



**Mary Taylor, CPA**  
Auditor of State

**City of Circleville  
Pickaway County, Ohio**

**General Purpose External Financial Statements  
For the Year Ended December 31, 2006**

**Local Government Services Section**

**City of Circleville**  
General Purpose External Financial Statements  
For the Year Ended December 31, 2006

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Mary Taylor, CPA  
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July 13, 2007

City Council  
City of Circleville  
133 South Court Street  
Circleville, Ohio 43113

We have compiled the accompanying basic financial statements of the City of Circleville as of and for the year ended December 31, 2006, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

We did not compile the financial statements of Berger Health System, the discretely presented component unit of the City of Circleville. These financial statements were provided to us for inclusion in the City of Circleville's general purpose external financial statements.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management's Discussion and Analysis is required supplementary information that has been prepared by management. We have not compiled, reviewed, nor audited this information and, accordingly, assume no responsibility for it.

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**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2006  
(Unaudited)

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The discussion and analysis of the City of Circleville's 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 notes to the basic financial statements to enhance their understanding of the City's financial performance.

**Financial Highlights**

- The City's total net assets decreased \$531,605. Revenues of governmental activities failed to cover expenses by \$494,985. Net assets of business-type activities decreased by \$36,620.
- General revenues of governmental activities accounted for \$6,921,739 or 69.11 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,093,748 or 30.89 percent of total revenues of \$10,015,487.
- Enterprise funds reflected a total operating loss of \$139,441. The Waterworks Operating Fund reflected an operating loss of \$60,691, while the Sewer Operating Fund reflected an operating loss of \$78,750.
- The City had \$10,474,912 in expenses related to governmental activities; \$3,093,748 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues (primarily income taxes) of \$6,921,739 were not quite adequate to provide for these programs. The City had \$3,279,610 in expenses related to business-type activities; \$3,139,180 of these expenses were offset by program specific charges for services which, along with general revenues of \$68,250, were not quite adequate to provide for such services.

**Using This Annual Financial Report**

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the City of Circleville's financial situation as a whole and also give a detailed view of the City's fiscal condition.

The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The 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 the amount of funds available for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

**City of Circleville**  
Management's Discussion and Analysis  
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**Reporting the City as a Whole**

One of the most important questions asked about the City is “How did we do financially during 2006?” The Statement of Net Assets and the Statement of Activities, which appear first in the City's financial statements, report information on the City as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes 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 change in net assets. This change in net assets is important because it informs the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. In evaluating the overall financial health, the reader of these financial statements needs to take into account non-financial factors that also impact the City's financial well-being. Some of these factors include the City's tax base and the condition of capital assets.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

Governmental Activities – Most of the City's services are reported here including security of persons and property, public health services, leisure time activities, community development, transportation, and general government.

Business-Type Activities – These services include water and sewer operations. Service fees for these operations are charged based upon the amount of usage. The intent is that the fees charged recoup operational costs.

The financial activities of Berger Health System, a component unit of the City of Circleville, are presented in a separate column on the Statement of Net Assets and as a separately identified activity on the Statement of Activities. This discrete presentation is made in order to emphasize that it is a legally separate organization from the City of Circleville. However, the focus of the government-wide financial statements remains clearly on the City of Circleville as the primary government.

**City of Circleville**  
Management's Discussion and Analysis  
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(Unaudited)

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

### *Fund Financial Statements*

The analysis of the City's major funds begins on page 11. Fund financial statements provide detailed information about the City's major funds – not the City as a whole. The City uses many funds to account for a multitude of financial transactions. Some funds are required by State law and bond covenants. Other funds may be established to help control, manage, and report money received for a particular purpose or to show that the City is meeting legal responsibilities for the use of grants. The City's major funds are the General Fund, the Income Tax Fund, the Safety Forces Tax Fund, the Small Cities Block Grant Fund, the General Obligation Bond Retirement Fund, the Capital Improvement Fund, the Waterworks Operating Fund, and the Sewer Operating Fund.

### *Governmental Funds*

Most of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

### *Enterprise Funds*

When the City charges citizens for the services it provides, with the intent of recapturing operating costs, these services are generally reported in proprietary funds. Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

### *Fiduciary Funds*

The City's fiduciary funds are a private-purpose trust fund and five agency funds. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

**City of Circleville**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2006**  
**(Unaudited)**

**The City as a Whole**

As stated previously, the Statement of Net Assets provides the perspective of the City as a whole. Table 1 provides a summary of the City's net assets for 2006 compared to 2005.

Table 1  
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>Assets</b>						
Current and Other						
Assets	\$9,180,963	\$9,493,577	\$5,964,694	\$11,143,875	\$15,145,657	\$20,637,452
Nondepreciable Capital						
Assets	1,313,975	1,059,046	584,382	397,252	1,898,357	1,456,298
Depreciable Capital						
Assets, Net	21,954,641	21,848,865	16,702,675	16,684,105	38,657,316	38,532,970
<b>Total Assets</b>	<b>32,449,579</b>	<b>32,401,488</b>	<b>23,251,751</b>	<b>28,225,232</b>	<b>55,701,330</b>	<b>60,626,720</b>
<b>Liabilities</b>						
Current and Other						
Liabilities	1,333,948	1,865,553	245,776	5,238,685	1,579,724	7,104,238
Long-Term Liabilities:						
Due Within One Year	459,276	516,889	55,917	65,948	515,193	582,837
Due in More Than						
One Year	4,520,391	4,378,067	40,241	47,402	4,560,632	4,425,469
<b>Total Liabilities</b>	<b>6,313,615</b>	<b>6,760,509</b>	<b>341,934</b>	<b>5,352,035</b>	<b>6,655,549</b>	<b>12,112,544</b>
<b>Net Assets</b>						
Invested in Capital						
Assets, Net Of						
Related Debt	20,101,627	19,760,953	17,278,900	17,065,167	37,380,527	36,826,120
Restricted for:						
Capital Outlay	1,506,265	1,182,776	0	0	1,506,265	1,182,776
Debt Service	78,639	131,360	0	0	78,639	131,360
Safety Forces	1,077,619	785,461	0	0	1,077,619	785,461
Streets	630,399	658,582	0	0	630,399	658,582
Community Development	280,379	643,275	0	0	280,379	643,275
Other Purposes	414,729	439,933	0	0	414,729	439,933
Unrestricted	2,046,307	2,038,639	5,630,917	5,808,030	7,677,224	7,846,669
<b>Total Net Assets</b>	<b>\$26,135,964</b>	<b>\$25,640,979</b>	<b>\$22,909,817</b>	<b>\$22,873,197</b>	<b>\$49,045,781</b>	<b>\$48,514,176</b>

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2006  
(Unaudited)

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Overall, an insignificant decrease of less than one percent occurred within total governmental assets from the prior year. However, a slight increase of 3.41 percent occurred within current and other assets of governmental activities when compared to the prior year. The only asset account which had a real effect on this increase was intergovernmental receivables. Intergovernmental receivables relating to new grant awards in 2006, including new Community Development Block Grant and Ohio HOME Investment Partnerships Grant awards, increased \$396,960 from the prior year. Nondepreciable capital assets demonstrated a decrease of 19.40 percent due to the completion of several projects that were outstanding in 2005. These projects were reported as construction in progress in 2005. In 2006, the City reclassified these completed projects from construction in progress to depreciable capital assets. Depreciable capital assets decreased by \$105,776 as the result of annual depreciation exceeding additions for the year.

Reviewing liabilities of governmental activities demonstrates a 39.85 percent increase in current and other liabilities. This increase is primarily due to the issuance of \$405,000 in Various Purpose Bond Anticipation Notes in 2006 for the purpose of paying the costs of restoring, updating and otherwise improving City Hall. Long-term liabilities of the governmental activities decreased \$84,711 primarily due to principal payments made on debt held by the City.

Invested in Capital Assets, Net of Related Debt of governmental activities decreased \$340,674. This is due primarily to current year depreciation exceeding current year capital asset additions and principal payments made on debt related to capital assets construction.

While the City's governmental restricted net assets do not represent a very significant percentage of overall net assets, governmental restricted net assets, when viewed alone, did experience a decrease of \$146,643. When examining the individual components of governmental restricted net assets, those restricted for capital outlay decreased 21.48 percent. This decrease is due to the City completing several noncapitalized projects, including street repairs, during 2006. Restricted net assets for safety forces decreased 27.11 percent due to the police department's pension pickup, workers' compensation, and medical premiums being paid from restricted net assets in 2006 rather than unrestricted net assets as in the past. Restricted net assets for community development increased \$362,896 due to the City having a greater amount of outstanding intergovernmental receivables for 2006. The City received new Community Development Block Grant and Ohio HOME Investment Partnerships Grant awards during 2006 for which receivables of substantial amounts were recorded on the financial statements for 2006. Restricted net assets for debt, streets and other purposes had insignificant increases of \$52,721, \$28,183 and \$25,204, respectively.

On the other hand, unrestricted governmental net assets had an insignificant decrease of \$7,668.

**City of Circleville**  
**Management's Discussion and Analysis**  
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**(Unaudited)**

In total, assets of business-type activities increased \$4,937,481. An extensive increase of \$5,179,181 occurred within current and other assets when compared to the prior year. The only asset category that had a real effect on this increase was equity in pooled cash and cash equivalents. This account increased 93.02 percent from the prior year due to the City receiving the proceeds from the issuance of Various Purpose Bond Anticipation Notes in the amount of \$5,095,000. The projects for which the notes were issued had not been started by year-end, resulting in a large excess of cash at year-end related to business-type activities. Nondepreciable capital assets decreased \$187,130 as a result of construction in progress existing in 2005 for building renovations that was reclassified to depreciable capital assets in 2006 because the project was completed. Depreciable capital assets, net of depreciation decreased \$18,570 due primarily to current year depreciation exceeding current year additions. Total liabilities of business-type activities increased \$5,010,101 due primarily to an increase in notes payable. During 2006, the City issued \$5,095,000 in Various Purpose Bond Anticipation Notes which will mature on July 18, 2007. Total net assets of business-type activities decreased \$36,620, or less than one percent, which is insignificant.

Table 2 shows the changes in net assets for the years ended December 31, 2006 and 2005.

Table 2  
Changes In Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$1,726,636	\$1,692,059	\$3,103,684	\$3,139,180	\$4,830,320	\$4,831,239
Operating Grants, Contributions and Interest	605,765	743,070	0	0	605,765	743,070
Capital Grants, Contributions and Interest	169,100	658,619	0	0	169,100	658,619
Total Program Revenues	\$2,501,501	\$3,093,748	\$3,103,684	\$3,139,180	\$5,605,185	\$6,232,928

*(continued)*

**City of Circleville**  
**Management's Discussion and Analysis**  
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**(Unaudited)**

Table 2  
Changes In Net Assets  
*(continued)*

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
<b>General Revenues:</b>						
Property Taxes	\$893,824	\$965,226	\$0	\$0	\$893,824	\$965,226
Income Taxes	4,133,674	3,918,438	0	0	4,133,674	3,918,438
Other Local Taxes	209,890	219,354	0	0	209,890	219,354
<b>Grants and Entitlements</b>						
not Restricted to						
Specific Programs	956,810	1,190,419	0	0	956,810	1,190,419
Unrestricted Investment Earnings	365,744	513,667	0	42,268	365,744	555,935
Contributions and Donations	1,130	799	0	0	1,130	799
Miscellaneous	77,915	113,836	5,313	25,982	83,228	139,818
Total General Revenues	6,638,987	6,921,739	5,313	68,250	6,644,300	6,989,989
Total Revenues	9,140,488	10,015,487	3,108,997	3,207,430	12,249,485	13,222,917
<b>Program Expenses:</b>						
<b>Security of Persons and Property:</b>						
Police	2,461,311	2,643,826	0	0	2,461,311	2,643,826
Fire	1,440,635	1,775,430	0	0	1,440,635	1,775,430
Other	297,127	212,222	0	0	297,127	212,222
Public Health Services	145,300	144,000	0	0	145,300	144,000
<b>Leisure Time Activities:</b>						
Parks and Recreation	103,293	122,736	0	0	103,293	122,736
Swimming Pool	37,138	38,158	0	0	37,138	38,158
Other	19,690	22,236	0	0	19,690	22,236
<b>Community Development:</b>						
City Funded	281,570	331,438	0	0	281,570	331,438
Grant Funded	265,235	165,893	0	0	265,235	165,893
Basic Utility Services	30,940	71,892	0	0	30,940	71,892
Transportation	1,924,546	2,070,983	0	0	1,924,546	2,070,983
General Government	2,418,497	2,615,071	0	0	2,418,497	2,615,071
<b>Interest and</b>						
Fiscal Charges	267,810	261,027	0	0	267,810	261,027
Waterworks Operating	0	0	1,382,614	1,477,310	1,382,614	1,477,310
Sewer Operating	0	0	1,805,062	1,802,300	1,805,062	1,802,300
Total Expenses	9,693,092	10,474,912	3,187,676	3,279,610	12,880,768	13,754,522
<b>Increase in Net Assets</b>						
before Transfers	(552,604)	(459,425)	(78,679)	(72,180)	(631,283)	(531,605)
Transfers	0	(35,560)	0	35,560	0	0
Decrease in Net Assets	(552,604)	(494,985)	(78,679)	(36,620)	(631,283)	(531,605)
Net Assets at Beginning of Year	26,688,568	26,135,964	22,988,496	22,909,817	49,677,064	49,045,781
Net Assets at End of Year	\$26,135,964	\$25,640,979	\$22,909,817	\$22,873,197	\$49,045,781	\$48,514,176

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2006  
(Unaudited)

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*Governmental Activities*

Program revenues, which are primarily represented by charges for permits, fines, and departmental services, as well as restricted intergovernmental revenues were 30.89 percent of total revenues for 2006 and were somewhat higher than 2005. This is the result of the City receiving new Community Development Block Grant and Ohio HOME Investment Partnerships Grant awards in 2006.

