

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

BASIC FINANCIAL STATEMENTS
(Audited)

For The Year Ended
December 31, 2006



Mary Taylor, CPA
Auditor of State

City Council
City of Crestline
100 North Seltzer Street
Crestline, Ohio 44827

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 17, 2007

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**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

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

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Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

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

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

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

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

Members of Council and Mayor
City of Crestline
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in dark ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.
July 31, 2007

CITY OF CRESTLINE, OHIO

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

The management's discussion and analysis of the City of Crestline's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$140,079, net assets of governmental activities decreased \$77,888 or 1.16% over 2005 and net assets of business-type activities increased \$217,967 or 4.56% over 2005.
- General revenues accounted for \$1,856,561 of total governmental activities revenue. Program specific revenues accounted for \$646,647 or 25.83% of total governmental activities revenue.
- The City had \$2,556,944 in expenses related to governmental activities; \$646,647 of these expenses was offset by program specific charges for services, grants or contributions. A portion of the remaining expenses of the governmental activities were offset by general revenues (primarily property taxes, income taxes and unrestricted grants and entitlements) of \$1,856,561.
- The general fund had revenues of \$1,662,883 in 2006. This represents a decrease of \$15,195 from 2005 revenues. The expenditures of the general fund, which totaled \$1,614,054 in 2006, decreased \$250,482 from 2005. The fund balance of the general fund increased \$48,829 from a deficit of \$36,138 to a positive fund balance of \$12,691.
- The street construction, maintenance and repair fund had revenues of \$277,916 in 2006. The expenditures of the street construction, maintenance and repair fund totaled \$251,197 in 2006. The fund balance of the street construction, maintenance and repair fund increased \$26,719 from \$106,722 to \$133,441.
- The capital improvements fund had revenues of \$196,527 in 2006. The expenditures and other financing uses of the capital improvements fund totaled \$188,427 in 2006. The fund balance of the capital improvements fund increased \$8,100 from \$461,787 to \$469,887.
- Net assets for the business-type activities, which are made up of the Water, Sewer, and ambulance services enterprise funds, increased in 2006 by \$217,967. This increase in net assets was due primarily to increasing revenues and decreasing expenses.
- In the general fund, the actual revenues came in \$55,371 greater than they were in the final budget and actual expenditures were \$64,547 less than the amount in the final budget. Budgeted expenditures increased \$740,372 from the original to the final budget due primarily to an increase in the cost of security of persons and property and general government expenditures.

Using this Annual Financial Report

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

CITY OF CRESTLINE, OHIO

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

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 2006?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

Reporting the City's Most Significant Funds

Fund Financial Statements

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

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

CITY OF CRESTLINE, OHIO

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

Governmental Funds

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

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

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

Proprietary Funds

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. A private purpose trust and agency funds are the City's fiduciary fund types. The basic fiduciary fund financial statements can be found on pages 29-30 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 31-60 of this report.

CITY OF CRESTLINE, OHIO

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

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2006 and 2005

	Net Assets					
	Governmental	Business-type	Governmental	Business-type	2006	2005
	Activities	Activities	Activities	Activities	Total	Total
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Assets</u>						
Current and other assets	\$ 2,427,807	\$ 1,042,894	\$ 2,330,564	\$ 779,694	\$ 3,470,701	\$ 3,110,258
Capital assets	<u>5,216,459</u>	<u>6,193,984</u>	<u>5,439,434</u>	<u>6,314,717</u>	<u>11,410,443</u>	<u>11,754,151</u>
Total assets	<u>7,644,266</u>	<u>7,236,878</u>	<u>7,769,998</u>	<u>7,094,411</u>	<u>14,881,144</u>	<u>14,864,409</u>
<u>Liabilities</u>						
Long-term liabilities outstanding	483,023	2,150,121	559,232	2,250,606	2,633,144	2,809,838
Other liabilities	<u>513,911</u>	<u>84,761</u>	<u>485,546</u>	<u>59,776</u>	<u>598,672</u>	<u>545,322</u>
Total liabilities	<u>996,934</u>	<u>2,234,882</u>	<u>1,044,778</u>	<u>2,310,382</u>	<u>3,231,816</u>	<u>3,355,160</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	4,930,960	4,113,547	5,100,736	4,131,950	9,044,507	9,232,686
Restricted	1,481,207	242,986	1,491,892	-	1,724,193	1,491,892
Unrestricted	<u>235,165</u>	<u>645,463</u>	<u>132,592</u>	<u>652,079</u>	<u>880,628</u>	<u>784,671</u>
Total net assets	<u>\$ 6,647,332</u>	<u>\$ 5,001,996</u>	<u>\$ 6,725,220</u>	<u>\$ 4,784,029</u>	<u>\$ 11,649,328</u>	<u>\$ 11,509,249</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006 the City's assets exceeded liabilities by \$11,649,328. At year-end, net assets were \$6,647,332 and \$5,001,996 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 76.68% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles, and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$4,930,960 and \$4,113,547 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$1,724,193, 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 \$235,165 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CRESTLINE, OHIO

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

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

	Change in Net Assets					
	Governmental	Business-type	Governmental	Business-type	2006	2005
	Activities	Activities	Activities	Activities	Total	Total
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>	<u>Total</u>	<u>Total</u>
Revenues						
Program revenues:						
Charges for services	\$ 248,391	\$ 1,527,463	\$ 284,986	\$ 1,316,352	\$ 1,775,854	\$ 1,601,338
Operating grants and contributions	398,256	-	664,344	-	398,256	664,344
Capital grants and contributions	-	56,800	73,482	-	56,800	73,482
Total program revenues	<u>646,647</u>	<u>1,584,263</u>	<u>1,022,812</u>	<u>1,316,352</u>	<u>2,230,910</u>	<u>2,339,164</u>
General revenues:						
Property taxes	253,264	-	333,898	-	253,264	333,898
Income taxes	1,145,395	-	1,080,017	-	1,145,395	1,080,017
Unrestricted grants and entitlements	334,075	-	295,092	-	334,075	295,092
Investment earnings	53,614	-	46,646	2,854	53,614	49,500
Miscellaneous	70,213	19,626	55,969	7,568	89,839	63,537
Total general revenues	<u>1,856,561</u>	<u>19,626</u>	<u>1,811,622</u>	<u>10,422</u>	<u>1,876,187</u>	<u>1,822,044</u>
Total revenues	<u>2,503,208</u>	<u>1,603,889</u>	<u>2,834,434</u>	<u>1,326,774</u>	<u>4,107,097</u>	<u>4,161,208</u>
Expenses:						
General government	423,907	-	687,215	-	423,907	687,215
Security of persons and property	1,361,562	-	1,279,467	-	1,361,562	1,279,467
Transportation	478,852	-	541,187	-	478,852	541,187
Community environment	163,934	-	399,653	-	163,934	399,653
Leisure time activity	96,541	-	94,290	-	96,541	94,290
Interest and fiscal charges	32,148	-	34,163	-	32,148	34,163
Water	-	642,549	-	621,665	642,549	621,665
Sewer	-	682,828	-	681,596	682,828	681,596
Other enterprise	-	84,697	-	94,880	84,697	94,880
Total expenses	<u>2,556,944</u>	<u>1,410,074</u>	<u>3,035,975</u>	<u>1,398,141</u>	<u>3,967,018</u>	<u>4,434,116</u>
Transfers	<u>(24,152)</u>	<u>24,152</u>	<u>(24,152)</u>	<u>24,152</u>	<u>-</u>	<u>-</u>
Change in net assets	(77,888)	217,967	(225,693)	(47,215)	140,079	(272,908)
Net assets at beginning of year	<u>6,725,220</u>	<u>4,784,029</u>	<u>6,950,913</u>	<u>4,831,244</u>	<u>11,509,249</u>	<u>11,782,157</u>
Net assets at end of year	<u>\$ 6,647,332</u>	<u>\$ 5,001,996</u>	<u>\$ 6,725,220</u>	<u>\$ 4,784,029</u>	<u>\$ 11,649,328</u>	<u>\$ 11,509,249</u>

CITY OF CRESTLINE, OHIO

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

Governmental Activities

Governmental activities net assets decreased \$77,888 in 2006. This decrease is a result of expenses exceeding revenues in the current year.

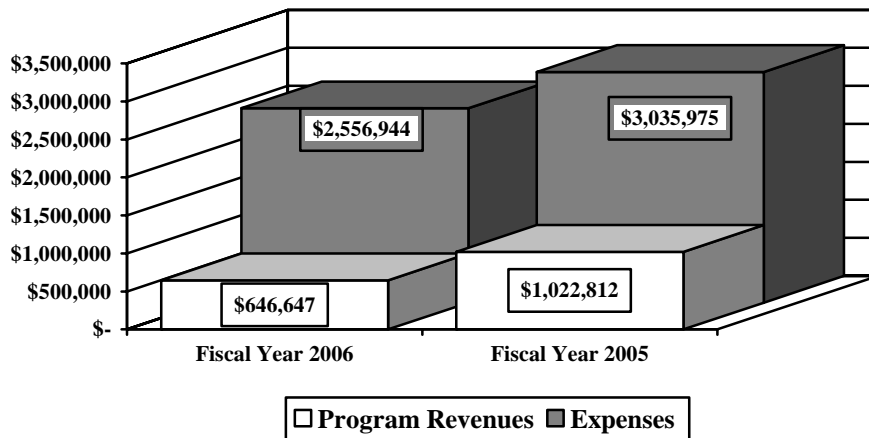
Security of persons and property, which primarily supports the operations of the police and fire department's expenses of which total \$1,361,562 and account for 53.25% of the total governmental expenses of the City. Security of persons and property expenses were partially funded by direct charges to users of \$135,911 and operating grants of \$948. General government expenses totaled \$423,907. General government expenses were partially funded by \$14,629 in direct charges to users of the services. Transportation expenses of \$478,852 were partially funded by \$245,446 in operating grants and contributions.

