commission (OPWC) to fund a new water tower, the Wolf Creek sanitary trunk extension and wastewater treatment plant improvements. The amounts due to the OPWC are payable solely from water and sewer revenues. The loan agreements function similar to a line-of-credit agreement. At December 31, 2011, the City has outstanding borrowings of \$72,959 in the water fund and \$2,500 and \$277,509 in the sewer fund which mature on January 1, 2014, July 1, 2012 and July 1, 2018, respectively. The loan agreements require semi-annual payments based on the actual amount loaned. The Wolfcreek sanitary trunk main and the wastewater treatment plant of the OPWC loans are interest free; the Water Tower has a rate of 5%.

The following is the summary of the City's future annual principal and interest requirements for the OPWC loans:

Year Ending December 31,	<u>OPWC Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 80,772	\$ 3,209	\$ 83,981
2013	80,073	1,408	81,481
2014	42,693	-	42,693
2015	42,693	-	42,693
2016	42,693	-	42,693
2017 - 2018	64,044	-	64,044
Total	<u>\$ 352,968</u>	<u>\$ 4,617</u>	<u>\$ 357,585</u>

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The assessed valuation used in determining the City's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in calculating the City's legal debt margin calculation excludes tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. 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, 2011, the City's total debt margin was \$10,944,546 and the unvoted debt margin was \$5,727,016.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 15 - RISK MANAGEMENT

A. Liability Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The City has contracted with Ohio Plan Risk Management, Inc., an Ohio government risk management program. The Plan was formed in June 1988 for the primary purpose of managing third-party liability claims against its members. The Plan provides property, liability, error and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage to its 730 members. The City's settled claims have not exceeded insurance coverage for the past four years. The Plan has chosen to adopt the forms and endorsements of conventional insurance coverages and to reinsure these coverages. The Ohio Plan Risk Management, Inc. collects premiums and shares in claim payments for liability (limited to 41.5% of a covered loss up to \$103,750) and property (limited to 10% of covered loss up to \$100,000). Therefore, the City is only responsible for its self-retention (deductible) amount. The Plan insures its coverage 100% with various reinsurance companies up to a limit of \$10,000,000 per occurrence, per member.

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

B. Employee Health Insurance

During 2011, the City provided employees health insurance through United Health Care through July 31 and moved to Anthem beginning August 1. Beginning August 1, the City offered dual health insurance plans, a traditional plan and an HSA plan. Dental insurance is provided through Dental Select. Life insurance is provided through United Health Care. The premiums for dental and life insurance are paid monthly with the City paying one-hundred percent of the cost.

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

C. Workers' Compensation

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

NOTE 16 - PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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 Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 16 - PENSION PLANS - (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Pension and the 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 which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00% for members. The City's contribution rate for 2011 was 14.00% of covered payroll.

The City's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00%. The City's contribution rate for pension benefits for members in the Combined Plan for 2011 was 7.95%. The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were \$106,543, \$93,749, and \$83,996, respectively; 100% has been contributed for 2011, 2010 and 2009.

B. Ohio Police and Fire Pension Fund

Plan Description - 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.00% for police officers and firefighters, respectively. Contribution rates are established by State statute. For 2011, the portion of the City's contributions to fund pension obligations was 12.75% for police officers and 17.25% for firefighters. The City's required contributions for pension obligations to OP&F for police officers and firefighters were \$86,159 and \$12,806 for the year ended December 31, 2011, \$83,224 and \$12,332 for the year ended December 31, 2010, and \$80,250, \$11,914, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 74.07% has been contributed for police and 74.08% has been contributed for firefighters for 2011.

NOTE 17 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have ten years or more of qualifying Ohio service credit. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00% of covered payroll. Each year the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the postemployment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00%. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05%.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment healthcare plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were \$42,617, \$53,445, and \$60,498, respectively; 100% has been contributed for 2011, 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the OP&F Pension Fund sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-employment 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.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is 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 OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

**CITY OF BROOKVILLE
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 17 - POSTRETIREMENT BENEFIT PLANS - (Continued)

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One account is for health care benefits under an Internal Revenue Code Section 115 trust and the other account is for Medicare Part B reimbursements administered as an Internal Revenue Code Section 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan into the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2011, the employer contribution allocated to the health care plan was 6.75% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that the pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment healthcare benefits for police officers and firefighters were \$45,613 and \$5,011 for the year ended December 31, 2011, \$44,060 and \$4,825 for the year ended December 31, 2010, and \$42,485, \$4,662, for the year ended December 31, 2009. The full amount has been contributed for 2010 and 2009. 74.07% has been contributed for police and 74.08% has been contributed for firefighters for 2011.