As previously mentioned, general revenues were 69.11 percent of total revenues for 2006. The 1.5 percent income tax is the largest source of revenue for the City of Circleville, making up 39.12 percent of revenues for governmental activities for the year ended 2006. The City provides full tax credit for income taxes paid to another municipality up to one hundred percent of the City's current tax rate.

On a cash basis, income tax revenue increased annually an average of 8.52 percent from 1992 through 2000. Local companies expanded and new businesses were added to the economic foundation. From 2001 to 2004, the City experienced the exodus of the core of its industrial base, resulting in an average annual revenue decrease of 4.81 percent. In 2006, the City experienced its smallest decrease in income tax receipts since 2000, lessening the volatility of income tax collections experienced in the past. The City, in conjunction with the Pickaway Progress Partnership, continues an aggressive economic development plan to promote the City in alliance with Pickaway County and the surrounding townships. The Circleville City Council passed Ordinance 09-40-2005 to reduce the City's income tax credit allowed to other cities by 50 percent effective January 1, 2006. However, the Ordinance was subject to referendum and defeated by the voters at the November 2006 general election. A campaign aimed at educating the voting populace on the effect the lack of income tax revenues has on the services the City is able to provide its constituents is ongoing.

Grants and Entitlements not Restricted to Specific Programs made up 11.89 percent of revenue for governmental activities of the City of Circleville for the year ended 2006. Property tax revenue made up 9.64 percent of revenue for governmental activities for a total of 60.65 percent of all revenue coming from income taxes, property taxes, and grant and entitlements not restricted to specific programs.

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Management's Discussion and Analysis  
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Governmental program expenses as a percentage of total governmental expenses for 2006 are expressed as follows:

Security of Persons and Property:	
Police	25.24%
Fire	16.95
Other	2.03
Public Health Services	1.38
Leisure Time Activities:	
Parks and Recreation	1.17
Swimming Pool	0.37
Other	0.21
Community Development:	
City Funded	3.16
Grant Funded	1.58
Basic Utility Services	0.69
Transportation	19.77
General Government	24.96
Interest and Fiscal Charges	2.49
	<u>100.00%</u>

The above chart clearly indicates the City's major source of expenses, 44.22 percent, is related to the implementation of safety forces. A distant second, 24.96 percent, is the administration of general government activities within the City. All other forms of governmental operations represent 30.82 percent of expenditures. A comparison to the prior year demonstrates insignificant changes in the areas above.

*Business-Type Activities*

The City's business-type activities include water and sewer services.

The Waterworks Operating Fund collects fees charged for the sale of water. Those fees are then used to maintain lines for delivery, to treat water for further consumption, and to maintain its treatment facility and storage towers.

The Sewer Operating Fund conducts the operations of the City's wastewater collection and treatment system. Money that is collected from the fees which are billed based on the number of gallons of water used is placed in this fund for use in the maintenance of the collection system and improvements to the treatment plant.

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Program revenues for business-type activities, which are primarily represented by charges for water and sewer services provided to residents and businesses within the City, did not increase significantly from the prior year. Program expenses for business-type activities represented an insignificant increase from the prior year as well. The Department of Utilities continues to place constraints on operating expenses, as well as capital related expenditures.

### **The City's Funds**

Information about the City's major governmental funds begins on page 22. All governmental funds had total revenues of \$9,720,540 and expenditures of \$10,401,139. The General Fund balance increased by \$2,747, which is not significant to this fund.

The Income Tax Fund balance increased \$4,281, as a result of an increase in revenues and expenditures. It is the manner of this fund that revenues be established to meet the expenditure needs of this fund. The slight increase in revenues and expenditures for 2006 were due to the implementation of an aggressive subpoena program involving non-filers.

The Safety Forces Tax Fund balance decreased \$222,401. This was the result of all expenditures for the police department's pension pickup, workers' compensation, and medical premiums being paid from this fund in 2006 rather than from the General Fund as was done in the past. The reasoning behind this was to utilize the Safety Forces Tax Fund available balance to compensate for the lack of fund balance in the General Fund.

The Small Cities Block Grant Fund balance increased \$18,397. This increase is due to the City's grant department receiving additional funding from the Ohio Department of Development when compared to the prior year. The additional funding was to provide adequate dollars to meet the grant requests of its clients in the coming year.

The General Obligation Bond Retirement Fund balance decreased \$85,350, due primarily to debt payments made by the City.

The Capital Improvement Fund balance decreased \$178,732 from the prior year. This considerable decrease was the result of the City completing a significant technology upgrade in 2006. The City also made enhancements to its telephone system and installing VOIP technology. Also, fiber optic lines, which connect the three major governmental buildings of the City, were positioned underground allowing for a fully integrated computer system for multiple City departments. All of these improvements are in addition to the City completing various major street improvements during the year.

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Management's Discussion and Analysis  
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*General Fund Budgeting Highlights*

During 2006, the City amended its General Fund budget as needed. There was very little change in revenue amounts reflected in the original and final budgets of the City. Final budgeted revenues in the amount of \$4,364,400, were below actual revenues in the amount of \$4,916,815. The difference of 12.66 percent is primarily due to intergovernmental revenues and investment earnings being higher than final estimates. Inheritance taxes and local government monies collections were significantly greater than final budgeted figures which accounts for a large portion of actual revenues exceeding final budgeted revenues in intergovernmental revenues. For 2006, the City began investing its monies in various securities at a higher yield which allowed for a significant increase in its investment earnings for the year.

The increase in expenditures from the original to the final budget was \$144,620. This variance was the result of an increase in appropriations warranted due to the telephone upgrade and building technology advancements that were not considered in the original budget figures. The difference in actual expenditures made from the final budget was 8.76 percent and a somewhat significant reduction. The two primary causes of this reduction was a decrease in actual expenditures for security of persons and property from final budgeted amounts of \$173,938 and a decrease in actual general government expenditures from final budgeted amounts of \$222,209. The City continues to place tight restraints on all general government expenditures. Contract services and supplies and incidentals are closely evaluated and utilized in a priority only manner. In the current year, various departments did not expend a large portion of their allotted contractual services appropriations, thus, a decrease in actual expenditures when compared to final budgeted amounts occurs for the general government function. The decrease between actual expenditures and final budgeted amounts for security of persons and property was the result of civilian and uniform police ranks personnel experiencing a higher than normal employee turnover rate. The replenishment of the police positions allowed for extended periods of understaffing resulting in lower salary demands. In general, every area of City government expenditures have been curtailed and expenditures are based on a must acquire agenda. While the reduction in expenditures can be attributed to successful cost savings measures implemented by City departments, it can also be credited to the lack of preventive maintenance and upgrading of City properties that in the long run will cost the City significant dollars in the future.

Actual General Fund revenues were less than expenditures by \$155,987. The decline in financing resources hampers the City's ability to fund existing programs. It has been the decision of the City to use the accumulated carryover balance from prior years to fund existing programs. The consensus has been that by using the reserves it will give the City time to acquire new revenue sources.

The City's ending unobligated cash balances for the General Fund was \$1,039,275 above the final budgeted amount.

**City of Circleville**  
Management's Discussion and Analysis  
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(Unaudited)

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**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2006, the City had \$22,907,911 invested in capital assets (net of accumulated depreciation) for governmental activities, a decrease of \$360,705, or less than two percent from the prior year. Increases in capital assets included a significant technology upgrade, enhancements made to the City's telephone system, installation of fiber optic lines positioned underground allowing for a fully integrated computer system for multiple City departments, and various street improvements. Disposals of capital assets included a transfer for a portion of the City's Administration Building to the Water Department, various machinery and equipment, vehicles and infrastructure related to street resurfacing within the City. The decrease in capital assets is the result of annual depreciation exceeding additions for the year.

The City also had \$17,081,357 invested in capital assets (net of accumulated depreciation) for business-type activities, a decrease of \$205,700, or less than two percent from the prior year. Increases in capital assets included a portion of the City's Administration Building for which the Water Department began occupying in 2006, various building improvements, routine water and sewer line improvements, and the replacement/addition of fire hydrants within the City. Disposals of capital assets included various water and sewer lines and fire hydrants. The decrease in capital assets is the result of annual depreciation exceeding additions for the year.

See Note 8 of the Notes to the Basic Financial Statements for more detailed information.

*Debt*

The City's outstanding debt obligations at year-end included general obligation bonds in the amount of \$4,340,000 and bond anticipation notes in the amount of \$405,000 for governmental activities. Business-type activities had debt obligations in the amount of \$5,095,000 relating to bond anticipation notes. The City's long-term obligations also included capital leases and compensated absences for governmental activities and business-type activities.

See Notes 13 and 14 of the Notes to the Basic Financial Statements for more detailed information.

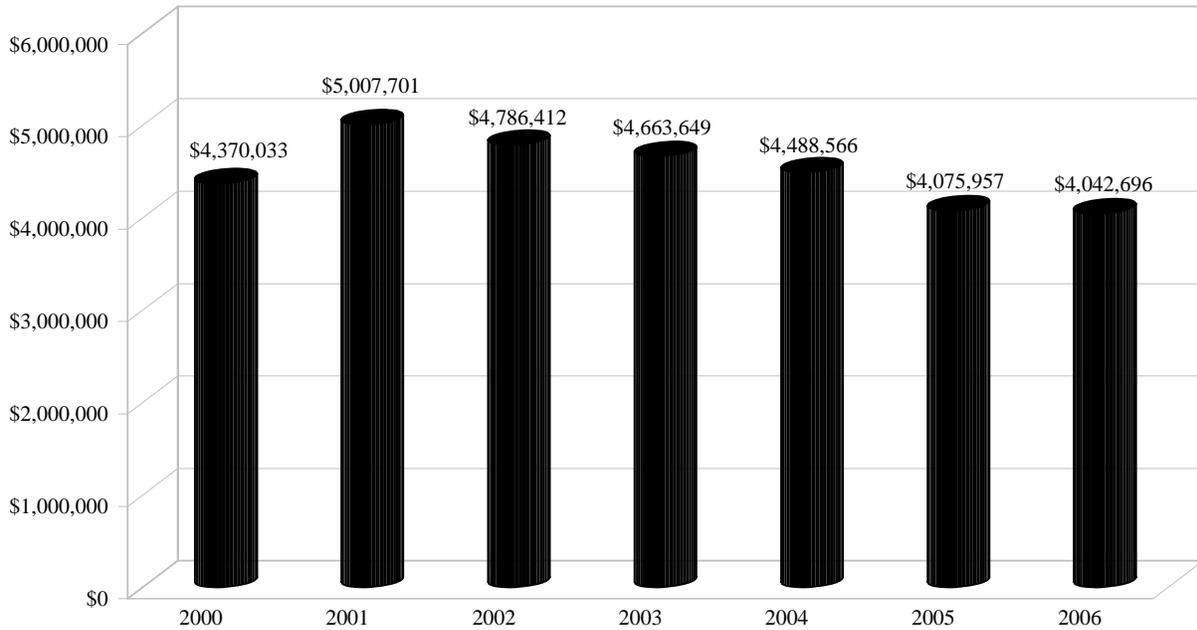
**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2006  
(Unaudited)

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**Current Issues**

On a cash basis, the City of Circleville's municipal income tax base remained stagnant showing a decline in 2006 of less than one percent. Municipal income tax is the major revenue source for the City's operating funds. In 2006, municipal income tax represented 45 percent of the City's cash basis operating revenues. Circleville City Council once again maintained the 50 percent of one percent split between the General Fund and the Capital Improvement Fund. The 0.50 percent voter approved safety forces tax provides 31 percent of the available revenue to fund safety forces expenditures. The continued stagnation of the municipal income tax has forced the City to curtail services provided to its constituents and to place safety forces staffing at critical levels. With this knowledge, the Circleville City Council enacted a reduced tax credit ordinance to take effect January 1, 2006. However, this legislation was challenged with a referendum and placed before the voters in the general election. The ballot issue was defeated and the City continues to restrict vital services to its constituents due to the lack of adequate funding.