The state and federal government contributed to the City a total of \$398,256 in operating grants and contributions. These revenues are restricted to a particular program or purpose. Of the total operating grants and contributions, \$245,446 subsidized transportation programs and \$151,862 subsidized community environment activities.

General revenues totaled \$1,856,561, and amounted to 74.17% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$1,398,659. 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 \$334,075.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities. As program revenues are not sufficient to cover total governmental expenses for 2006.

Governmental Activities - Program Revenues vs. Total Expenses



CITY OF CRESTLINE, OHIO

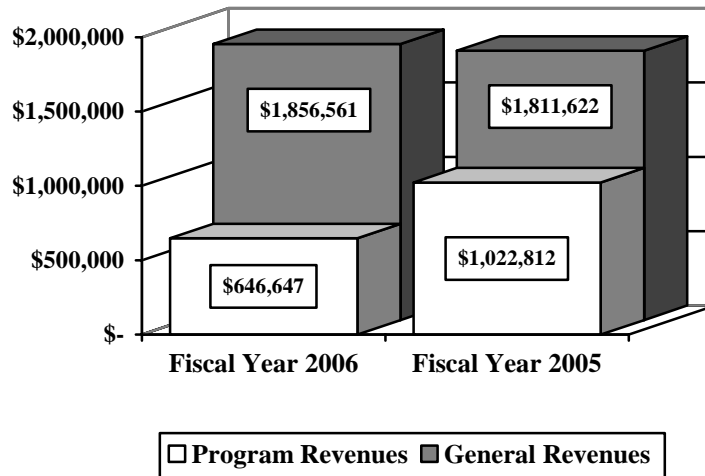
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 423,907	\$ 409,278	\$ 687,215	\$ 593,874
Security of persons and property	1,361,562	1,224,703	1,279,467	1,101,351
Transportation	478,852	233,406	541,187	244,306
Community environment	163,934	(39,909)	399,653	(5,814)
Leisure time activity	96,541	50,671	94,290	45,283
Interest and fiscal charges	32,148	32,148	34,163	34,163
Total	<u>\$ 2,556,944</u>	<u>\$ 1,910,297</u>	<u>\$ 3,035,975</u>	<u>\$ 2,013,163</u>

The dependence upon general revenues for governmental activities is apparent, with 74.71% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2006 and 2005.

Governmental Activities - General and Program Revenues



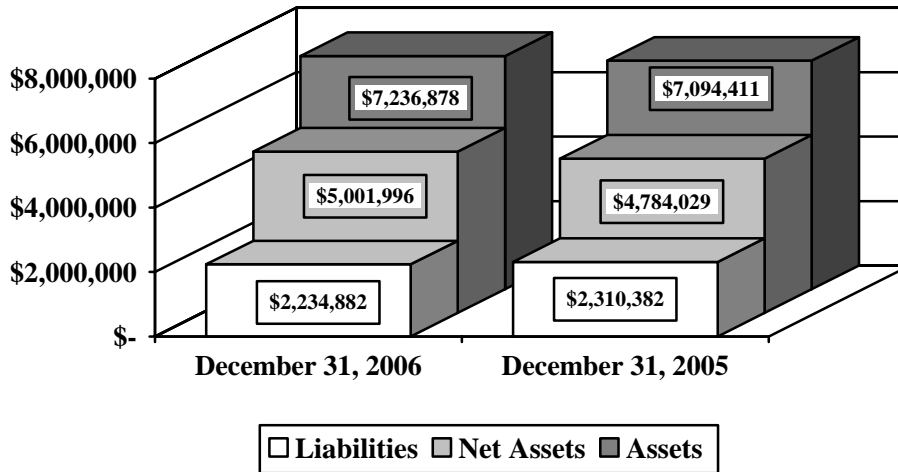
CITY OF CRESTLINE, OHIO

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

Business-type Activities

Business-type activities include the water, sewer, and ambulance service enterprise funds. These programs had program revenues of \$1,584,263, general revenues of \$19,626 and expenses of \$1,410,074 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end. The City's governmental funds (as presented on the balance sheet on page 20) reported a combined fund balance of \$1,271,125, which is \$81,045 greater than last year's total of \$1,190,080. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and nonmajor governmental funds.

	Fund Balances <u>12/31/06</u>	Fund Balances <u>12/31/05</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 12,691	\$ (36,138)	\$ 48,829
Street construction, maintenance & repair	133,441	106,722	26,719
Capital improvements	469,887	461,787	8,100
Other nonmajor governmental funds	<u>655,106</u>	<u>657,709</u>	<u>(2,603)</u>
Total	<u>\$ 1,271,125</u>	<u>\$ 1,190,080</u>	<u>\$ 81,045</u>

CITY OF CRESTLINE, OHIO

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

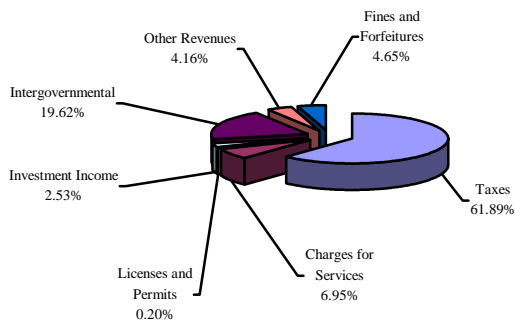
General Fund

The City's general fund balance increased \$48,829. The table that follows assists in illustrating the revenues of the general fund.

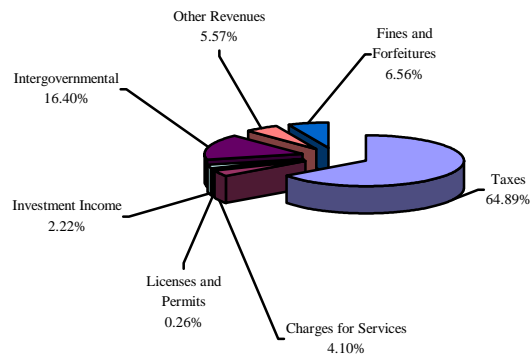
	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 1,029,198	\$ 1,088,847	(5.48) %
Charges for services	115,548	68,760	68.05 %
Licenses and permits	3,356	4,445	(24.50) %
Fines and forfeitures	77,265	110,006	(29.76) %
Investment income	42,061	37,256	12.90 %
Intergovernmental	326,297	275,197	18.57 %
Other	<u>69,158</u>	<u>93,567</u>	(26.09) %
Total	<u>\$ 1,662,883</u>	<u>\$ 1,678,078</u>	(0.91) %

Tax revenue represents 61.89% of all general fund revenue. Tax revenue decreased 5.48% over prior year. The decrease in taxes revenue is due to a decrease in the collections of municipal income taxes.

Revenues – Fiscal Year 2006



Revenues – Fiscal Year 2005



CITY OF CRESTLINE, OHIO

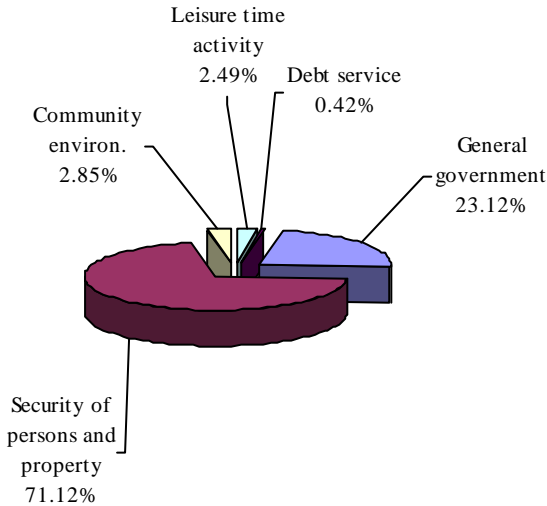
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

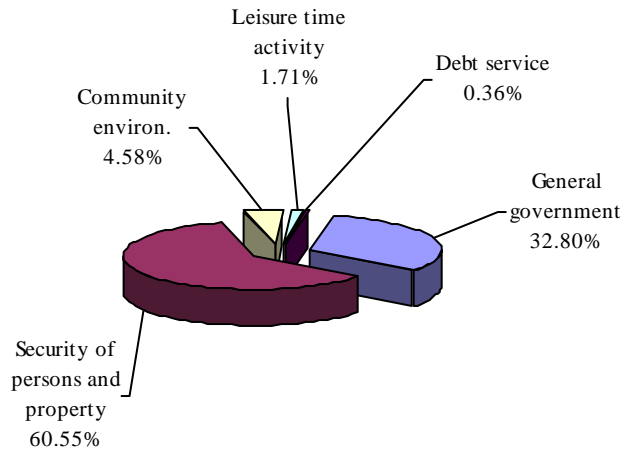
	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 373,139	\$ 611,580	(38.99) %
Security of persons and property	1,148,021	1,128,983	1.69 %
Community environment	46,001	85,366	(46.11) %
Leisure time activity	40,183	31,898	25.97 %
Debt service	<u>6,710</u>	<u>6,709</u>	0.01 %
 Total	 <u>\$ 1,614,054</u>	 <u>\$ 1,864,536</u>	 (13.43) %

The City decreased total expenditures by 13.43%. The largest expenditure line item, security of persons and property increased slightly, which can primarily be attributed to wage and benefit increases compared to 2005. General government expenditures decreased 38.99%, which can primarily be attributed to tighter controls on spending for materials & supplies and professional services.