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The statement of revenue, expenditures and changes in fund balance - budget and actual (non-GAAP budgetary basis) presented for the general fund and the street construction, maintenance and repair fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 18 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis);
- (e) Investments are reported at fair value (GAAP basis) rather than cost (budget basis); and,
- (f) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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 fund</u>	<u>Street Construction, Maintenance and Repair fund</u>
Budget basis	\$ 485,649	\$ (15,080)
Net adjustment for revenue accruals	(61,921)	(75,359)
Net adjustment for expenditure accruals	(22,965)	(12,932)
Net adjustment for other sources/uses	30,000	75,157
Funds budgeted elsewhere	5,810	-
Adjustment for encumbrances	<u>31,217</u>	<u>4,777</u>
GAAP basis	<u>\$ 467,790</u>	<u>\$ (23,437)</u>

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the parks and recreation fund.

NOTE 19 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are 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, 2011.

B. Litigation

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

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

NOTE 20 - OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the City's commitments for encumbrances in the governmental funds were as follows:

<u>Fund</u>	<u>Year-End Encumbrances</u>
General fund	\$ 22,372
Street construction, maintenance and repair fund	20
Fire capital improvement fund	<u>189,999</u>
 Total	 <u>\$ 212,391</u>

NOTE 21 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund balance</u>	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>	<u>Capital Improvement</u>	<u>Fire Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:						
Materials and supplies inventory	\$ 14,447	\$ 9,196	\$ -	\$ -	\$ -	\$ 23,643
Prepays	44,055	8,743	-	-	-	52,798
Long-term advance	<u>30,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Total nonspendable	<u>88,502</u>	<u>17,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>106,441</u>
Restricted:						
Debt service	-	-	-	-	536	536
Transportation	-	135,093	-	-	-	135,093
Public safety programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,057</u>	<u>2,057</u>
Total restricted	<u>-</u>	<u>135,093</u>	<u>-</u>	<u>-</u>	<u>2,593</u>	<u>137,686</u>
Committed:						
Capital projects	-	-	-	451,948	-	451,948
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,615</u>	<u>10,615</u>
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>451,948</u>	<u>10,615</u>	<u>462,563</u>
Assigned:						
Leisure time activities	17,718	-	-	-	-	17,718
Subsequent year appropriations	<u>415,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>415,322</u>
Total assigned	<u>433,040</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>433,040</u>
Unassigned (deficit)	<u>1,105,469</u>	<u>-</u>	<u>(172,005)</u>	<u>-</u>	<u>-</u>	<u>933,464</u>
Total fund balances	<u>\$ 1,627,011</u>	<u>\$ 153,032</u>	<u>\$ (172,005)</u>	<u>\$ 451,948</u>	<u>\$ 13,208</u>	<u>\$ 2,073,194</u>

**CITY OF BROOKVILLE
MONTGOMERY COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE 22 - SIGNIFICANT SUBSEQUENT EVENTS

On April 18, 2012, the City issued a \$400,000 bond anticipation note to retire a portion of the \$600,000 bond anticipation note issued on April 19, 2011 (See Note 13 & 14). This note bears an interest rate of 1.625% and matures on April 18, 2013

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**



City of Brookville
Montgomery County
301 Sycamore Street
Brookville, Ohio 45309

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brookville, Montgomery County, (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 18, 2012, wherein we noted the City implemented GASB Statement No. 54 and 59 as disclosed in Note 3A, as well as fund reclassification and fund balance restatement as disclosed in Note 3B, and net asset reclassification as disclosed in Note 3C. 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*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, City Council, and others within the City. We intend it for no one other than these specified parties.

Wilson, Shannon & Snow, Inc.

Wilson, Shannon & Snow, Inc.

May 18, 2012

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Dave Yost • Auditor of State

CITY OF BROOKVILLE

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 12, 2012**