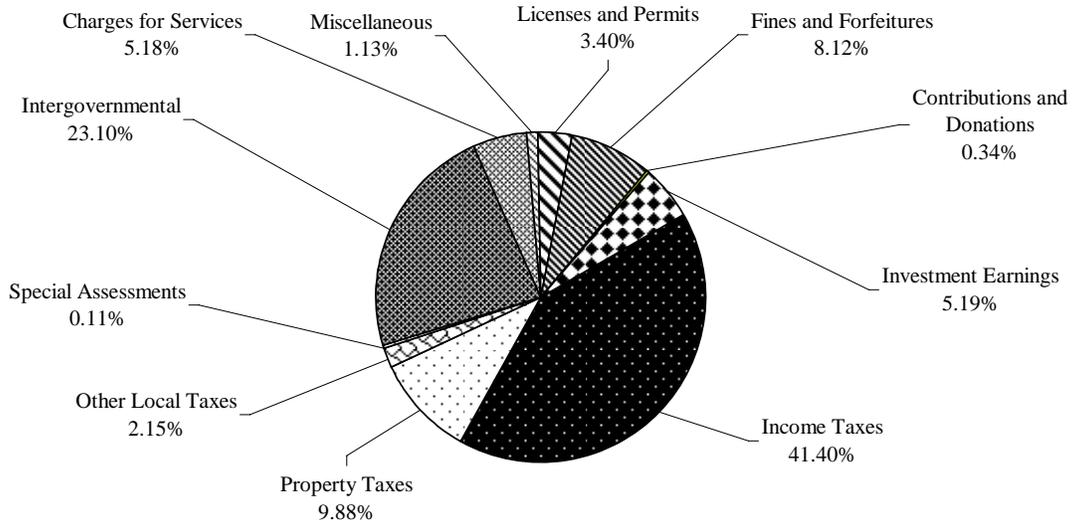
Table 3  
Municipal Income Tax Cash Basis Revenues  
January to December



**City of Circleville**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2006**  
**(Unaudited)**

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Table 4  
**Modified Accrual Basis Revenue by Type**  
**Governmental Funds**

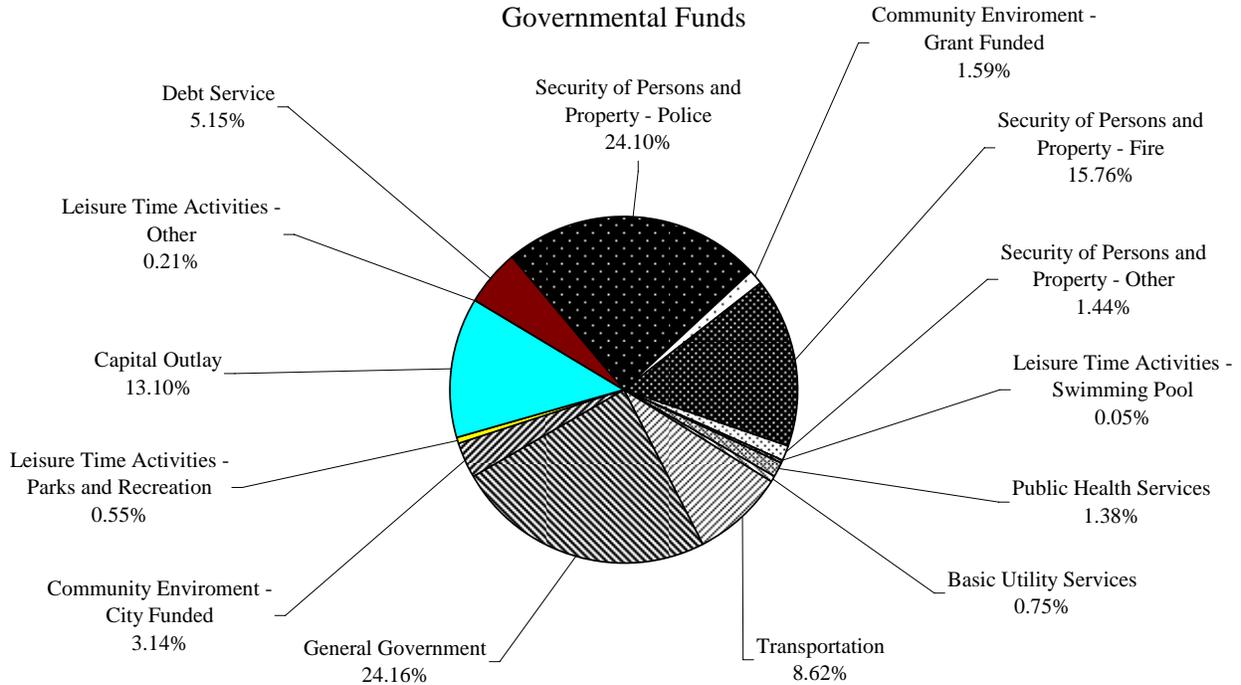


The continued lack of growth has placed continued strain on the City's ability to provide services. All contractual and capital improvement expenditures have been frozen or cut drastically. The basic infrastructure of the City continues to deteriorate at a faster rate than the City has available replacement resources. On a cash basis, the City spent 15 percent of its operating budget on capital improvements in 2006. While capital assets of the City totaled \$73,665,143 in 2006, the annual depreciation was \$1,678,035 for the year. The City is a service provider to its residents, which explains why 59 percent of the operating budget is attributable to personnel services. The safety forces, (Fire, EMS, and Police) constitute 48 percent of the operating budget and have taken significant staff reductions in order for the City to maintain a balanced budget. All City departments aggressively monitor their expenditures and evaluate enhanced cost savings measures. New cooperative agreements have been reached with neighboring entities to better utilize resources and promote economic development.

**City of Circleville**  
**Management's Discussion and Analysis**  
**For The Year Ended December 31, 2006**  
**(Unaudited)**

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**Table 5**  
**Modified Accrual Basis Expenditures by Type**



While capital improvement dollars have been limited, the City has utilized matching Community Development Block Grant Funds to expand another leg in a multi-year storm sewer project to an area of the City not previously serviced. The telephone upgrade and building technology enhancements were completed in 2006. This major technology project allows all computers in three major City buildings direct connectivity to one another. This connection will advance productivity and furnish cost savings to the City through the streamlined flow of data and communications. The City undertook a significant borrowing agenda in 2006 to promote expansion to its sanitary sewer and water distribution areas. This expansion will provide utility services for areas targeted for economic development.

All departments within the City of Circleville continuously analyze operations to explore more cost effective methods of doing business. The continuous quest for additional revenue sources by promoting economic development in the area is carried on by the administration in conjunction with the Pickaway Progress Partnership and the local economic development director. The expansion of the City's utility services is a major step forward in bringing new jobs and resources to the community. The aggressive pursuit and acquisition of economic development opportunities will provide the City with the resources necessary to restore vital resources to the constituents it serves.

**City of Circleville**  
Management's Discussion and Analysis  
For The Year Ended December 31, 2006  
(Unaudited)

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**Contacting the City's Finance Department**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Gayle Spangler, City Auditor, City of Circleville, 133 South Court Street, Circleville, Ohio 43113.

**City of Circleville**  
Statement of Net Assets  
December 31, 2006

	<i>Primary Government</i>		<i>Total</i>
	<i>Governmental Activities</i>	<i>Business-Type Activities</i>	
<b><u>Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$4,447,825	\$10,539,265	\$14,987,090
Cash and Cash Equivalents with Fiscal Agents	34,836	0	34,836
Investments	0	0	0
Accounts Receivable	3,190	399,697	402,887
Accrued Interest Receivable	69,517	36,764	106,281
Intergovernmental Receivable	1,390,723	0	1,390,723
Income Taxes Receivable	879,029	0	879,029
Materials and Supplies Inventory	174,514	138,616	313,130
Prepaid Items	50,986	23,023	74,009
Property Taxes Receivable	918,825	0	918,825
Other Local Taxes Receivable	49,421	0	49,421
Special Assessments Receivable	33,888	6,510	40,398
Loans Receivable	1,373,923	0	1,373,923
Deferred Charges	66,900	0	66,900
Capital Assets:			
Nondepreciable Capital Assets	1,059,046	397,252	1,456,298
Depreciable Capital Assets, Net	21,848,865	16,684,105	38,532,970
<i>Total Assets</i>	<u>32,401,488</u>	<u>28,225,232</u>	<u>60,626,720</u>
<b><u>Liabilities:</u></b>			
Accounts Payable	95,800	52,130	147,930
Contracts Payable	4,180	0	4,180
Matured Compensated Absences Payable	76	0	76
Accrued Wages and Benefits Payable	139,893	44,217	184,110
Intergovernmental Payable	298,085	47,338	345,423
Deferred Revenue	868,100	0	868,100
Matured Bonds Payable	20,000	0	20,000
Matured Interest Payable	14,836	0	14,836
Accrued Interest Payable	19,583	0	19,583
Notes Payable	405,000	5,095,000	5,500,000
Long-Term Liabilities:			
Due Within One Year	516,889	65,948	582,837
Due in More Than One Year	4,378,067	47,402	4,425,469
<i>Total Liabilities</i>	<u>6,760,509</u>	<u>5,352,035</u>	<u>12,112,544</u>
<b><u>Net Assets:</u></b>			
Invested in Capital Assets, Net of Related Debt	19,760,953	17,065,167	36,826,120
Restricted for:			
Capital Outlay	1,182,776	0	1,182,776
Debt Service	131,360	0	131,360
Safety Forces	785,461	0	785,461
Streets	658,582	0	658,582
Community Development	643,275	0	643,275
Other Purposes	439,933	0	439,933
Permanent Endowments	0	0	0
Unrestricted	2,038,639	5,808,030	7,846,669
<i>Total Net Assets</i>	<u>\$25,640,979</u>	<u>\$22,873,197</u>	<u>\$48,514,176</u>

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

<i>Component Unit Berger Health System</i>	<i>Total Reporting Entity</i>
\$584,546	\$15,571,636
0	34,836
21,575,629	21,575,629
7,687,678	8,090,565
0	106,281
0	1,390,723
0	879,029
1,374,248	1,687,378
1,169,793	1,243,802
0	918,825
0	49,421
0	40,398
0	1,373,923
107,759	174,659
3,301,134	4,757,432
45,076,061	83,609,031
<u>80,876,848</u>	<u>141,503,568</u>
2,594,880	2,742,810
0	4,180
0	76
2,754,475	2,938,585
145,838	491,261
0	868,100
0	20,000
0	14,836
88,105	107,688
0	5,500,000
713,113	1,295,950
19,683,526	24,108,995
<u>25,979,937</u>	<u>38,092,481</u>
29,094,442	65,920,562
0	1,182,776
0	131,360
0	785,461
0	658,582
0	643,275
0	439,933
21,553	21,553
<u>25,780,916</u>	<u>33,627,585</u>
<u>\$54,896,911</u>	<u>\$103,411,087</u>

See Accountants' Compilation Report

**City of Circleville**  
Statement of Activities  
For the Year Ended December 31, 2006

	<i>Expenses</i>	<i>Program Revenues</i>		
		<i>Charges for Services</i>	<i>Operating Grants, Contributions and Interest</i>	<i>Capital Grants, Contributions and Interest</i>
<b>Primary Government</b>				
<b><u>Governmental Activities:</u></b>				
Security of Persons and Property:				
Police	\$2,643,826	\$34,158	\$6,735	\$18,768
Fire	1,775,430	7,850	93,169	0
Other	212,222	297,281	7,000	0
Public Health Services	144,000	0	0	0
Leisure Time Activities:				
Parks and Recreation	122,736	0	1,477	30,000
Swimming Pool	38,158	0	0	0
Other	22,236	0	0	0
Community Development:				
City Funded	331,438	330,024	0	0
Grant Funded	165,893	0	0	603,759
Basic Utility Services	71,892	0	0	0
Transportation	2,070,983	81,398	634,689	6,092
General Government	2,615,071	941,348	0	0
Interest and Fiscal Charges	261,027	0	0	0
<b>Total Governmental Activities</b>	<b>10,474,912</b>	<b>1,692,059</b>	<b>743,070</b>	<b>658,619</b>
<b><u>Business-Type Activities:</u></b>				
Waterworks Operating	1,477,310	1,415,889	0	0
Sewer Operating	1,802,300	1,723,291	0	0
<b>Total Business-Type Activities</b>	<b>3,279,610</b>	<b>3,139,180</b>	<b>0</b>	<b>0</b>
<b>Total - Primary Government</b>	<b>\$13,754,522</b>	<b>\$4,831,239</b>	<b>\$743,070</b>	<b>\$658,619</b>
<b>Component Unit</b>				
<b>Berger Health System</b>	<b>\$59,314,482</b>	<b>\$58,757,594</b>	<b>\$273,218</b>	<b>\$0</b>