Expenditures - Fiscal Year 2006



Expenditures - Fiscal Year 2005



Street Construction, Maintenance & Repair Fund

The street construction, maintenance and repair fund had revenues of \$277,916 in 2006. The expenditures of the street construction, maintenance and repair fund totaled \$251,197 in 2006. The fund balance of the street construction, maintenance and repair fund increased \$26,719 from \$106,722 to \$133,441.

Capital Improvements Fund

The capital improvements fund had revenues of \$196,527 in 2006. The expenditures and other financing uses of the capital improvements fund totaled \$188,427 in 2006. The fund balance of the capital improvements fund increased \$8,100 from \$461,787 to \$469,887.

CITY OF CRESTLINE, OHIO

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

Proprietary Funds

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

Budgeting Highlights

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

Budgetary information is presented for the general fund. In the general fund, one of the most significant changes was between the original and final budgeted amount in the area of expenditures, which increased \$740,372 from \$908,033 to \$1,648,405. Actual revenues of \$1,675,804 were more than final budgeted revenues by \$55,371. The other significant change was between the final budgeted expenditures and actual expenditures. Actual expenditures came in \$64,547 lower than the final budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$11,410,443 (net of accumulated depreciation) invested in land, buildings and improvements, improvements other than buildings, furniture and equipment, vehicles, and infrastructure. Of this total, \$5,216,459 was reported in governmental activities and \$6,193,984 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2006 balances compared to 2005:

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

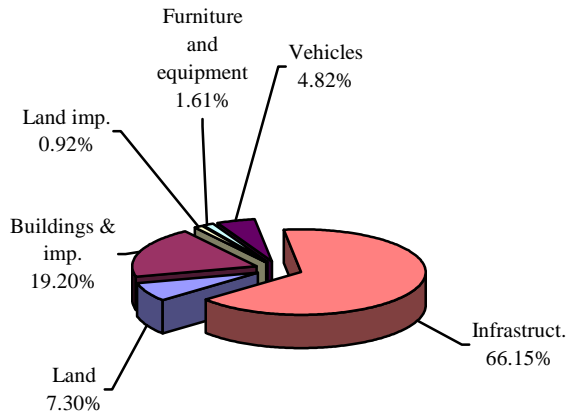
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 380,645	\$ 380,645	\$ 111,558	\$ 111,558	\$ 492,203	\$ 492,203
Land improvements	47,886	49,482	17,290	18,620	65,176	68,102
Buildings and improvements	1,001,754	1,035,449	1,377,780	1,420,870	2,379,534	2,456,319
Furniture and equipment	83,907	98,391	2,916,605	3,031,641	3,000,512	3,130,032
Vehicles	251,612	311,695	183,051	209,084	434,663	520,779
Infrastructure	3,450,655	3,544,317	-	-	3,450,655	3,544,317
Water and sewer lines	-	-	1,587,700	1,522,944	1,587,700	1,522,944
Construction in progress	-	19,455	-	-	-	19,455
Totals	\$ 5,216,459	\$ 5,439,434	\$ 6,193,984	\$ 6,314,717	\$ 11,410,443	\$ 11,754,151

CITY OF CRESTLINE, OHIO

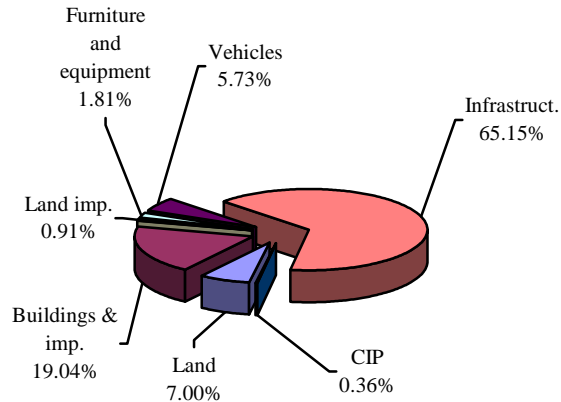
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

**Capital Assets - Governmental Activities
2006**



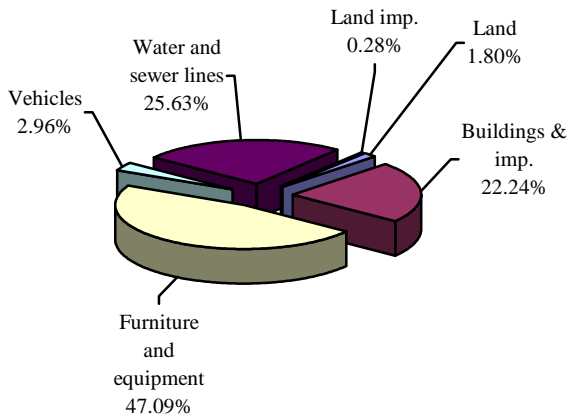
**Capital Assets - Governmental Activities
2005**



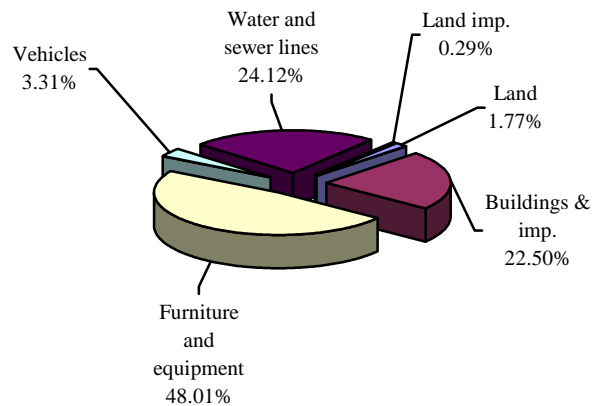
The City's largest capital asset category is infrastructure which includes bridges and streets. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's infrastructure (cost less accumulated depreciation) represents approximately 66.15% of the City's total governmental capital assets.

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

**Capital Assets - Business-Type Activities
2006**



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



The City's second largest business-type capital asset category is water and sewer lines. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's water and sewer lines (cost less accumulated depreciation) represents approximately 25.63% of the City's total business-type capital assets.

CITY OF CRESTLINE, OHIO

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

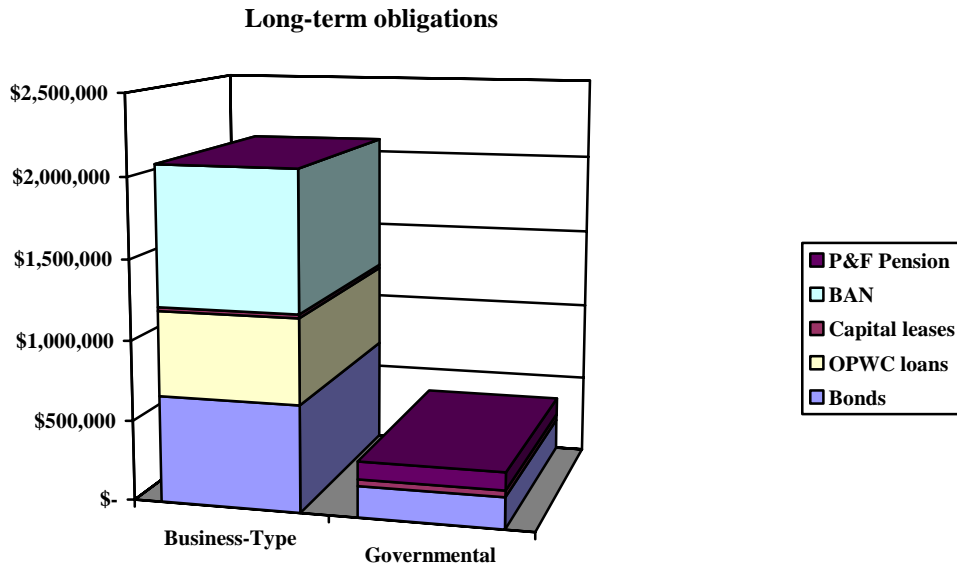
Debt Administration

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

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Capital leases payable	\$ 40,499	\$ 78,698
Police and fire pension	110,164	112,129
General obligation bonds	<u>195,000</u>	<u>260,000</u>
 Total long-term obligations	 <u>\$ 345,663</u>	 <u>\$ 450,827</u>

	<u>Business-type Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenue bonds	\$ 665,000	\$ 780,000
Bond anticipation notes	865,000	876,000
Capital leases	22,782	44,269
OPWC loans	<u>527,655</u>	<u>482,498</u>
 Total long-term obligations	 <u>\$ 2,080,437</u>	 <u>\$ 2,182,767</u>

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



Further detail on the City's long-term obligations can be found in Note 16 to the financial statements.

CITY OF CRESTLINE, OHIO

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

Economic Conditions and Outlook

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

The City is located in Crawford County. Crawford County has an unemployment rate of 6.8%, compared to the 6.0% state average and the 5.1% national average.