**General Revenues:**

Property Taxes Levied for:

    General Purposes

    Other Purposes

Income Taxes Levied for:

    General Purposes

    Safety Forces

    Debt Service

    Capital Projects

Other Local Taxes

Grants and Entitlements not Restricted to Specific Programs

Unrestricted Investment Earnings

Contributions and Donations

Miscellaneous

**Transfers**

*Total General Revenues and Transfers*

*Change in Net Assets*

*Net Assets at Beginning of Year*

*Net Assets at End of Year*

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

<b>Net (Expense) Revenue and Changes in Net Assets</b>				
<i>Primary Government</i>			<i>Component Unit</i>	<i>Total Reporting</i>
<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	<i>Berger Health System</i>	<i>Entity</i>
(\$2,584,165)	\$0	(\$2,584,165)	\$0	(\$2,584,165)
(1,674,411)	0	(1,674,411)	0	(1,674,411)
92,059	0	92,059	0	92,059
(144,000)	0	(144,000)	0	(144,000)
(91,259)	0	(91,259)	0	(91,259)
(38,158)	0	(38,158)	0	(38,158)
(22,236)	0	(22,236)	0	(22,236)
(1,414)	0	(1,414)	0	(1,414)
437,866	0	437,866	0	437,866
(71,892)	0	(71,892)	0	(71,892)
(1,348,804)	0	(1,348,804)	0	(1,348,804)
(1,673,723)	0	(1,673,723)	0	(1,673,723)
(261,027)	0	(261,027)	0	(261,027)
(7,381,164)	0	(7,381,164)	0	(7,381,164)
0	(61,421)	(61,421)	0	(61,421)
0	(79,009)	(79,009)	0	(79,009)
0	(140,430)	(140,430)	0	(140,430)
(7,381,164)	(140,430)	(7,521,594)	0	(7,521,594)
0	0	0	(283,670)	(283,670)
835,600	0	835,600	0	835,600
129,626	0	129,626	0	129,626
1,450,318	0	1,450,318	0	1,450,318
1,234,060	0	1,234,060	0	1,234,060
367,072	0	367,072	0	367,072
866,988	0	866,988	0	866,988
219,354	0	219,354	0	219,354
1,190,419	0	1,190,419	0	1,190,419
513,667	42,268	555,935	1,219,321	1,775,256
799	0	799	0	799
113,836	25,982	139,818	1,571,556	1,711,374
(35,560)	35,560	0	(3,949,544)	(3,949,544)
6,886,179	103,810	6,989,989	(1,158,667)	5,831,322
(494,985)	(36,620)	(531,605)	(1,442,337)	(1,973,942)
26,135,964	22,909,817	49,045,781	56,339,248	105,385,029
\$25,640,979	\$22,873,197	\$48,514,176	\$54,896,911	\$103,411,087

See Accountants' Compilation Report

**City of Circleville**  
Balance Sheet  
Governmental Funds  
December 31, 2006

	<i><b>General Fund</b></i>	<i><b>Income Tax Fund</b></i>	<i><b>Safety Forces Tax Fund</b></i>
<b><u>Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$1,463,528	\$27,443	\$536,292
Cash and Cash Equivalents with Fiscal Agents	0	0	0
Receivables:			
Accounts	3,190	0	0
Accrued Interest	65,293	0	0
Intergovernmental	539,514	0	0
Income Taxes	274,632	55,135	274,631
Property Taxes	776,116	0	0
Other Local Taxes	41,198	0	0
Loans	0	0	0
Special Assessments	0	0	0
Materials and Supplies Inventory	45,609	586	0
Prepaid Items	19,727	276	14,867
<i>Total Assets</i>	<u>\$3,228,807</u>	<u>\$83,440</u>	<u>\$825,790</u>
<b><u>Liabilities and Fund Balances:</u></b>			
<b><u>Liabilities:</u></b>			
Accounts Payable	\$25,064	\$1,483	\$31,198
Contracts Payable	4,180	0	0
Accrued Wages and Benefits Payable	100,540	1,562	23,634
Matured Compensated Absences Payable	76	0	0
Intergovernmental Payable	159,501	1,571	79,031
Deferred Revenue	1,512,874	39,651	197,502
Matured Bonds Payable	0	0	0
Matured Interest Payable	0	0	0
Notes Payable	0	0	0
<i>Total Liabilities</i>	<u>1,802,235</u>	<u>44,267</u>	<u>331,365</u>
<b><u>Fund Balances:</u></b>			
Reserved for Encumbrances	104,882	1,520	31,088
Reserved for Loans Receivable	0	0	0
Unreserved:			
Undesignated, Reported in:			
General Fund	1,321,690	0	0
Special Revenue Funds	0	37,653	463,337
Debt Service Funds	0	0	0
Capital Projects Funds	0	0	0
<i>Total Fund Balances</i>	<u>1,426,572</u>	<u>39,173</u>	<u>494,425</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,228,807</u>	<u>\$83,440</u>	<u>\$825,790</u>

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

<i>Small Cities Block Grant Fund</i>	<i>General Obligation Bond Retirement Fund</i>	<i>Capital Improvement Fund</i>	<i>Nonmajor Funds</i>	<i>Total Governmental Funds</i>
\$40,983	\$15,172	\$1,149,461	\$1,214,946	\$4,447,825
0	34,836	0	0	34,836
0	0	0	0	3,190
0	2,923	0	1,301	69,517
502,827	0	0	348,382	1,390,723
0	126,084	148,547	0	879,029
0	0	0	142,709	918,825
0	0	0	8,223	49,421
0	1,325,000	0	48,923	1,373,923
0	0	33,888	0	33,888
0	0	0	128,319	174,514
928	0	13,998	1,190	50,986
<u>\$544,738</u>	<u>\$1,504,015</u>	<u>\$1,345,894</u>	<u>\$1,893,993</u>	<u>\$9,426,677</u>
\$0	\$2,036	\$19,848	\$16,171	\$95,800
0	0	0	0	4,180
0	0	0	14,157	139,893
0	0	0	0	76
0	0	0	57,982	298,085
485,281	93,597	140,716	447,532	2,917,153
0	20,000	0	0	20,000
0	14,836	0	0	14,836
0	0	405,000	0	405,000
<u>485,281</u>	<u>130,469</u>	<u>565,564</u>	<u>535,842</u>	<u>3,895,023</u>
6,727	0	736,508	68,738	949,463
0	1,235,000	0	23,143	1,258,143
0	0	0	0	1,321,690
52,730	0	0	1,056,988	1,610,708
0	138,546	0	0	138,546
0	0	43,822	209,282	253,104
<u>59,457</u>	<u>1,373,546</u>	<u>780,330</u>	<u>1,358,151</u>	<u>5,531,654</u>
<u>\$544,738</u>	<u>\$1,504,015</u>	<u>\$1,345,894</u>	<u>\$1,893,993</u>	<u>\$9,426,677</u>

See Accountants' Compilation Report

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**City of Circleville**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2006

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<b>Total Governmental Fund Balances</b>	<b>\$5,531,654</b>
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*Amounts reported for governmental activities in the Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	1,043,090
Construction in Progress	15,956
Infrastructure	31,496,151
Other Capital Assets	11,647,808
Accumulated Depreciation	<u>(21,295,094)</u>

Total	22,907,911
-------	------------

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Income Taxes	632,158
Property Taxes	50,725
Other Local Taxes	48,132
Special Assessments	33,888
Intergovernmental	1,217,797
Charges for Services	3,190
Interest	<u>63,163</u>

Total	2,049,053
-------	-----------

Governmental funds report general obligation bond issuance costs as expenditures, whereas these amounts are deferred and amortized in the Statement of Activities.

66,900

Some liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued Interest	(19,583)
General Obligation Bonds	(4,340,000)
Capital Leases Payable	(190,058)
Compensated Absences	<u>(364,898)</u>

Total	<u>(4,914,539)</u>
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<b>Net Assets of Governmental Activities</b>	<b><u><u>\$25,640,979</u></u></b>
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See Accountants' Compilation Report  
 See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2006

	<i>General Fund</i>	<i>Income Tax Fund</i>	<i>Safety Forces Tax Fund</i>
<b><u>Revenues:</u></b>			
Income Taxes	\$1,271,093	\$210,821	\$1,271,093
Property Taxes	831,839	0	0
Other Local Taxes	147,054	0	0
Special Assessments	0	0	0
Intergovernmental	1,171,593	0	94,874
Charges for Services	179,997	0	304,781
Licenses and Permits	330,104	0	0
Fines and Forfeitures	507,189	0	0
Investment Earnings	417,311	0	541
Contributions and Donations	2,276	0	0
Miscellaneous	62,737	2,738	21,517
<i>Total Revenues</i>	<u>4,921,193</u>	<u>213,559</u>	<u>1,692,806</u>
<b><u>Expenditures:</u></b>			
Current Operations and Maintenance:			
Security of Persons and Property:			
Police	1,452,162	0	970,671
Fire	690,103	0	872,138
Other	76,537	0	42,803
Public Health Services	144,000	0	0
Leisure Time Activities:			
Parks and Recreation	57,600	0	0
Swimming Pool	5,000	0	0
Other	22,236	0	0
Community Development:			
City Funded	326,265	0	0
Grant Funded	0	0	0
Basic Utility Services	3,060	0	0
Transportation	209,673	0	0
General Government	1,836,699	209,278	0
Capital Outlay	179,525	0	59,124
Debt Service:			
Principal Retirement	26,493	0	10,345
Interest and Fiscal Charges	6,253	0	1,630
<i>Total Expenditures</i>	<u>5,035,606</u>	<u>209,278</u>	<u>1,956,711</u>
Excess of Revenues Over (Under) Expenditures	<u>(114,413)</u>	<u>4,281</u>	<u>(263,905)</u>
<b><u>Other Financing Sources (Uses):</u></b>			
Inception Of Capital Lease	127,160	0	41,504
Transfers In	0	0	0
Transfers Out	(10,000)	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>117,160</u>	<u>0</u>	<u>41,504</u>
<i>Net Change in Fund Balance</i>	2,747	4,281	(222,401)
<i>Fund Balances at Beginning of Year</i>	<u>1,423,825</u>	<u>34,892</u>	<u>716,826</u>
<i>Fund Balances at End of Year</i>	<u><u>\$1,426,572</u></u>	<u><u>\$39,173</u></u>	<u><u>\$494,425</u></u>

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

<i>Small Cities Block Grant Fund</i>	<i>General Obligation Bond Retirement Fund</i>	<i>Capital Improvement Fund</i>	<i>Nonmajor Funds</i>	<i>Total Governmental Funds</i>
\$0	\$322,044	\$949,049	\$0	\$4,024,100
0	0	0	128,962	960,801
0	0	0	62,174	209,228
0	0	10,222	0	10,222
249,305	0	18,768	710,948	2,245,488
0	0	0	18,884	503,662
0	0	0	0	330,104
0	0	0	282,594	789,783
0	75,770	0	10,445	504,067
0	0	0	31,000	33,276
0	910	2	21,905	109,809
<u>249,305</u>	<u>398,724</u>	<u>978,041</u>	<u>1,266,912</u>	<u>9,720,540</u>
0	0	0	83,724	2,506,557
0	0	0	76,985	1,639,226
0	0	0	29,950	149,290
0	0	0	0	144,000
0	0	0	0	57,600
0	0	0	0	5,000
0	0	0	0	22,236
0	0	0	0	326,265
155,908	0	0	9,985	165,893
75,000	0	0	0	78,060
0	0	0	686,517	896,190
0	0	125,125	341,319	2,512,421
0	0	1,029,648	94,620	1,362,917
0	235,000	2,000	4,649	278,487
0	249,074	0	40	256,997
<u>230,908</u>	<u>484,074</u>	<u>1,156,773</u>	<u>1,327,789</u>	<u>10,401,139</u>
<u>18,397</u>	<u>(85,350)</u>	<u>(178,732)</u>	<u>(60,877)</u>	<u>(680,599)</u>
0	0	0	6,054	174,718
0	0	0	10,000	10,000
0	0	0	0	(10,000)
<u>0</u>	<u>0</u>	<u>0</u>	<u>16,054</u>	<u>174,718</u>
18,397	(85,350)	(178,732)	(44,823)	(505,881)
<u>41,060</u>	<u>1,458,896</u>	<u>959,062</u>	<u>1,402,974</u>	<u>6,037,535</u>
<u>\$59,457</u>	<u>\$1,373,546</u>	<u>\$780,330</u>	<u>\$1,358,151</u>	<u>\$5,531,654</u>

See Accountants' Compilation Report

**City of Circleville**  
 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

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**Net Change in Fund Balances - Total Governmental Funds** (\$505,881)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Assets Additions	807,076	
Depreciation	<u>(1,121,260)</u>	
Excess of Capital Outlay over Depreciation Expense		(314,184)

The proceeds from the sale of capital assets are reported as revenue in the governmental funds. However, the cost of capital assets is removed from the capital assets account in the Statement of Net Assets and offset against the proceeds from the sale of capital assets resulting in a loss on the sale of capital assets in the Statement of Activities.

Loss on Disposal of Assets		(4,576)
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Assets transferred from governmental activities during the year to enterprise funds. (35,560)

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets, the lease obligation is reported as a liability. (174,718)

Some revenues that will not be collected for several months after the City's year-end are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts this year:

Income Taxes	(105,662)	
Property Taxes	4,425	
Other Local Taxes	10,126	
Special Assessments	(4,130)	
Intergovernmental	373,371	
Accrued Interest	9,600	
Charges for Services	3,190	
Miscellaneous	<u>4,027</u>	
		294,947

Repayment of long-term obligations is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. In the current year, these amounts consist of:

General Obligation Bond Principal Payments	235,000	
Capital Lease Payments	<u>43,487</u>	
		278,487

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional amount of interest on the Statement of Activities is the result of the following:

Net Decrease in Deferred Charges	(4,950)	
Net Decrease in Accrued Interest	<u>920</u>	
		(4,030)

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. These activities consist of:

Increase in Compensated Absences		<u>(29,470)</u>
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**Change in Net Assets of Governmental Activities** (\$494,985)

See Accountants' Compilation Report  
 See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Year Ended December 31, 2006

	<b><i>Original Budget</i></b>	<b><i>Revised Budget</i></b>	<b><i>Budgetary Actual</i></b>	<b><i>Variance Positive (Negative)</i></b>
<b><i>Revenues:</i></b>				
Income Taxes	\$1,346,666	\$1,346,666	\$1,278,888	(\$67,778)
Property Taxes	705,899	803,399	831,839	28,440
Other Local Taxes	137,400	137,400	149,861	12,461
Intergovernmental	927,950	830,450	1,151,672	321,222
Charges for Services	162,300	162,300	179,997	17,697
Licenses and Permits	357,000	357,000	330,104	(26,896)
Fines and Forfeitures	453,150	453,150	506,293	53,143
Investment Earnings	221,850	221,850	423,148	201,298
Contributions and Donations	0	1,000	2,276	1,276
Miscellaneous	3,000	51,185	62,737	11,552
<b><i>Total Revenues</i></b>	<b><u>4,315,215</u></b>	<b><u>4,364,400</u></b>	<b><u>4,916,815</u></b>	<b><u>552,415</u></b>
<b><i>Expenditures:</i></b>				
Current Operations and Maintenance:				
Security of Persons and Property:				
Police	1,550,897	1,550,897	1,446,839	104,058
Fire	777,838	777,838	713,169	64,669
Other	81,641	81,641	76,430	5,211
Public Health Services	145,597	145,597	144,750	847
Leisure Time Activities:				
Parks and Recreation	72,233	72,233	57,508	14,725
Swimming Pool	5,000	5,000	5,000	0
Other	26,629	36,629	36,629	0
Community Development:				
City Funded	386,206	386,206	326,511	59,695
Basic Utility Services	3,060	3,060	3,060	0
Transportation	234,396	234,396	218,950	15,446
General Government	2,131,545	2,121,545	1,899,336	222,209
Capital Outlay	0	144,620	144,620	0
<b><i>Total Expenditures</i></b>	<b><u>5,415,042</u></b>	<b><u>5,559,662</u></b>	<b><u>5,072,802</u></b>	<b><u>486,860</u></b>
Excess of Revenues Over (Under) Expenditures	<u>(1,099,827)</u>	<u>(1,195,262)</u>	<u>(155,987)</u>	<u>1,039,275</u>
<b><i>Other Financing Sources (Uses):</i></b>				
Proceeds of Capital Lease	0	96,435	96,435	0
Transfers Out	(10,000)	(10,000)	(10,000)	0
<b><i>Total Other Financing Sources (Uses)</i></b>	<b><u>(10,000)</u></b>	<b><u>86,435</u></b>	<b><u>86,435</u></b>	<b><u>0</u></b>
<b><i>Net Change in Fund Balance</i></b>	<b><u>(1,109,827)</u></b>	<b><u>(1,108,827)</u></b>	<b><u>(69,552)</u></b>	<b><u>1,039,275</u></b>
<b><i>Fund Balance at Beginning of Year</i></b>	<b><u>1,293,566</u></b>	<b><u>1,293,566</u></b>	<b><u>1,293,566</u></b>	<b><u>0</u></b>
<b><i>Prior Year Encumbrances</i></b>	<b><u>97,429</u></b>	<b><u>97,429</u></b>	<b><u>97,429</u></b>	<b><u>0</u></b>
<b><i>Fund Balance at End of Year</i></b>	<b><u>\$281,168</u></b>	<b><u>\$282,168</u></b>	<b><u>\$1,321,443</u></b>	<b><u>\$1,039,275</u></b>

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Income Tax Fund  
For the Year Ended December 31, 2006

	<u><i>Original Budget</i></u>	<u><i>Revised Budget</i></u>	<u><i>Budgetary Actual</i></u>	<u><i>Variance Positive (Negative)</i></u>
<b><u>Revenues:</u></b>				
Income Taxes	\$222,913	\$207,913	\$206,033	(\$1,880)
Miscellaneous	<u>0</u>	<u>0</u>	<u>2,738</u>	<u>2,738</u>
<i>Total Revenues</i>	222,913	207,913	208,771	858
<b><u>Expenditures:</u></b>				
Current Operations and Maintenance:				
General Government	<u>224,872</u>	<u>224,872</u>	<u>209,892</u>	<u>14,980</u>
<i>Net Change in Fund Balance</i>	(1,959)	(16,959)	(1,121)	15,838
<i>Fund Balance at Beginning of Year</i>	24,245	24,245	24,245	0
<i>Prior Year Encumbrances</i>	<u>2,273</u>	<u>2,273</u>	<u>2,273</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$24,559</u></u>	<u><u>\$9,559</u></u>	<u><u>\$25,397</u></u>	<u><u>\$15,838</u></u>

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Safety Forces Tax Fund  
For the Year Ended December 31, 2006

	<b><i>Original Budget</i></b>	<b><i>Revised Budget</i></b>	<b><i>Budgetary Actual</i></b>	<b><i>Variance Positive (Negative)</i></b>
<b><i>Revenues:</i></b>				
Income Taxes	\$1,321,638	\$1,246,667	\$1,278,888	\$32,221
Intergovernmental	100,584	94,878	94,874	(4)
Charges for Services	325,992	307,500	304,781	(2,719)
Investment Earnings	530	500	541	41
Miscellaneous	5,301	22,620	21,517	(1,103)
<i>Total Revenues</i>	<u>1,754,045</u>	<u>1,672,165</u>	<u>1,700,601</u>	<u>28,436</u>
<b><i>Expenditures:</i></b>				
Current Operations and Maintenance:				
Security of Persons and Property:				
Police	1,127,113	1,127,114	985,378	141,736
Fire	984,381	1,153,842	881,229	272,613
Other	243,329	73,868	47,958	25,910
Capital Outlay	<u>0</u>	<u>52,901</u>	<u>52,901</u>	<u>0</u>
<i>Total Expenditures</i>	<u>2,354,823</u>	<u>2,407,725</u>	<u>1,967,466</u>	<u>440,259</u>
Excess of Revenues Over (Under) Expenditures	(600,778)	(735,560)	(266,865)	468,695
<b><i>Other Financing Sources:</i></b>				
Proceeds of Capital Lease	<u>0</u>	<u>35,281</u>	<u>35,281</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(600,778)	(700,279)	(231,584)	468,695
<i>Fund Balance at Beginning of Year</i>	702,029	702,029	702,029	0
<i>Prior Year Encumbrances</i>	<u>29,566</u>	<u>29,566</u>	<u>29,566</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u><u>\$130,817</u></u>	<u><u>\$31,316</u></u>	<u><u>\$500,011</u></u>	<u><u>\$468,695</u></u>

See Accountants' Compilation Report

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenditures and Changes in Fund Balance -  
Budget (Non-GAAP Basis) and Actual  
Small Cities Block Grant Fund  
For the Year Ended December 31, 2006

	<i><b>Original Budget</b></i>	<i><b>Revised Budget</b></i>	<i><b>Budgetary Actual</b></i>	<i><b>Variance Positive (Negative)</b></i>
<b><i>Revenues:</i></b>				
Intergovernmental	\$220,827	\$215,786	\$246,759	\$30,973
<b><i>Expenditures:</i></b>				
Current Operations and Maintenance:				
Community Development:				
Grant Funded	17,074	176,721	163,438	13,283
Basic Utility Services	75,000	75,000	75,000	0
<i>Total Expenditures</i>	92,074	251,721	238,438	13,283
Excess of Revenues Over (Under) Expenditures	128,753	(35,935)	8,321	44,256
<b><i>Other Financing Uses:</i></b>				
Transfers Out	(10,000)	0	0	0
Advances Out	0	0	(10,000)	(10,000)
<i>Total Other Financing Uses</i>	(10,000)	0	(10,000)	(10,000)
<i>Net Change in Fund Balance</i>	118,753	(35,935)	(1,679)	34,256
<i>Fund Balance at Beginning of Year</i>	18,861	18,861	18,861	0
<i>Prior Year Encumbrances</i>	17,074	17,074	17,074	0
<i>Fund Balance at End of Year</i>	\$154,688	\$0	\$34,256	\$34,256

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Fund Net Assets  
Enterprise Funds  
December 31, 2006

	<i><b>Waterworks Operating Fund</b></i>	<i><b>Sewer Operating Fund</b></i>	<i><b>Total</b></i>
<b><u>Assets:</u></b>			
<b><u>Current Assets:</u></b>			
Equity in Pooled Cash and Cash Equivalents	\$5,483,905	\$5,055,360	\$10,539,265
Receivables:			
Accounts	174,101	225,596	399,697
Accrued Interest	15,152	21,612	36,764
Special Assessments	0	6,510	6,510
Materials and Supplies Inventory	60,576	78,040	138,616
Prepaid Items	13,658	9,365	23,023
<i>Total Current Assets</i>	<u>5,747,392</u>	<u>5,396,483</u>	<u>11,143,875</u>
<b><u>Non-Current Assets:</u></b>			
Nondepreciable Capital Assets	59,230	338,022	397,252
Depreciable Capital Assets, Net	5,784,106	10,899,999	16,684,105
<i>Total Non-Current Assets</i>	<u>5,843,336</u>	<u>11,238,021</u>	<u>17,081,357</u>
<i>Total Assets</i>	<u>11,590,728</u>	<u>16,634,504</u>	<u>28,225,232</u>
<b><u>Liabilities:</u></b>			
<b><u>Current Liabilities:</u></b>			
Accounts Payable	26,089	26,041	52,130
Accrued Wages and Benefits Payable	20,498	23,719	44,217
Intergovernmental Payable	23,333	24,005	47,338
Notes Payable	2,100,000	2,995,000	5,095,000
Capital Leases Payable	4,942	2,029	6,971
Compensated Absences Payable	28,385	30,592	58,977
<i>Total Current Liabilities</i>	<u>2,203,247</u>	<u>3,101,386</u>	<u>5,304,633</u>
<b><u>Long-Term Liabilities (Net of Current Portion):</u></b>			
Capital Leases Payable	9,043	176	9,219
Compensated Absences Payable	18,145	20,038	38,183
<i>Total Long-Term Liabilities (Net of Current Portion)</i>	<u>27,188</u>	<u>20,214</u>	<u>47,402</u>
<i>Total Liabilities</i>	<u>2,230,435</u>	<u>3,121,600</u>	<u>5,352,035</u>
<b><u>Net Assets:</u></b>			
Invested in Capital Assets, Net of Related Debt	5,829,351	11,235,816	17,065,167
Unrestricted	3,530,942	2,277,088	5,808,030
<i>Total Net Assets</i>	<u>\$9,360,293</u>	<u>\$13,512,904</u>	<u>\$22,873,197</u>

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Enterprise Funds  
For the Year Ended December 31, 2006