State funding is uncertain due to budgetary shortfalls at the state level. It appears Local Government Revenue and Local Government Revenue Assistance Funds may be cut by 10% in the next biennial State budget. These funds represented 19.62% of the City's general fund revenue in 2006. Income and property tax revenues are expected to remain consistent as well as expenditures.

These economic factors were considered in preparing the City's budget for fiscal year 2007. Budgeted revenues and other financing sources in the general fund for fiscal year 2007 are \$1,490,508. The City has continued to practice conservative budgetary practices in order to preserve a positive financial position in future years.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact Kelly Kurtzman, City Auditor, 100 North Seltzer Street, Crestline, Ohio 44827.

**BASIC
FINANCIAL STATEMENTS**

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CITY OF CRESTLINE, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 1,227,012	\$ 733,602	\$ 1,960,614
Cash in segregated accounts	23,377	-	23,377
Cash with fiscal agents.	-	167,986	167,986
Receivables (net of allowances for uncollectibles):			
Income taxes	502,373	-	502,373
Property other taxes	262,141	-	262,141
Accounts	8,779	249,079	257,858
Accrued interest	7,768	-	7,768
Notes.	4,671	-	4,671
Intergovernmental	244,191	-	244,191
Internal balances	118,000	(118,000)	-
Prepayments	29,495	10,227	39,722
Capital assets:			
Land.	380,645	111,558	492,203
Depreciable capital assets, net	4,835,814	6,082,426	10,918,240
Total capital assets, net	<u>5,216,459</u>	<u>6,193,984</u>	<u>11,410,443</u>
Total assets.	<u>7,644,266</u>	<u>7,236,878</u>	<u>14,881,144</u>
Liabilities:			
Accounts payable.	65,744	14,352	80,096
Accrued wages and benefits	38,559	18,189	56,748
Due to other governments	28,931	13,664	42,595
Pension obligation payable.	82,998	7,290	90,288
Deferred revenue.	246,462	-	246,462
Accrued interest payable.	1,217	31,266	32,483
Notes payable	50,000	-	50,000
Long-term liabilities:			
Due within one year	130,917	195,445	326,362
Due in more than one year	352,106	1,954,676	2,306,782
Total liabilities	<u>996,934</u>	<u>2,234,882</u>	<u>3,231,816</u>
Net assets:			
Invested in capital assets, net of related debt	4,930,960	4,113,547	9,044,507
Restricted for:			
Capital projects.	579,059	-	579,059
Debt service	169,421	-	169,421
Transportation projects.	302,255	-	302,255
Community environment programs.	275,054	-	275,054
Revenue bond renewal and replacement.	-	60,000	60,000
Revenue bond future debt service.	-	15,000	15,000
Revenue bond current debt service.	-	167,986	167,986
Other purposes	155,418	-	155,418
Unrestricted.	<u>235,165</u>	<u>645,463</u>	<u>880,628</u>
Total net assets	<u>\$ 6,647,332</u>	<u>\$ 5,001,996</u>	<u>\$ 11,649,328</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 423,907	\$ 14,629	\$ -	\$ -
Security of persons and property.	1,361,562	135,911	948	-
Transportation	478,852	-	245,446	-
Community environment	163,934	51,981	151,862	-
Leisure time activity	96,541	45,870	-	-
Interest and fiscal charges.	32,148	-	-	-
Total governmental activities	<u>2,556,944</u>	<u>248,391</u>	<u>398,256</u>	<u>-</u>
Business-type Activities:				
Water	642,549	785,169	-	-
Sewer	682,828	595,202	-	56,800
Ambulance services.	84,697	147,092	-	-
Total business-type activities	<u>1,410,074</u>	<u>1,527,463</u>	<u>-</u>	<u>56,800</u>
Total primary government.	<u>\$ 3,967,018</u>	<u>\$ 1,775,854</u>	<u>\$ 398,256</u>	<u>\$ 56,800</u>

General Revenues:

Property taxes levied for:

- General purposes.
- Debt service
- Police pension
- Fire pension

Income taxes levied for:

- General purposes.
- Street construction and maintenance.
- Capital improvements
- Grants and entitlements not restricted to specific programs
- Investment earnings
- Miscellaneous

Total general revenues.

Transfers.

Change in net assets.

Net assets at beginning of year

Net assets at end of year

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (409,278)	\$ -	\$ (409,278)
(1,224,703)	-	(1,224,703)
(233,406)	-	(233,406)
39,909	-	39,909
(50,671)	-	(50,671)
(32,148)	-	(32,148)
<u>(1,910,297)</u>	<u>-</u>	<u>(1,910,297)</u>
-	142,620	142,620
-	(30,826)	(30,826)
<u>-</u>	<u>62,395</u>	<u>62,395</u>
-	174,189	174,189
<u>(1,910,297)</u>	<u>174,189</u>	<u>(1,736,108)</u>
162,740	-	162,740
64,756	-	64,756
12,884	-	12,884
12,884	-	12,884
859,392	-	859,392
96,058	-	96,058
189,945	-	189,945
334,075	-	334,075
53,614	-	53,614
70,213	19,626	89,839
1,856,561	19,626	1,876,187
<u>(24,152)</u>	<u>24,152</u>	<u>-</u>
(77,888)	217,967	140,079
<u>6,725,220</u>	<u>4,784,029</u>	<u>11,509,249</u>
<u>\$ 6,647,332</u>	<u>\$ 5,001,996</u>	<u>\$ 11,649,328</u>

CITY OF CRESTLINE, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General	Street Construction, Maintenance and Repair	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents . . .	\$ 32,086	\$ 123,305	\$ 336,581	\$ 735,040	\$ 1,227,012
Cash in segregated accounts	20,058	-	-	3,319	23,377
Receivables (net of allowance for uncollectibles):					
Income taxes	374,552	43,084	84,737	-	502,373
Property and other taxes	172,255	-	-	89,886	262,141
Accounts	8,779	-	-	-	8,779
Accrued interest	6,683	585	-	500	7,768
Notes.	-	-	-	4,671	4,671
Intergovernmental	124,680	85,759	-	33,752	244,191
Interfund loans.	-	-	118,000	-	118,000
Due from other funds	106	-	-	1,510	1,616
Prepayments.	20,722	8,323	450	-	29,495
Total assets	<u>\$ 759,921</u>	<u>\$ 261,056</u>	<u>\$ 539,768</u>	<u>\$ 868,678</u>	<u>\$ 2,429,423</u>
Liabilities:					
Accounts payable	\$ 33,996	\$ 15,431	\$ 1,773	\$ 14,544	\$ 65,744
Accrued wages and benefits.	36,561	1,998	-	-	38,559
Due to other governments.	25,932	2,187	-	812	28,931
Pension obligation payable.	55,054	980	-	26,964	82,998
Deferred revenue	594,177	107,019	68,108	120,772	890,076
Accrued interest payable	-	-	-	374	374
Due to other funds	1,510	-	-	106	1,616
Notes payable	-	-	-	50,000	50,000
Total liabilities	<u>747,230</u>	<u>127,615</u>	<u>69,881</u>	<u>213,572</u>	<u>1,158,298</u>
Fund Balances:					
Reserved for encumbrances.	-	-	55	4,185	4,240
Reserved for prepayments	20,722	8,323	450	-	29,495
Reserved for notes receivable.	-	-	-	4,671	4,671
Reserved for debt service.	-	-	-	161,985	161,985
Unreserved, undesignated (deficit), reported in:					
General fund.	(8,031)	-	-	-	(8,031)
Special revenue funds.	-	125,118	-	438,703	563,821
Capital projects funds.	-	-	469,382	45,562	514,944
Total fund balances	<u>12,691</u>	<u>133,441</u>	<u>469,887</u>	<u>655,106</u>	<u>1,271,125</u>
Total liabilities and fund balances.	<u>\$ 759,921</u>	<u>\$ 261,056</u>	<u>\$ 539,768</u>	<u>\$ 868,678</u>	<u>\$ 2,429,423</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

Total governmental fund balances		\$ 1,271,125
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,216,459
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ 15,679	
Income taxes	403,785	
Fines and forfeitures	8,779	
Intergovernmental revenues	209,035	
Accrued interest	6,336	
Total	643,614	643,614
In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(843)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
General obligations bonds	195,000	
Police and fire pension	110,164	
Compensated absences	137,360	
Capital lease payable	40,499	
	(483,023)	(483,023)
Net assets of governmental activities		\$ 6,647,332