	<u><i>Waterworks Operating Fund</i></u>	<u><i>Sewer Operating Fund</i></u>	<u><i>Total</i></u>
<b><u>Operating Revenues:</u></b>			
Charges for Services	\$1,415,889	\$1,723,291	\$3,139,180
<b><u>Operating Expenses:</u></b>			
Personal Services	519,324	595,007	1,114,331
Fringe Benefits	250,558	246,068	496,626
Materials and Supplies	301,328	263,896	565,224
Contractual Services	210,587	323,568	534,155
Depreciation	192,959	363,816	556,775
Miscellaneous	1,824	9,686	11,510
<i>Total Operating Expenses</i>	<u>1,476,580</u>	<u>1,802,041</u>	<u>3,278,621</u>
Operating Loss	<u>(60,691)</u>	<u>(78,750)</u>	<u>(139,441)</u>
<b><u>Non-Operating Revenues (Expenses):</u></b>			
Interest and Fiscal Charges	(730)	(259)	(989)
Interest Revenue	17,595	24,673	42,268
Other	15,405	10,577	25,982
<i>Total Non-Operating Revenues (Expenses)</i>	<u>32,270</u>	<u>34,991</u>	<u>67,261</u>
Loss Before Capital Contributions	(28,421)	(43,759)	(72,180)
Capital Contributions	<u>35,560</u>	<u>0</u>	<u>35,560</u>
<i>Change in Net Assets</i>	7,139	(43,759)	(36,620)
<i>Net Assets at Beginning of Year - Restated (Note 20)</i>	<u>9,353,154</u>	<u>13,556,663</u>	<u>22,909,817</u>
<i>Net Assets at End of Year</i>	<u><u>\$9,360,293</u></u>	<u><u>\$13,512,904</u></u>	<u><u>\$22,873,197</u></u>

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Cash Flows  
Enterprise Funds  
For the Year Ended December 31, 2006

	<i>Waterworks Operating Fund</i>	<i>Sewer Operating Fund</i>	<i>Total</i>
<b><u>Increase (Decrease) in Cash and Cash Equivalents:</u></b>			
<b><u>Cash Flows from Operating Activities:</u></b>			
Cash Received from Charges for Services	\$1,419,836	\$1,722,065	\$3,141,901
Cash Payments for Employee Services	(516,642)	(595,894)	(1,112,536)
Cash Payments for Employee Benefits	(245,282)	(242,185)	(487,467)
Cash Payments to Suppliers for Goods and Services	(614,713)	(655,139)	(1,269,852)
Cash Payments for Other Operating Expenses	(1,824)	(9,686)	(11,510)
Other Non-Operating Revenues	15,405	10,577	25,982
<i>Net Cash Provided by Operating Activities</i>	<u>56,780</u>	<u>229,738</u>	<u>286,518</u>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>			
Acquisition of Capital Assets	(92,401)	(209,001)	(301,402)
Proceeds of Bond Anticipation Notes	2,100,000	2,995,000	5,095,000
Principal Paid on Capital Leases	(4,207)	(1,873)	(6,080)
Interest Paid on Capital Leases	(730)	(259)	(989)
<i>Net Cash Provided by Capital and Related Financing Activities</i>	<u>2,002,662</u>	<u>2,783,867</u>	<u>4,786,529</u>
<b><u>Cash Flows from Investing Activities:</u></b>			
Interest	2,443	3,061	5,504
<i>Net Increase in Cash and Cash Equivalents</i>	2,061,885	3,016,666	5,078,551
<i>Cash and Cash Equivalents at Beginning of Year</i>	<u>3,422,020</u>	<u>2,038,694</u>	<u>5,460,714</u>
<i>Cash and Cash Equivalents at End of Year</i>	<u><u>\$5,483,905</u></u>	<u><u>\$5,055,360</u></u>	<u><u>\$10,539,265</u></u>
<b><u>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</u></b>			
Operating Loss	(\$60,691)	(\$78,750)	(\$139,441)
<b><u>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:</u></b>			
Depreciation	192,959	363,816	556,775
Other Non-Operating Revenues	15,405	10,577	25,982
Changes in Assets and Liabilities:			
Increase (Decrease) in Accounts Receivable	3,947	(1,359)	2,588
Decrease in Special Assessments Receivable	0	133	133
Increase in Materials and Supplies Inventory	(40,535)	(30,182)	(70,717)
Increase in Prepaid Items	(7,408)	(3,017)	(10,425)
Increase in Accounts Payable	20,259	25,480	45,739
Decrease in Contracts Payable	(74,686)	(59,501)	(134,187)
Increase in Accrued Wages and Benefits Payable	1,033	1,061	2,094
Increase (Decrease) in Intergovernmental Payable	1,221	(2,403)	(1,182)
Increase in Compensated Absences Payable	5,276	3,883	9,159
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$56,780</u></u>	<u><u>\$229,738</u></u>	<u><u>\$286,518</u></u>

**Noncash Capital Financing Activities:**

For the year ended December 31, 2006, the City's Water Department began occupying a portion of the City's Administration Building that was paid from the General Fund. The value of the area occupied by the department is \$35,560 and is shown as a capital asset in the Waterworks Operating Fund.

See Accountants' Compilation Report  
See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
December 31, 2006

	<i>Private Purpose Trust Fund William Renick Trust</i>	<i>Agency Funds</i>
<b><u>Assets:</u></b>		
Equity in Pooled Cash and Cash Equivalents	\$600	\$21,110
Cash and Cash Equivalents In Segregated Accounts	11,598	132,400
<i>Total Assets</i>	12,198	\$153,510
<b><u>Liabilities:</u></b>		
Intergovernmental Payable	0	\$4,921
Undistributed Assets	0	148,589
<i>Total Liabilities</i>	0	\$153,510
<b><u>Net Assets:</u></b>		
Held in Trust for Private Purposes	\$12,198	

See Accountants' Compilation Report

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Statement of Changes in Fiduciary Net Assets  
Private Purpose Trust Fund  
For the Year Ended December 31, 2006

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	<u><i>William Renick Trust</i></u>
<u><i>Additions:</i></u>	
Interest	\$400
<u><i>Deductions:</i></u>	
Payments in Accordance with Trust Agreements	<u>0</u>
<i>Change in Net Assets</i>	400
<i>Net Assets Beginning of Year</i>	<u>11,798</u>
<i>Net Assets End of Year</i>	<u><u>\$12,198</u></u>

See Accountants' Compilation Report

See Accompanying Notes to the Basic Financial Statements

**City of Circleville**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2006

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**NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY**

The City of Circleville (the “City”) is a non-chartered municipal corporation operating under the laws of the State of Ohio. The community was established in 1810 as part of Circleville Township; it became a Village in 1811 before becoming a City in 1814. The municipal government is known as a Council/Mayor form of government. Legislative power is vested in an eight-member Council: four members elected by wards, three elected at large, and an elected President, who only votes in the case of a tie vote. The Mayor is the chief executive officer and the head of the administrative agencies of the City. He/she appoints all department heads and employees, with the exception of the following: the elected City Auditor, who appoints the Income Tax Commissioner, the elected Director of Law who appoints the Assistant Law Director, and the elected Treasurer.

**Reporting Entity**

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading.

The primary government of the City consists of all funds, departments and activities which are not legally separate from the City. They comprise the City’s legal entity which provides various services including public safety, planning, zoning, street maintenance and repair, parks and recreation, community development, public health and welfare, and water and sewer treatment. Administrative staff provides support (i.e., payroll processing, accounts payable, 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.

The City is associated with one organization which is defined as a jointly governed organization. This organization is the Pickaway Progress Partnership and is presented in Note 17 to the Basic Financial Statements.

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; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the organization’s budget, the issuance of its debt or the levying of its taxes.

The component unit column in the government-wide financial statements identifies the financial data of the City’s discretely presented component unit, Berger Health System. Berger Health System is reported separately to emphasize that it is legally separate from the City.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY** *(continued)*

**Berger Health System**

Berger Health System (the “System”) is operated by a Board of Governors pursuant to an agreement between the City of Circleville and Pickaway County. Four members of the Board of Governors are appointed by the Board of County Commissioners of Pickaway County and four members are appointed by the Mayor with the consent of City Council. The Mayor is the ninth and final member of the Board of Governors and serves as Chairman.

The City is obligated for the bonded debt of the System. The City issued the bonds on behalf of the System, who is repaying the City for the bonds through a loan agreement. The bond agreement is between the City and the original purchasers. Based upon the significant services and resources provided by the City to the System, the System is presented as a component unit of the City. The System operates on a fiscal year ending December 31. Separately issued financial statements can be obtained from Berger Health System, 600 North Pickaway Street, Circleville, Ohio 43113.

The information in Notes 2 through 21 relate to the primary government. Information related to the discretely presented component unit is presented in Note 22.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The City’s basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Government-Wide Financial Statements*

The Statement of Net Assets and the Statement of Activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental 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 for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business segment 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. There are three categories of funds utilized by the City: governmental, proprietary, and fiduciary.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Governmental Funds*

Governmental funds are those through which most governmental functions 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 - This 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.

Income Tax Fund – This fund accounts for the direct administration of the 1.5 percent income tax levied and collected by the City. The purpose of the tax is to provide for the municipal operations, maintenance of equipment, extension, enlargement and improvement of municipal services and facilities and capital improvements of the City.

Safety Forces Tax Fund – This fund accounts for the portion of the income tax which is used for safety purposes such as a portion of police and fire salaries and the emergency medical team salaries.

Small Cities Block Grant Fund – This fund accounts for monies received through community development block grants for various projects.

General Obligation Bond Retirement Fund – This fund accounts for the resources that are used for payment of principal and interest and fiscal charges on general obligation debt.

Capital Improvement Fund – This fund accounts for the portion of the income tax which is used for capital projects as approved by Council.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Proprietary Funds*

Proprietary funds focus on the determination of operating income, changes in net assets, financial position, and cash flows. The City's proprietary funds are enterprise 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:

Waterworks Operating Fund – This fund is used to account for the provision of water service to the residents and businesses of the City.

Sewer Operating Fund – This fund is used to account for the provision of sanitary sewer service to the residents and businesses of 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. The three types of trust funds are used to report resources held and administered by the City when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The City has one private-purpose trust fund which is used to account for the money set aside to be donated to charities as authorized in the will of Josie Renick. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has five agency funds which are used to account for monies held for individuals and organizations for fines and forfeitures, deposits held to insure compliance with building codes, and inspection fees received from contractors who perform work with individuals or private organizations which requires them to open pavement surfaces. Once the work is completed and the street has been properly restored, the fees are returned to the contractors.

**C. Measurement Focus**

*Government-wide Financial Statements*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and 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.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

*Fund Financial Statements*

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

Like the government-wide statements, all 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 Changes in Fund Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows provides information about how the City finances and meets the cash flow needs of its enterprise activities.

The private purpose trust fund is reported using the economic resources measurement focus.

**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 and the financial statements of the enterprise and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

*Revenues – Exchange and Non-Exchange Transactions*

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: weed assessments, income taxes, interest on investments, intergovernmental revenues (including motor vehicle license tax, gasoline tax, and local government assistance), and grants.

*Deferred Revenues*

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

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

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

*Expenses/Expenditures*

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**E. Budgets and Budgetary Accounting**

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department. Any budgetary modifications at this level may only be made by resolution of Council.

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 final budgeted amounts represent estimates from the amended certificate in force at the time final appropriations were passed by Council.

The appropriation resolution 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 resolution 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 Council during the year, including all supplemental appropriations.

**F. Cash and Cash Equivalents**

Cash balances of the City's funds, except cash in segregated accounts, are pooled and invested in short-term investments in order to provide improved cash management. Each share of the pool is presented on the financial statements in the account "Equity in Pooled Cash and Cash Equivalents." Cash and cash equivalents that are held separately within departments of the City and not held with the City Treasurer are recorded as "Cash and Cash Equivalents in Segregated Accounts". The City utilizes financial institutions to service bonded debt as principal and interest payments come due. The balances in these accounts are presented as "Cash and Cash Equivalents with Fiscal Agents".

During the year, investments were limited to Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Consolidation Bonds, Federal National Mortgage Association Bonds, and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Interest income is distributed to the funds according to Ohio constitutional and statutory requirements. Interest revenue credited to the General Fund during 2006 amounted to \$417,311, which includes \$365,849 assigned from other funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are reported as cash equivalents on the financial statements.

**G. Materials and Supplies Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**H. 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. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**I. Capital Assets**

General capital assets are capital assets that are associated with and generally rise from governmental activities. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide Statement of Net Assets and in the respective funds.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market values 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 expensed.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

<u>Descriptions</u>	<u>Estimated Life</u>
Land Improvements	10-25 years
Buildings and Building Improvements	20-50 years
Machinery and Equipment	3-20 years
Vehicles	5-20 years
Infrastructure	10-75 years

The City's infrastructure consists of streets, curbs and gutters, sidewalks, street lighting, storm sewers, and water and sewer lines. In the initial capitalization of general infrastructure assets, the City chose to include all such items regardless of their acquisition date.