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

	General	Street Construction, Maintenance and Repair	Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues:					
Municipal income taxes	\$ 866,359	\$ 97,271	\$ 192,398	\$ -	\$ 1,156,028
Property and other taxes	162,839	-	-	91,795	254,634
Charges for services	115,548	-	-	45,870	161,418
Licenses and permits	3,356	-	-	-	3,356
Fines and forfeitures	77,265	-	-	7,731	84,996
Intergovernmental	326,297	176,550	-	225,077	727,924
Investment income	42,061	3,689	-	7,042	52,792
Rental income	5,074	-	-	-	5,074
Other	64,084	406	4,129	1,593	70,212
Total revenues	1,662,883	277,916	196,527	379,108	2,516,434
Expenditures:					
Current:					
General government	373,139	-	-	-	373,139
Security of persons and property	1,148,021	-	-	43,698	1,191,719
Transportation	-	251,197	-	74,833	326,030
Community environment	46,001	-	-	117,933	163,934
Leisure time activity	40,183	-	-	48,517	88,700
Capital outlay	-	-	121,338	8,006	129,344
Debt service:					
Principal retirement	1,965	-	38,199	65,000	105,164
Interest and fiscal charges	4,745	-	4,738	23,724	33,207
Total expenditures	1,614,054	251,197	164,275	381,711	2,411,237
Excess (deficiency) of revenues over (under) expenditures	48,829	26,719	32,252	(2,603)	105,197
Other financing sources (uses):					
Transfers in	-	-	-	106,658	106,658
Transfers out	-	-	(24,152)	(106,658)	(130,810)
Total other financing sources (uses)	-	-	(24,152)	-	(24,152)
Net change in fund balances	48,829	26,719	8,100	(2,603)	81,045
Fund balances (deficit) at beginning of year . .	(36,138)	106,722	461,787	657,709	1,190,080
Fund balances at end of year	\$ 12,691	\$ 133,441	\$ 469,887	\$ 655,106	\$ 1,271,125

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

Net change in fund balances - total governmental funds	\$	81,045
 <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. Depreciation expense exceeds capital outlays in the current period accordingly.		(222,975)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	\$ (10,633)	
Property and other taxes	(1,370)	
Fines and forfeitures	(6,453)	
Intergovernmental	4,408	
Accrued interest	822	
		(13,226)
Repayment of bond, note and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		105,164
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		1,059
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.		(28,955)
Change in net assets of governmental activities	\$	(77,888)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal income taxes	\$ 886,404	\$ 886,404	\$ 895,665	\$ 9,261
Property and other taxes	159,840	159,840	162,839	2,999
Charges for services	53,525	53,525	115,548	62,023
Licenses and permits	3,800	3,800	3,356	(444)
Fines and forfeitures	95,270	95,270	73,686	(21,584)
Intergovernmental	335,315	335,315	326,297	(9,018)
Investment income	45,000	45,000	33,780	(11,220)
Rental income	5,000	5,000	5,074	74
Other	36,279	36,279	59,559	23,280
Total revenues.	1,620,433	1,620,433	1,675,804	55,371
Expenditures:				
Current:				
General government	263,730	391,910	370,262	21,648
Security of persons and property	593,744	1,150,650	1,111,201	39,449
Community environment	25,000	63,386	63,348	38
Leisure time activity	25,559	42,459	39,047	3,412
Total expenditures	908,033	1,648,405	1,583,858	64,547
 Net change in fund balance	 712,400	 (27,972)	 91,946	 119,918
Fund balance (deficit) at beginning of year	(66,778)	(66,778)	(66,778)	-
Prior year encumbrances appropriated	12,302	12,302	12,302	-
 Fund balance (deficit) at end of year	 \$ 657,924	 \$ (82,448)	 \$ 37,470	 \$ 119,918

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Municipal income taxes	\$ 100,965	\$ 100,965	\$ 100,775	\$ (190)
Intergovernmental	159,000	159,000	175,564	16,564
Investment income	3,500	3,500	2,956	(544)
Other	-	-	406	406
Total revenues.	<u>263,465</u>	<u>263,465</u>	<u>279,701</u>	<u>16,236</u>
Expenditures:				
Current:				
Transportation	<u>152,908</u>	<u>285,722</u>	<u>246,106</u>	<u>39,616</u>
Total expenditures	<u>152,908</u>	<u>285,722</u>	<u>246,106</u>	<u>39,616</u>
Net change in fund balance	110,557	(22,257)	33,595	55,852
Fund balance at beginning of year	72,841	72,841	72,841	-
Prior year encumbrances appropriated	<u>10,736</u>	<u>10,736</u>	<u>10,736</u>	<u>-</u>
Fund balance at end of year	<u>\$ 194,134</u>	<u>\$ 61,320</u>	<u>\$ 117,172</u>	<u>\$ 55,852</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	Business-type Activities -Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 457,517	\$ 67,791	\$ 133,294	\$ 658,602
Receivables (net of allowance for uncollectibles):				
Accounts	117,969	89,337	41,773	249,079
Prepayments.	<u>7,397</u>	<u>2,826</u>	<u>4</u>	<u>10,227</u>
Total current assets	<u>582,883</u>	<u>159,954</u>	<u>175,071</u>	<u>917,908</u>
Noncurrent Assets:				
Restricted assets:				
Cash with fiscal agents.	167,986	-	-	167,986
Equity in pooled cash and cash equivalents	75,000	-	-	75,000
Capital assets:				
Land	74,323	37,235	-	111,558
Depreciable capital assets, net	<u>2,600,742</u>	<u>3,292,787</u>	<u>188,897</u>	<u>6,082,426</u>
Total capital assets	<u>2,675,065</u>	<u>3,330,022</u>	<u>188,897</u>	<u>6,193,984</u>
Total noncurrent assets	<u>2,918,051</u>	<u>3,330,022</u>	<u>188,897</u>	<u>6,436,970</u>
Total assets	<u>3,500,934</u>	<u>3,489,976</u>	<u>363,968</u>	<u>7,354,878</u>
Liabilities:				
Current liabilities:				
Accounts payable.	6,690	6,391	1,271	14,352
Accrued wages and benefits	9,077	8,926	186	18,189
Compensated absences	7,554	7,554	-	15,108
Due to other governments	6,531	6,504	629	13,664
Interfund loan payable.	-	118,000	-	118,000
Pension obligation payable	3,672	3,450	168	7,290
Accrued interest payable	3,165	28,101	-	31,266
Current portion of bond anticipation notes payable	-	12,000	-	12,000
Current portion of revenue bonds	120,000	-	-	120,000
Current portion of OPWC loans payable.	-	25,555	-	25,555
Current portion of capital lease obligation	-	-	22,782	22,782
Total current liabilities	<u>156,689</u>	<u>216,481</u>	<u>25,036</u>	<u>398,206</u>
Long-term liabilities:				
Revenue bonds	545,000	-	-	545,000
OPWC loans	-	502,100	-	502,100
Bond anticipation notes payable.	-	853,000	-	853,000
Compensated absences	<u>27,288</u>	<u>27,288</u>	<u>-</u>	<u>54,576</u>
Total long-term liabilities	<u>572,288</u>	<u>1,382,388</u>	<u>-</u>	<u>1,954,676</u>
Total liabilities	<u>728,977</u>	<u>1,598,869</u>	<u>25,036</u>	<u>2,352,882</u>
Net assets:				
Invested in capital assets, net of related debt.	2,010,065	1,937,367	166,115	4,113,547
Restricted:				
Revenue bond renewal and replacement	60,000	-	-	60,000
Revenue bond future debt service	15,000	-	-	15,000
Revenue bond current debt service	167,986	-	-	167,986
Unrestricted	<u>518,906</u>	<u>(46,260)</u>	<u>172,817</u>	<u>645,463</u>
Total net assets	<u>\$ 2,771,957</u>	<u>\$ 1,891,107</u>	<u>\$ 338,932</u>	<u>\$ 5,001,996</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Operating revenues:				
Charges for services	\$ 785,169	\$ 595,202	\$ 147,092	\$ 1,527,463
Other	8,568	11,058	-	19,626
Total operating revenues	<u>793,737</u>	<u>606,260</u>	<u>147,092</u>	<u>1,547,089</u>
Operating expenses:				
Personal services	329,473	327,302	25,507	682,282
Contract services	73,033	118,787	17,132	208,952
Materials and supplies	58,580	23,459	8,820	90,859
Utilities	35,303	69,943	-	105,246
Depreciation	96,480	107,885	30,387	234,752
Other	496	483	186	1,165
Total operating expenses.	<u>593,365</u>	<u>647,859</u>	<u>82,032</u>	<u>1,323,256</u>
Operating income (loss)	<u>200,372</u>	<u>(41,599)</u>	<u>65,060</u>	<u>223,833</u>
Nonoperating revenues (expenses):				
Intergovernmental.	-	56,800	-	56,800
Interest expense and fiscal charges	(49,184)	(34,969)	(2,665)	(86,818)
Total nonoperating revenues (expenses)	<u>(49,184)</u>	<u>21,831</u>	<u>(2,665)</u>	<u>(30,018)</u>
Income (loss) before transfers	151,188	(19,768)	62,395	193,815
Transfers in.	-	-	24,152	24,152
Changes in net assets	151,188	(19,768)	86,547	217,967
Net assets at beginning of year	<u>2,620,769</u>	<u>1,910,875</u>	<u>252,385</u>	<u>4,784,029</u>
Net assets at end of year	<u>\$ 2,771,957</u>	<u>\$ 1,891,107</u>	<u>\$ 338,932</u>	<u>\$ 5,001,996</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds			
	Water	Sewer	Nonmajor	Total
Cash flows from operating activities:				
Cash received from customers	\$ 761,987	\$ 577,042	\$ 127,712	\$ 1,466,741
Cash received from other operations.	8,568	11,058	-	19,626
Cash payments for personal services	(323,721)	(322,852)	(25,026)	(671,599)
Cash payments for contract services	(64,132)	(107,364)	(15,697)	(187,193)
Cash payments for materials and supplies	(59,778)	(27,085)	(8,820)	(95,683)
Cash payments for utilities.	(35,303)	(69,943)	-	(105,246)
Cash payments for other expenses.	(496)	(483)	(186)	(1,165)
Net cash provided by operating activities.	<u>287,125</u>	<u>60,373</u>	<u>77,983</u>	<u>425,481</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	-	-	24,152	24,152
Cash received from grants and subsidies	-	56,800	-	56,800
Net cash provided by noncapital financing activities	<u>-</u>	<u>56,800</u>	<u>24,152</u>	<u>80,952</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	(114,019)	-	(114,019)
Principal retirement on revenue bonds	(115,000)	-	-	(115,000)
Principal retirement on OPWC loans.	-	(12,062)	-	(12,062)
Principal retirement on notes	-	(876,000)	-	(876,000)
Principal retirement on capital leases.	-	-	(21,487)	(21,487)
OPWC loan.	-	57,219	-	57,219
Sale of notes.	-	865,000	-	865,000
Interest and fiscal charges.	(46,194)	(27,144)	(2,665)	(76,003)
Net cash used in capital and related financing activities	<u>(161,194)</u>	<u>(107,006)</u>	<u>(24,152)</u>	<u>(292,352)</u>
Net increase in cash and cash equivalents	125,931	10,167	77,983	214,081
Cash and cash equivalents at beginning of year . . .	<u>574,572</u>	<u>57,624</u>	<u>55,311</u>	<u>687,507</u>
Cash and cash equivalents at end of year.	<u><u>\$ 700,503</u></u>	<u><u>\$ 67,791</u></u>	<u><u>\$ 133,294</u></u>	<u><u>\$ 901,588</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 200,372	\$ (41,599)	\$ 65,060	\$ 223,833
Adjustments:				
Depreciation	96,480	107,885	30,387	234,752
Changes in assets and liabilities:				
Increase in accounts receivable	(23,182)	(18,160)	(19,380)	(60,722)
Decrease in prepayments	4,442	6,997	164	11,603
Increase in accounts payable.	3,425	964	1,271	5,660
Increase (decrease) in accrued wages and benefits . .	734	584	(137)	1,181
Increase in due to other governments	2,564	1,985	619	5,168
Increase in pension obligation payable.	1,304	731	126	2,161
Increase (decrease) in compensated absences payable.	986	986	(127)	1,845
Net cash provided by operating activities	<u><u>\$ 287,125</u></u>	<u><u>\$ 60,373</u></u>	<u><u>\$ 77,983</u></u>	<u><u>\$ 425,481</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

	Private-Purpose Trust
Assets:	
Equity in pooled cash and cash equivalents	\$ 28,029
Total assets.	<u>28,029</u>
Net assets:	
Held in trust for other purposes	<u>28,029</u>
Total net assets	<u><u>\$ 28,029</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	Private-Purpose Trust
Additions:	
Gifts and contributions.	\$ 7,000
Total Additions.	7,000
 Deductions:	
Other.	3,000
Changes in net assets	4,000
Net assets at the beginning of the year.	24,029
Net assets at the end of the year	\$ 28,029

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF CRESTLINE, OHIO

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

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

A. The City

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

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; (3) the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City in 2006.

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

CITY OF CRESTLINE, OHIO

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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

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

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

B. Fund Accounting

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

CITY OF CRESTLINE, OHIO

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

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

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

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

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

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

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

Proprietary Funds - Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no internal service funds.

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

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

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

The City has one nonmajor enterprise fund to account for the operations of providing ambulance services within the City.

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

CITY OF CRESTLINE, OHIO

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

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

C. Measurement Focus

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

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

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

D. Basis of Accounting

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

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

CITY OF CRESTLINE, OHIO

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

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

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

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, and interest.

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

Property taxes for which there was an enforceable legal claim at December 31, 2006 but were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

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

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

E. Budgetary Process

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

CITY OF CRESTLINE, OHIO

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

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

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

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

F. Cash and Investments

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

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

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

At December 31, 2006, the City had monies invested in nonnegotiable certificates of deposit, federal agency securities, and U.S. government money market mutual funds. Investments are reported at fair value, except for nonnegotiable certificates of deposit, which are reported at cost. Fair value is based on quoted market prices or current share price for mutual funds.

Interest earnings are allocated to City funds according to State statutes, grant requirements, or debt related restrictions. Interest revenue credited to the General Fund during 2006 was \$42,061 which was entirely assigned from other City funds.

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

G. Prepaid Items

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

CITY OF CRESTLINE, OHIO

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

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

H. Restricted Assets

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

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

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

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

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

CITY OF CRESTLINE, OHIO

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

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

J. Interfund Receivables/Payables

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

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

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

CITY OF CRESTLINE, OHIO

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

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for construction, repair, and maintenance of streets and highways, the community development block grant program, and various police and fire department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

N. Fund Balance Reserves

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

O. Operating Revenues and Expenses

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

P. Interfund Transactions

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

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

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. The City had no extraordinary or special items in 2006.

CITY OF CRESTLINE, OHIO

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

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

R. Estimates

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

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

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

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

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

B. Deficit Fund Balances

Fund balances at December 31, 2006, included the following individual fund deficits:

<u>Nonmajor Governmental Funds</u>	<u>Deficit</u>
Swimming Pool	\$ 929
Police Pension	12,874
Fire Pension	12,874

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits and provides transfers when cash is required, not when accruals occur.

C. Noncompliance

Contrary to Ohio Revised Code 5705.39, the City had appropriations in excess of estimated resources in the following funds:

<u>Major Funds</u>	<u>Excess</u>
General Fund	\$ 82,448
Sewer Fund	207,128

CITY OF CRESTLINE, OHIO

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

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Net Change in Fund Balance

	<u>General</u>	<u>Street Construction, Maintenance and Repair</u>
Budget basis	\$ 91,946	\$ 33,595
Net adjustment for revenue accruals	(12,921)	(1,785)
Net adjustment for expenditure accruals	(39,070)	(12,462)
Adjustment for encumbrances	<u>8,874</u>	<u>7,371</u>
GAAP basis	<u>\$ 48,829</u>	<u>\$ 26,719</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

CITY OF CRESTLINE, OHIO

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

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

CITY OF CRESTLINE, OHIO

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

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Cash with Fiscal Agents

At year-end, the City had \$167,986 on deposit with Huntington National Bank. Information regarding the City's Water System Revenue Bonds can be obtained from the city auditor. This amount is not included in the City's depository balance below.

B. Cash on Hand

At year-end, the City had \$1,000 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." This amount is not included in the City's depository balance below.

C. Cash in Segregated Accounts

At year-end, the City had \$20,058 deposited with a financial institution for monies related to the Mayor's Court which is reported as a component of the City's general fund and the remaining \$3,319 related to DARE is reported in other governmental funds. This amount is included in the City's depository balance below.

D. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits was \$1,255,865. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2006, \$940,512 of the City's bank balance of \$1,244,512 was exposed to custodial risk as discussed below, while \$304,000 was covered by Federal Deposit Insurance Corporation.

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

CITY OF CRESTLINE, OHIO

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

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

E. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
FHLB	\$ 191,648	\$ -	\$ -	\$ -	\$ 191,648
FHLMC	146,309	-	63,913	-	82,396
FNMA	407,592	123,922	44,930	-	238,740
Money market fund	<u>9,606</u>	<u>9,606</u>	-	-	-
	<u>\$ 755,155</u>	<u>\$ 133,528</u>	<u>\$ 108,843</u>	<u>\$ -</u>	<u>\$ 512,784</u>

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

Credit Risk: The City's investments in federal agency securities carry a rating of AAA by Standard & Poor's and Aaa by Moody's.

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

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, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
FHLB	\$ 191,648	25.38 %
FHLMC	146,309	19.37 %
FNMA	407,592	53.97 %
Money market fund	<u>9,606</u>	<u>1.28</u> %
	<u>\$ 755,155</u>	<u>100.00</u> %

CITY OF CRESTLINE, OHIO

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

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

F. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per note</u>	
Carrying amount of deposits	\$ 1,255,865
Investments	755,155
Cash with fiscal agents	167,986
Cash on hand	<u>1,000</u>
 Total	 <u>\$ 2,180,006</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,250,389
Business type activities	901,588
Private-purpose trust fund	<u>28,029</u>
 Total	 <u>\$ 2,180,006</u>

NOTE 6 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), notes, accrued interest and intergovernmental receivables arising from grants, entitlements, and shared revenue. Receivables have been recorded to the extent that they are both measurable and available at December 31, 2006, as well as intended to finance 2006 operations.

Notes receivable represent low interest loans for development projects granted to eligible City businesses under the Federal Community Development Block Grant program. The notes have an annual interest rate of 5 percent and are repaid over periods ranging from 7 to 10 years. Notes receivable, in the amount of \$4,671, will not be received within one year.

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

Governmental Activities:

Income taxes	\$ 502,373
Property and other taxes	262,141
Accounts	8,779
Accrued interest	7,768
Notes	4,671
Intergovernmental	244,191

Business-Type Activities:

Accounts	249,079
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CITY OF CRESTLINE, OHIO

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

NOTE 7 - MUNICIPAL INCOME TAXES

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

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2004, were levied after October 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

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

CITY OF CRESTLINE, OHIO

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

NOTE 8 - PROPERTY TAXES - (Continued)

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2006, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2006 operations.