**J. 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 that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees after one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent that payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

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

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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, compensated absences that will be 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. Bonds and capital leases are recognized as liabilities on the governmental fund financial statements when due.

**L. Unamortized Bond Issuance Costs**

Issuance costs reported on the government-wide statements are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method and are recorded as deferred charges.

**M. Reserves of Fund Balance**

Reserves of fund equity in governmental funds indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for encumbrances and loans receivable.

**N. Internal Activities**

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

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.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**O. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include funds for the operation of recreational activities, improving the living environment of the City, the operation of police programs, and the City's street repair/improvement programs. The government-wide Statement of Net Assets reports \$3,841,387 of restricted net assets, \$65,320 of which is restricted by enabling legislation.

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

**P. 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 and sewer utility services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as non-operating.

**Q. Contributions of Capital**

Contributions of capital arise from the transfer of governmental capital assets.

**R. Estimates**

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

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position and results of operations on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual is presented for the General Fund and the major special revenue funds on the budgetary basis to provide a meaningful comparison of actual results with the budget.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING** *(continued)*

The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- (d) Unrecorded 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 statements.
- (e) Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the General Fund and major special revenue funds are as follows:

Net Change in Fund Balance				
	General Fund	Income Tax Fund	Safety Forces Tax Fund	Small Cities Block Grant Fund
GAAP Basis	\$2,747	\$4,281	(\$222,401)	\$18,397
Increases (Decreases) Due To:				
Revenue Accruals	(41,434)	(4,788)	1,572	(2,546)
Expenditure Accruals	75,227	1,432	25,526	(803)
Encumbrances	(112,423)	(2,046)	(36,281)	(6,727)
Unrecorded Cash - 2006	(29,662)	0	0	0
Unrecorded Cash - 2005	35,993	0	0	0
Advances	0	0	0	(10,000)
Budget Basis	(\$69,552)	(\$1,121)	(\$231,584)	(\$1,679)

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 4 – DEPOSITS AND INVESTMENTS**

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

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

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

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

Interim monies may 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;

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 4 – DEPOSITS AND INVESTMENTS** *(continued)*

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer’s investment pool (STAROhio); and
7. Certain bankers’ acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

*Investments:* As of December 31, 2006, the City had the following investments.

	Fair Value	Investment Maturities (in Years)		Call Date
		Less than 1	1 - 4	
Federal Home Loan Mortgage Corporation Notes	\$994,320	\$994,320	\$0	----
Federal Home Loan Mortgage Corporation Notes	998,180	0	998,180	4/11/2007
Federal Home Loan Bank Consolidation Bonds	98,719	0	98,719	----
Federal National Mortgage Association Bonds	995,310	0	995,310	3/30/2007
Federal National Mortgage Association Bonds	988,750	988,750	0	6/11/2007
Federal National Mortgage Association Bonds	996,880	0	996,880	10/3/2007
Federal National Mortgage Association Bonds	996,250	0	996,250	3/30/2007
Totals	<u>\$6,068,409</u>	<u>\$1,983,070</u>	<u>\$4,085,339</u>	

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 4 – DEPOSITS AND INVESTMENTS** *(continued)*

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the City, the City will not directly invest in securities maturing more than five years from the date of investment.

*Credit Risk:* The Federal Home Loan Mortgage Corporation Notes, Federal Home Loan Bank Consolidation Bonds, and Federal National Mortgage Association Bonds carry a rating of Aaa by Moody's and AAA by Standard and Poor's. The City's investment policy limits investments to those authorized by State statute which restricts investments to those that are highly rated, investments in obligations of the United States government, or those obligations explicitly guaranteed by the United States government.

*Concentration of Credit Risk:* The City's investment policy limits the City's investments to the following: no more than 50 percent of the investment portfolio, excluding working cash, shall be deposited in any one financial institution; 100 percent of the investment portfolio may be invested in securities guaranteed by the United States, or those securities for which the full faith of the United States is pledged for the payment of principal and interest; 100 percent of the investment portfolio may be invested in time certificates of deposits, savings, or deposit accounts which have been fully collateralized; no more than 10 percent of the total investment portfolio may be invested in bonds and other obligations of this State; no more than 10 percent of the total investment portfolio may be invested in securities issued by any federal government agency or instrumentality; and no more than 25 percent of the total investment portfolio may be invested in no-load money market mutual funds consisting exclusively of government securities or repurchase agreements secured by government securities. The City's investments in Federal Home Loan Mortgage Corporation Notes and Federal National Mortgage Association Bonds represent 32.83 percent and 65.54 percent, respectively, of the City's total investments.

**NOTE 5 – MUNICIPAL INCOME TAX**

The City levies and collects an income tax of one and one-half percent on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. 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 utilized the Regional Income Tax Agency (RITA) for the collection of income taxes.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 5 – MUNICIPAL INCOME TAX** *(continued)*

Income tax proceeds are to be used to pay the cost of administering the tax, General Fund operations, capital improvements, debt service and other governmental functions when needed, as determined by Council. In 2006, the proceeds were allocated to the General Fund, the Income Tax Special Revenue Fund, the Safety Forces Tax Special Revenue Fund, the General Obligation Bond Retirement Debt Service Fund, and the Capital Improvement Capital Projects Fund.

**NOTE 6 – PROPERTY TAX**

Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 6 – PROPERTY TAX** *(continued)*

The full tax rate for all City operations for the year ended December 31, 2006, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property:	
Agricultural/Residential	\$176,491,030
Commercial/Industrial/Mineral	63,540,780
Public Utility Real	82,940
Tangible Personal Property:	
General Business	16,758,386
Public Utility	10,166,280
Total Assessed Value	<u><u>\$267,039,416</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City of Circleville. The County Auditor periodically remits to the City its portion of the taxes. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006, and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations, and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 7 – RECEIVABLES**

Receivables at December 31, 2006, consisted of weed and litter assessments, interest, intergovernmental receivables arising from grants, entitlements or shared revenues, taxes, loans, and special assessments. All receivables are considered fully collectible, including water and sewer charges receivable which, if delinquent, may be certified and collected as a special assessment, subject to foreclosure for nonpayment. Special assessments expected to be collected in more than one year for the City amount to \$25,386. The City had \$8,287 in delinquent special assessments at December 31, 2006.

The City entered into a loan agreement with Berger Health System, in which Berger Health System is repaying the City for the bonds issued by the City on behalf of Berger Health System. The loan agreement is for the \$2,000,000 principal amount of bonds and the related interest. The loans receivable balance relating to this agreement at December 31, 2006, is \$1,325,000, of which \$90,000 is considered to be due within one year. The City also had loans receivable related to program housing. At December 31, 2006, the balance of these loans was \$48,923, of which \$25,780 is considered to be due within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<u>Governmental Activities</u>	
Community Development Block Grant	\$64,800
Ohio HOME Investment Partnerships Grants	438,027
Estate Taxes	58,073
Homestead and Rollback	37,750
Electric Deregulation	6,709
Permissive Motor Vehicle License Tax	46,449
Gasoline Tax	227,049
Motor Vehicle License Tax	68,628
Local Government	317,376
Local Government Revenue Assistance	81,712
Undivided State Local Government	44,150
Total Intergovernmental Receivable	<u>\$1,390,723</u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 8 – CAPITAL ASSETS**

Capital assets activity for the year ended December 31, 2006, was as follows:

	Balance At 12/31/2005	Additions	Deletions	Balance At 12/31/2006
<b><u>Governmental Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Land	\$1,040,300	\$2,790	\$0	\$1,043,090
Construction in Progress	273,675	21,845	(279,564)	15,956
Total Capital Assets, Not Being Depreciated	1,313,975	24,635	(279,564)	1,059,046
Depreciable Capital Assets:				
Land Improvements	1,448,737	5,100	0	1,453,837
Buildings and Building Improvements	7,171,819	103,816	(35,560)	7,240,075
Machinery and Equipment	776,547	222,865	(15,961)	983,451
Vehicles	1,980,113	70,221	(79,889)	1,970,445
Infrastructure	30,873,652	660,003	(37,504)	31,496,151
Total Depreciable Capital Assets	42,250,868	1,062,005	(168,914)	43,143,959
Less Accumulated Depreciation:				
Land Improvements	(986,605)	(67,868)	0	(1,054,473)
Buildings and Building Improvements	(2,096,184)	(155,753)	0	(2,251,937)
Machinery and Equipment	(486,803)	(84,214)	9,576	(561,441)
Vehicles	(1,309,260)	(142,920)	75,313	(1,376,867)
Infrastructure	(15,417,375)	(670,505)	37,504	(16,050,376)
Total Accumulated Depreciation	(20,296,227)	(1,121,260)	122,393	(21,295,094)
Depreciable Capital Assets, Net	21,954,641	(59,255)	(46,521)	21,848,865
Governmental Activities Capital Assets, Net	\$23,268,616	(\$34,620)	(\$326,085)	\$22,907,911

Depreciation expense was charged to governmental programs as follows:

Security of Persons and Property - Police	\$100,032
Security of Persons and Property - Fire	138,380
Security of Persons and Property - Other	23,681
Leisure Time Activities - Parks and Recreation	30,085
Leisure Time Activities - Swimming Pool	38,158
Community Development - City Funded	4,563
Transportation	717,073
General Government	69,288
Total Depreciation Expense	<u>\$1,121,260</u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 8 – CAPITAL ASSETS** *(continued)*

	Balance At 12/31/2005	Additions	Deletions	Balance At 12/31/2006
<b>Business-Type Activities</b>				
Capital Assets, Not Being Depreciated:				
Land	\$149,180	\$0	\$0	\$149,180
Construction in Progress	435,202	35,607	(222,737)	248,072
Total Capital Assets, Not Being Depreciated	584,382	35,607	(222,737)	397,252
Depreciable Capital Assets:				
Land Improvements	322,752	0	0	322,752
Buildings and Building Improvements	12,326,568	273,197	0	12,599,765
Machinery and Equipment	441,409	34,153	0	475,562
Vehicles	239,963	0	0	239,963
Infrastructure	15,200,602	231,559	(5,317)	15,426,844
Total Depreciable Capital Assets	28,531,294	538,909	(5,317)	29,064,886
Less Accumulated Depreciation:				
Land Improvements	(236,031)	(14,894)	0	(250,925)
Buildings and Building Improvements	(6,573,619)	(291,963)	0	(6,865,582)
Machinery and Equipment	(371,970)	(17,367)	0	(389,337)
Vehicles	(176,922)	(9,168)	0	(186,090)
Infrastructure	(4,470,077)	(223,383)	4,613	(4,688,847)
Total Accumulated Depreciation	(11,828,619)	(556,775)	4,613	(12,380,781)
Depreciable Capital Assets, Net	16,702,675	(17,866)	(704)	16,684,105
Business-Type Activities Capital Assets, Net	\$17,287,057	\$17,741	(\$223,441)	\$17,081,357

For the year ended December 31, 2006, the City's Water Department began occupying a portion of the City's Administration Building that was paid for by the General Fund. The value of the area occupied by the department is \$35,560 and is shown as a capital asset in the Waterworks Operating Fund.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 9 – DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

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

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 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 or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2006 was 9.2 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.43 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the year ended December 31, 2006, 2005, and 2004 were \$288,330, \$286,199, and \$300,635, respectively; 80.98 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$2,498 made by the City and \$1,641 made by plan members.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 9 – DEFINED BENEFIT PENSION PLANS** *(continued)*

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information 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 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$159,103 and \$136,009 for the year ended December 31, 2006, \$132,592 and \$129,025 for the year ended December 31, 2005, and \$139,354 and \$122,843 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. 63.26 percent for police and 62.96 percent for firefighters has been contributed for 2006.

**NOTE 10 – POSTEMPLOYMENT BENEFITS**

**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 qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. 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 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.5 percent of covered payroll was the portion that was used to fund health care.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 10 – POSTEMPLOYMENT BENEFITS** *(continued)*

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .5 and 6.0 percent annually for the next nine years and 4.0 percent annually after nine years.

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

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$141,031. 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. The actuarially accrued liability and the unfunded actuarially accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created 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.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 10 – POSTEMPLOYMENT BENEFITS** *(continued)*

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 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors 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 \$104,940 for police and \$64,866 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

**NOTE 11 – EMPLOYEE BENEFITS**

**A. Compensated Absences**

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy credits vacation leave on the employee's anniversary date; thereafter, vacation leave accrues on a pro-rated basis each pay period depending upon length of service. A maximum of three years' accrual may be carried into the next calendar year. City employees are paid for earned, unused vacation leave at the time of termination of employment.

Sick leave is earned at the rate of four and six-tenths hours for every eighty hours worked and can be accumulated without limit. Upon termination from the City, accumulated, unused sick leave is paid up to a maximum number of hours, depending on length of service, union contract guidelines, and/or City ordinance specifications, to employees who retire.