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

The full tax rate for all City operations for the year ended December 31, 2006, was \$7.20 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property	\$ 50,765,780
Public Utility Property	1,925,100
Tangible Personal Property	<u>966,630</u>
Total	<u>\$ 53,657,510</u>

NOTE 9 - CAPITAL ASSETS

The balances of governmental activities land improvements and buildings accumulated depreciation have been reclassified. Land improvements accumulated depreciation has been restated from \$75,485 to \$43,386 and buildings accumulated depreciation from \$697,815 to \$729,914 at December 31, 2005. This reclassification of accumulated depreciation between the categories of land improvements and buildings did not have an effect on net assets as of December 31, 2005.

CITY OF CRESTLINE, OHIO

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

NOTE 9 - CAPITAL ASSETS - (Continued)

The following activity occurred in the City's governmental activities and business-type activities capital assets during 2006:

	Restated Balance 12/31/05	Additions	Deductions	Balance 12/31/06
<u>Governmental Activities:</u>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 380,645	\$ -	\$ -	\$ 380,645
Construction in progress	<u>19,455</u>	<u>-</u>	<u>(19,455)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>400,100</u>	<u>-</u>	<u>(19,455)</u>	<u>380,645</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	92,868	-	-	92,868
Buildings	1,765,363	-	-	1,765,363
Equipment	261,029	-	-	261,029
Vehicles	1,002,040	-	-	1,002,040
Infrastructure:				
Streets	5,323,728	19,455	-	5,343,183
Bridges	<u>56,486</u>	<u>-</u>	<u>-</u>	<u>56,486</u>
Total capital assets, being depreciated	<u>8,501,514</u>	<u>19,455</u>	<u>-</u>	<u>8,520,969</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(43,386)	(1,596)	-	(44,982)
Buildings	(729,914)	(33,695)	-	(763,609)
Equipment	(162,638)	(14,484)	-	(177,122)
Vehicles	(690,345)	(60,083)	-	(750,428)
Infrastructure:				
Streets	(1,806,517)	(111,987)	-	(1,918,504)
Bridges	<u>(29,380)</u>	<u>(1,130)</u>	<u>-</u>	<u>(30,510)</u>
Total accumulated depreciation	<u>(3,462,180)</u>	<u>(222,975)</u>	<u>-</u>	<u>(3,685,155)</u>
Total capital assets, being depreciated, net	<u>5,039,334</u>	<u>(203,520)</u>	<u>-</u>	<u>4,835,814</u>
Governmental activities capital assets, net	<u>\$ 5,439,434</u>	<u>\$ (203,520)</u>	<u>\$ (19,455)</u>	<u>\$ 5,216,459</u>

CITY OF CRESTLINE, OHIO

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

NOTE 9 - CAPITAL ASSETS - (Continued)

<u>Business-Type Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 111,558	\$ -	\$ -	\$ 111,558
Total capital assets, not being depreciated	<u>111,558</u>	<u>-</u>	<u>-</u>	<u>111,558</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	133,000	-	-	133,000
Buildings	2,159,900	-	-	2,159,900
Water, Sewer, and Storm Water Lines	2,406,122	114,019	-	2,520,141
Equipment	4,518,775	-	-	4,518,775
Vehicles	<u>477,216</u>	<u>-</u>	<u>-</u>	<u>477,216</u>
Total capital assets, being depreciated	<u>9,695,013</u>	<u>114,019</u>	<u>-</u>	<u>9,809,032</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(114,380)	(1,330)	-	(115,710)
Buildings	(739,030)	(43,090)	-	(782,120)
Water, Sewer, and Storm Water Lines	(883,178)	(49,263)	-	(932,441)
Equipment	(1,487,134)	(115,036)	-	(1,602,170)
Vehicles	<u>(268,132)</u>	<u>(26,033)</u>	<u>-</u>	<u>(294,165)</u>
Total accumulated depreciation	<u>(3,491,854)</u>	<u>(234,752)</u>	<u>-</u>	<u>(3,726,606)</u>
Total capital assets, being depreciated, net	<u>6,203,159</u>	<u>(120,733)</u>	<u>-</u>	<u>6,082,426</u>
Business-type activities capital assets, net	<u>\$ 6,314,717</u>	<u>\$ (120,733)</u>	<u>\$ -</u>	<u>\$ 6,193,984</u>

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

Governmental activities:	
General government	\$ 8,550
Security of persons and property	84,701
Transportation	121,883
Leisure time activity	<u>7,841</u>
Total depreciation expense - governmental activities	<u>\$ 222,975</u>

CITY OF CRESTLINE, OHIO

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

NOTE 9 - CAPITAL ASSETS - (Continued)

Business-type activities:

Sewer	\$ 107,885
Water	96,480
Ambulance	<u>30,387</u>
Total depreciation expense - business-type activities	<u>\$ 234,752</u>

NOTE 10 - INTERFUND TRANSACTIONS

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

	Due to other funds	Due from other funds
Major Fund:		
General	\$ 1,510	\$ 106
Nonmajor Governmental Funds	<u>106</u>	<u>1,510</u>
Total	<u>\$ 1,616</u>	<u>\$ 1,616</u>

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

- B. Long-term interfund loans consisted of the following at December 31, 2006, as reported on the fund financial statements:

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

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

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

	<u>Transfers From</u>		
<u>Transfers to</u>	<u>Capital Improvements</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Nonmajor governmental	\$ -	\$ 106,658	\$ 106,658
Ambulance	<u>24,152</u>	<u>-</u>	<u>24,152</u>
Total	<u>\$ 24,152</u>	<u>\$ 106,658</u>	<u>\$ 130,810</u>

CITY OF CRESTLINE, OHIO

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

NOTE 10 - INTERFUND TRANSACTIONS - (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The transfer from the Capital Improvement fund to the Ambulance fund was recorded to move principal and interest payments on a capital lease obligation to the proper fund that utilizes the related capital asset. The transfer in the amount of \$106,658 is from the Debt Service fund to the Swimming Pool Capital Projects fund where the proceeds of the debt were recorded.

The transfers during 2006 were made in accordance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

NOTE 11 - RISK MANAGEMENT

A. Property and Casualty Insurance

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted for the following insurance coverage.

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
General Liability		
Each Occurrence	\$ 1,000,000	\$ -
Annual Aggregate	3,000,000	-
Employer's Liability	1,000,000	-
Wrongful Acts Liability		
Each Occurrence	1,000,000	5,000
Annual Aggregate	1,000,000	5,000
Excess Liability		
Each Occurrence	2,000,000	-
Annual Aggregate	2,000,000	-
Law Enforcement Officers Liability		
Each Occurrence	1,000,000	5,000
Annual Aggregate	1,000,000	5,000
Property (building and contents)	12,247,565	1,000
Inland Marine	662,759	1,000
Automobile Coverage		
Liability	1,000,000	-
Medical Payments	10,000	-

There has been no significant reduction in insurance coverage from 2005, and no insurance settlement has exceeded insurance coverage during the last three years.

CITY OF CRESTLINE, OHIO

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

NOTE 11 - RISK MANAGEMENT - (Continued)

For 2006, the City participated in the Ohio Government Risk Management (Plan), an insurance purchasing pool. Each participant enters into an individual agreement with the Plan for insurance coverage and pays annual premiums to the Plan based on the types and limits of coverage and deductibles selected by the participant.

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

B. Employee Health Benefits

The City provides employee medical and dental insurance. Medical insurance is provided by Anthem and dental is provided by Delta Dental. The risk of loss transfers entirely to the insurance carriers. The City pays 100% of the premiums.

NOTE 12 - PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member- directed plan do not qualify for ancillary benefits. Authority to established and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 9.20%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 12.43% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

CITY OF CRESTLINE, OHIO

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

NOTE 12 - PENSION PLANS - (Continued)

The City's contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$127,647, \$118,924, and \$111,116, respectively; 100% has been contributed for 2005 and 2004. 90.55% has been contributed for 2006 with the remainder of \$12,068 being reported as a liability within the respective funds. The City and plan members did not make any contributions to the member-directed plan for 2006.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10.0% of their annual covered salary, while the City is required to contribute 19.50% and 24.0% for police officers and firefighters, respectively. The portion of the City's contributions to fund pension obligations was 11.75% for police officers and 16.25% for firefighters. The City's contributions to the fund for police and firefighters were \$125,856, \$140,890, \$146,422, respectively. The full amount has been contributed for 2005 and 2004; 43.44% has been contributed for 2006 with the remainder of \$71,184 being reported as a liability.

NOTE 13 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

CITY OF CRESTLINE, OHIO

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

NOTE 13 - POSTRETIREMENT BENEFIT PLANS - (Continued)

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

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$41,928. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

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

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers".

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$24,058 for police and \$21,078 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

CITY OF CRESTLINE, OHIO

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

NOTE 14 - COMPENSATED ABSENCES

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

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

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

NOTE 15 - NOTES PAYABLE

The City's note transactions for the year ended December 31, 2006, were as follows:

	<u>Interest</u>	<u>Balance</u>			<u>Balance</u>
	<u>Rate</u>	<u>12/31/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>12/31/06</u>
Governmental Activities					
General Obligation Bond Anticipation Notes					
Capital Projects Fund					
2005 Swimming Pool Note	4.50%	\$ 100,000	\$ -	\$ (100,000)	\$ -
2006 Swimming Pool Note	5.05%	-	<u>50,000</u>	-	<u>50,000</u>
Total Governmental Activities		<u>\$ 100,000</u>	<u>\$ 50,000</u>	<u>\$ (100,000)</u>	<u>\$ 50,000</u>

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

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

CITY OF CRESTLINE, OHIO

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

NOTE 16 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2006, was as follows:

	Interest Rate	Principal Outstanding 12/31/05	Issued	Retired	Principal Outstanding 12/31/06	Amount Due in One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
1992 City Hall Bonds	5.88%	\$ 260,000	\$ -	\$ (65,000)	\$ 195,000	\$ 65,000
Other Long-Term Obligations						
Capital leases payable		78,698	-	(38,199)	40,499	40,499
Police and fire pension liability		112,129	-	(1,965)	110,164	2,049
Compensated absences payable		<u>108,405</u>	<u>58,500</u>	<u>(29,545)</u>	<u>137,360</u>	<u>23,369</u>
Total other long-term obligations		<u>299,232</u>	<u>58,500</u>	<u>(69,709)</u>	<u>288,023</u>	<u>65,917</u>
Total governmental long-term liabilities		<u>\$ 559,232</u>	<u>\$ 58,500</u>	<u>\$ (134,709)</u>	<u>\$ 483,023</u>	<u>\$ 130,917</u>
<u>Business-Type Activities</u>						
Mortgage Revenue Bonds						
1996 Water Bonds		\$ 780,000	\$ -	\$ (115,000)	\$ 665,000	\$ 120,000
OPWC loans						
West Side Storm Sewer		482,498	-	(12,062)	470,436	24,125
Cloverdale Ave. Sewer Replacement		-	57,219	-	57,219	1,430
Bond Anticipation Notes		876,000	865,000	(876,000)	865,000	12,000
Other Long-Term Obligations						
Capital leases payable		44,269	-	(21,487)	22,782	22,782
Compensated absences payable		<u>67,839</u>	<u>19,441</u>	<u>(17,596)</u>	<u>69,684</u>	<u>15,108</u>
Total other long-term obligations		<u>112,108</u>	<u>19,441</u>	<u>(39,083)</u>	<u>92,466</u>	<u>37,890</u>
Total business-type long-term liabilities		<u>\$ 2,250,606</u>	<u>\$ 941,660</u>	<u>\$ (1,042,145)</u>	<u>\$ 2,150,121</u>	<u>\$ 195,445</u>

General Obligation Bonds

The City Hall Bonds were issued for constructing, furnishing, and equipping new facilities to house municipal operations, including the police and fire departments. The bonds pledge the full faith and credit and taxing ability of the City. As of December 31, 2006, the balance of unpaid principal was \$195,000, with future annual principal payments of \$65,000 through 2009.

Mortgage Revenue Bonds

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

Fund assets, whose use are restricted under the bond indenture, are presented as restricted assets on the statement of net assets. At December 31, 2006, restricted assets relating to the 1996 water mortgage revenue bonds were as follows:

CITY OF CRESTLINE, OHIO

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

NOTE 16 - LONG-TERM OBLIGATIONS - (Continued)

Restricted Assets Held by the City	
Renewal and Replacement	\$ 60,000
Future Debt Service	15,000
Restricted Assets Held by the Trustees	
Current Debt Service	167,986

The Water Mortgage Revenue Bonds were issued in 1996 to finance improvements to the water system. Payment of the bonds is secured by a pledge of the net revenues of the Water enterprise fund. As of December 31, 2006, the balance of unpaid principal was \$665,000, with future annual payments ranging from \$120,000 to \$150,000 through 2011.

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

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

Bond Anticipation Notes

The sewer improvement notes were issued on March 28, 2006 for improving the quality and capacity of treatment and retention capacity at the wastewater treatment plant by constructing an aeration tank, sludge holding tanks, and providing pumping, piping, and electrical facilities. They were issued at a 4% interest rate and have a due date of March 27, 2007.

Capital Leases Payable

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

Police and Fire Pension Liability

The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police and fire personnel in 1967. The liability is payable semiannually from the General fund.

Compensated Absences Payable

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

OPWC Loans

OPWC loans consist of money owed to the Ohio Public Works Commission for the replacement of the West Side Storm Sewer, upgrades to the City's wastewater treatment plant and for the replacement of the Cloverdale Avenue Sewer. The loans are interest free. OPWC loans are payable solely from the gross revenues of the Sewer enterprise fund.

CITY OF CRESTLINE, OHIO

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

NOTE 16 - LONG-TERM OBLIGATIONS - (Continued)

At December 31, 2006, the City's voted legal debt margin and unvoted legal debt margin was \$5,601,024 and \$2,756,163, respectively.

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

Year Ending December 31,	Governmental Activities					
	G. O. Bonds			Police and Fire Pension		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 65,000	\$ 11,456	\$ 76,456	\$ 2,049	\$ 4,661	\$ 6,710
2008	65,000	7,638	72,638	2,137	4,572	6,709
2009	65,000	3,819	68,819	2,229	4,481	6,710
2010	-	-	-	2,325	4,385	6,710
2011	-	-	-	2,425	4,285	6,710
2012 - 2016	-	-	-	13,778	19,772	33,550
2017 - 2021	-	-	-	17,003	16,547	33,550
2022 - 2026	-	-	-	20,981	12,567	33,548
2027 - 2031	-	-	-	25,890	7,657	33,547
2032 - 2035	-	-	-	21,347	1,833	23,180
Total	<u>\$ 195,000</u>	<u>\$ 22,913</u>	<u>\$ 217,913</u>	<u>\$ 110,164</u>	<u>\$ 80,760</u>	<u>\$ 190,924</u>

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

Year Ending December 31,	Business-Type Activities					
	Mortgage Revenue Bonds			OPWC Loans		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 120,000	\$ 37,980	\$ 157,980	\$ 25,555	\$ -	\$ 25,555
2008	125,000	31,380	156,380	26,986	-	26,986
2009	130,000	24,380	154,380	26,986	-	26,986
2010	140,000	16,970	156,970	26,986	-	26,986
2011	150,000	8,850	158,850	26,986	-	26,986
2012-2016	-	-	-	134,929	-	134,929
2017-2021	-	-	-	134,929	-	134,929
2022-2026	-	-	-	122,868	-	122,868
2027	-	-	-	1,430	-	1,430
Total	<u>\$ 665,000</u>	<u>\$ 119,560</u>	<u>\$ 784,560</u>	<u>\$ 527,655</u>	<u>\$ -</u>	<u>\$ 527,655</u>

CITY OF CRESTLINE, OHIO

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

NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE

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

Principal payments in 2006 were \$38,199 for governmental funds and \$21,487 for the enterprise funds. The value of assets acquired through capital lease at December 31, 2006 are as follows:

	Governmental Activities	Business-Type Activities
Property under capital lease	\$ 299,944	\$ 169,187
Less: accumulated depreciation	(99,980)	(67,674)
Total	\$ 199,964	\$ 101,513

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 40,499	\$ 2,438	\$ 22,782	\$ 1,370
Total	\$ 40,499	\$ 2,438	\$ 22,782	\$ 1,370

NOTE 18 - INSURANCE PURCHASING POOL

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

CITY OF CRESTLINE, OHIO

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

NOTE 19 - CONTINGENCIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2006, to December 31, 2006, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 20 - SUBSEQUENT EVENTS

On March 27, 2007 the City rolled over a portion of its bond anticipation notes. The new notes were issued in the amount of \$853,000 and have a maturity date of March 26, 2008.



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

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

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

Internal Control Over Financial Reporting

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

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

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

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

Members of Council and Mayor
City of Crestline

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Crestline's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2006-COC-001.

We noted certain matters that we reported to management of the City of Crestline in a separate letter dated July 31, 2007.

City of Crestline's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City of Crestline's response and, accordingly, we express no opinion on it.

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



Julian & Grube, Inc.
July 31, 2007

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006**

1. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2006-COC-001

Ohio Revised Code Section 5705.39 requires that the total appropriation from each fund should not exceed total estimated resources.

Total appropriations exceeded total estimated resources in the following funds:

<u>Major Funds</u>	<u>Excess</u>
General Fund	\$ 82,448
Sewer Fund	207,128

When appropriations exceed estimated resources, the City may spend more funds than in the Treasury or in the process of collection and may cause fund deficits.

We recommend that the City comply with the Ohio Revised Code by monitoring appropriations so they do not exceed estimated resources. This may be achieved by monitoring the budget more closely on a continual basis and amending estimated resources or appropriations as necessary.

Client Response: The City Auditor prepared an amended certificate of estimated resources in December but did not file with the County Auditor. The City Auditor will review estimated resources periodically to determine if amendments need made.

**CITY OF CRESTLINE
CRAWFORD COUNTY, OHIO**

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

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2005-COC-001	Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies to cover expenditures.	No	Partially corrected. Finding now located in management letter.
2005-COC-002	Ohio Revised Code Section 5705.41(B) in part requires that expenditures shall not exceed appropriations.	Yes	N/A
2005-COC-003	Ohio Revised Code Section 5705.38 in part requires the annual appropriation measure to be passed on or about the first day of each fiscal year. Temporary appropriations may be adopted until April 1 if the taxing authority wishes to postpone the passage of the annual appropriation measure until the county budget commission sends out the amended certificate based on year end balances.	Yes	N/A



Mary Taylor, CPA
Auditor of State

CITY OF CRESTLINE

CRAWFORD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 27, 2007**