**B. Insurance Benefits**

For the year, the City's health insurance was provided by Medical Mutual of Ohio; vision insurance was provided by Vision Service Plan; dental, life and accident insurance was provided by Principal Financial Group and by Colonial Life and Accident Insurance Company.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 11 – EMPLOYEE BENEFITS** *(continued)*

**C. Deferred Compensation**

City employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

**NOTE 12 – CAPITAL LEASES – LESSEE DISCLOSURE**

During 2006 and in prior years, the City has entered into capitalized leases for copiers, a telephone system, a skid loader, and a fold and insert machine. 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. The capital lease relating to the telephone system relates to a renovation project where the City made upgrades to its telephone system and installed Voice Over Internet Protocol technology. At the time the City entered into this lease, the project had not yet begun. As part of the agreement, Key Government Finance, Inc., the lessor, deposited \$218,690 in the City’s name, with an escrow agent for the project. Amounts were paid to contractors by the lessor as work progressed. The City would then record a memo entry for the activity paid on its behalf on its books. At year-end, the project was completed and no money was held by the escrow agent. The City makes monthly principal and interest payments to the lessor. Key Government Finance, Inc. will be repaid in 2011. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets acquired by lease were initially capitalized in the amount of \$265,338 for governmental activities and \$25,452 for business-type activities, which is equal to the present value of the minimum lease payments at the time of acquisition. Corresponding liabilities were recorded on the Statement of Net Assets for governmental and business-type activities. During 2006, the City entered into a new capital lease for a digital copier prior to the full retirement of the old capital lease for a copier. Therefore, the balance of \$10,412 remaining on the old lease was eliminated on the financial statements upon entering into the new lease. Principal payments in 2006 totaled \$43,487 in the governmental funds and \$6,080 in the enterprise funds.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 12 – CAPITAL LEASES – LESSEE DISCLOSURE** *(continued)*

The assets acquired through capital leases for governmental activities as of December 31, 2006, are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Copier Equipment	\$105,622	\$54,338	\$51,284
Telephone System	131,716	26,343	105,373
Skid Loader Equipment	28,000	3,734	24,266
Totals	<u>\$265,338</u>	<u>\$84,415</u>	<u>\$180,923</u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006, for governmental activities:

<u>Year Ending December 31,</u>	<u>Amount</u>
2007	\$62,641
2008	59,328
2009	46,251
2010	32,808
2011	<u>9,189</u>
Total	210,217
Less: Amount representing Interest	<u>(20,159)</u>
Present Value of Minimum Lease Payment	<u>\$190,058</u>

The assets acquired through capital leases for business-type activities as of December 31, 2006, are as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Telephone System	\$14,113	\$2,823	\$11,290
Folder and Insert Machine	11,339	4,535	6,804
Totals	<u>\$25,452</u>	<u>\$7,358</u>	<u>\$18,094</u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 12 – CAPITAL LEASES – LESSEE DISCLOSURE** *(continued)*

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2006, for business-type activities:

Year Ending December 31,	Amount
2007	\$7,627
2008	3,719
2009	3,363
2010	2,552
2011	155
Total	17,416
Less: Amount representing Interest	(1,226)
Present Value of Minimum Lease Payment	\$16,190

**NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

**A. Bonded Debt and Other Long-Term Obligations**

The change in the City’s long-term obligations during the year consisted of the following:

Types / Issues	Balance 12/31/2005	Issued	Retired	Balance 12/31/2006	Due Within One Year
<u>Business-Type Activities</u>					
Capital Leases	\$8,157	\$14,113	\$6,080	\$16,190	\$6,971
Compensated Absences	88,001	63,740	54,581	97,160	58,977
Total Business-Type Activities	\$96,158	\$77,853	\$60,661	\$113,350	\$65,948

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

*(continued)*

Types / Issues	Balance 12/31/2005	Issued	Retired	Balance 12/31/2006	Due Within One Year
<u>Governmental Activities</u>					
<u>General Obligation Bonds</u>					
1997 - Berger Health System					
Bonds \$2,000,000					
Term Bonds 4.80% - 5.40%	\$1,235,000	\$0	\$0	\$1,235,000	\$0
Serial Bonds 3.80% - 4.75%	180,000	0	90,000	90,000	90,000
2000 - Capital Facilities Improvement					
Safety Services Building Bonds \$3,285,000					
Term Bonds 5.625%	2,060,000	0	0	2,060,000	0
Serial Bonds 4.45% - 5.950%	680,000	0	125,000	555,000	130,000
2000 - Capital Facilities Improvement					
City Bonds \$500,000					
Term Bonds 5.625%	315,000	0	0	315,000	0
Serial Bonds 4.45% - 5.950%	105,000	0	20,000	85,000	20,000
Total General Obligation Bonds	<u>4,575,000</u>	<u>0</u>	<u>235,000</u>	<u>4,340,000</u>	<u>240,000</u>
<u>Other Long-Term Obligations</u>					
Capital Leases	69,239	174,718	53,899	190,058	53,834
Compensated Absences	335,428	258,147	228,677	364,898	223,055
Total Other Long-Term Obligations	<u>404,667</u>	<u>432,865</u>	<u>282,576</u>	<u>554,956</u>	<u>276,889</u>
Total Governmental Activities	<u>\$4,979,667</u>	<u>\$432,865</u>	<u>\$517,576</u>	<u>\$4,894,956</u>	<u>\$516,889</u>

The City's overall legal debt margin was \$24,667,685, with an unvoted debt margin of \$11,315,714 at December 31, 2006.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

*(continued)*

Annual debt service requirements to maturity for general long-term obligations are:

Year	Governmental Activities	
	General Obligation Bonds	
	Principal	Interest
2007	\$240,000	\$237,604
2008	250,000	226,084
2009	265,000	213,436
2010	275,000	99,869
2011	300,000	184,084
2012-2016	1,745,000	653,715
2017-2020	1,265,000	168,683
Totals	\$4,340,000	\$1,783,475

**B. General Obligation Bonds**

Berger Health System Bonds

On July 15, 1997, the City of Circleville issued \$2,000,000 in general obligation bonds for the purpose of constructing and equipping a building addition to provide maternity services at Berger Health System. The bonds were issued for a twenty year period with final maturity on December 1, 2017.

The term bonds, issued at \$1,235,000, maturing on December 1, 2017, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

Year	Amount
2008	\$95,000
2009	100,000
2010	105,000
2011	115,000
2012	120,000
2013	125,000
2014	135,000
2015	140,000
2016	145,000
2017	155,000
Totals	\$1,235,000

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

*(continued)*

The serial bonds, issued at \$765,000 with a maturity date of December 1, 2017, are subject to optional redemption, in whole or in part, on any date at the option of the issuer on or after December 1, 2007, at the redemption price of 100%.

Capital Facilities Safety Services Building Bonds

On June 1, 2000, the City of Circleville issued \$3,285,000 in general obligation bonds for the purpose of constructing a new safety facility to house a fire station, an EMS facility, and fire department offices. The bonds were issued for a twenty year period with final maturity on December 1, 2020.

The term bonds, issued at \$2,060,000 maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Amount</u>
2011	\$160,000
2012	170,000
2013	180,000
2014	185,000
2015	195,000
2016	210,000
2017	220,000
2018	235,000
2019	245,000
2020	260,000
Totals	<u><u>\$2,060,000</u></u>

The serial bonds, issued at \$1,225,000 with a maturity date of December 1, 2010, are subject to optional redemption, in whole or in part, on any date at the option of the issuer on or after December 1, 2009, and no later than December 1, 2012, at the redemption price of 100%.

Capital Facilities City Services Building Bonds

On June 1, 2000, the City of Circleville issued \$500,000 in general obligation bonds for the purpose of purchasing and renovating a service building. The bonds were issued for a twenty year period with final maturity on December 1, 2020.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 13 – OUTSTANDING DEBT AND OTHER LONG-TERM OBLIGATIONS**

*(continued)*

The term bonds, issued at \$315,000 maturing on December 1, 2020, are subject to mandatory sinking fund redemption at a redemption price of 100 percent of the principal amount to be redeemed plus accrued interest to the date of redemption, on December 1, in the years and in the respective principal amounts as follows:

Year	Amount
2011	\$25,000
2012	25,000
2013	25,000
2014	30,000
2015	30,000
2016	30,000
2017	35,000
2018	35,000
2019	40,000
2020	40,000
Totals	\$315,000

The serial bonds, issued at \$185,000 with a maturity date of December 1, 2010, are subject to optional redemption, in whole or in part, on any date at the option of the issuer on or after December 1, 2009, and no later than December 1, 2012, at the redemption price of 100%.

**C. Conduit Debt**

During 2003, the City issued revenue bonds in the aggregate principal amount of \$26,000,000 for Berger Health System. The proceeds are to be used by Berger Health System for future capital expenditures and to retire \$9 million of old debt. The bonds are to be repaid by the recipient of the proceeds and do not represent an obligation of the City. There has not been, and currently is not any condition of default under the bonds or the related financing documents. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely from the City's debt presentation. Neither is the full faith and credit or taxing power of the City pledged to make repayment. The balance outstanding as of December 31, 2006, is \$14,715,000.

**D. Compensated Absences/Capital Leases**

Compensated absences will be paid from the General Fund, Income Tax Fund, Street Construction Fund, City Permissive Motor Vehicle Fund, Safety Forces Tax Fund, Sick Leave Retirement Fund, Waterworks Operating Fund and Sewer Operating Fund. Capital leases will be paid from the General Fund, Street Construction Fund, Safety Forces Tax Fund, Municipal Probation Fund, Capital Improvement Fund, Waterworks Operating Fund, and Sewer Operating Fund.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 14 – SHORT-TERM OBLIGATIONS**

A summary of the short-term note transactions for the year ended December 31, 2006, is as follows:

Types / Issues	Balance 12/31/2005	Issued	Retired	Balance 12/31/2006
<u>Business-Type Activities</u>				
2006 - Various Purpose Bond Anticipation				
Notes \$5,095,000	\$0	\$5,095,000	\$0	\$5,095,000
<u>Governmental Activities</u>				
2006 - Various Purpose Bond Anticipation				
Notes \$405,000	\$0	\$405,000	\$0	\$405,000

On July 20, 2006, the City issued 4.50 percent Various Purpose Bond Anticipation Notes, Series 2006, in the amount of \$5,500,000. \$405,000 of the notes were issued for the purpose of paying the costs of restoring, updating and otherwise improving City Hall; \$2,100,000 of the notes were issued for the purpose of improving and extending the municipal water system by constructing and installing water lines; and \$2,995,000 of the notes were issued for the purpose of improving and extending the municipal sewer system by constructing and installing sanitary sewers. The notes will mature on July 18, 2007, and will be retired from the Capital Improvement Fund, the Waterworks Operating Fund, and the Sewer Operating Fund with additional note proceeds. As of year end, none of the note proceeds had been spent.

**NOTE 15 – RISK MANAGEMENT**

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. The City maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles, general liability insurance, crime and police professional liability insurance. The City also carries public officials and employment practices liability insurance. Settlements have not exceeded coverage in any of the last three years. The City has experienced an increase in the number of lawsuits filed in the areas of Law Enforcement and Public Entity Employment Practices. This proliferation of lawsuits has resulted in an increase in the City's deductible to \$25,000 for each claim filed under affected liability coverage. To combat these lawsuits, the City has instituted new policies and procedures as recommended by the City's liability insurance carrier. In addition, advanced risk management training has been incorporated into the training cycle for the City's personnel.

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

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 16 – INTERFUND ACTIVITY**

Transfers made during the year ended December 31, 2006, were as follows:

	Transfers To Nonmajor Funds	
<div style="display: inline-block; background-color: #cccccc; padding: 5px; transform: rotate(-90deg); transform-origin: center;">Transfers From</div>	<div style="display: inline-block; background-color: #cccccc; padding: 5px;">General Fund</div>	\$10,000

Transfers from the General Fund to Nonmajor Funds were made to maintain the fund balance in the Sick Leave Retirement Fund for the anticipation of future retirements.

**NOTE 17 – JOINTLY GOVERNED ORGANIZATION**

The Pickaway Progress Partnership (P<sup>3</sup>), formerly known as the Circleville-Pickaway County Community Improvement Corporation, was created as a not for profit corporation under Section 1724.01 et. seq., Ohio Revised Code. P<sup>3</sup> is governed by a fifteen member Board of Trustees, three of which are elected or appointed officials of the City, three are appointed by Pickaway County, one is a representative of the North Gate Alliance Cooperative Economic Development Agreement, and eight volunteer citizens. P<sup>3</sup> is the economic development agent for Pickaway County and its municipalities. P<sup>3</sup> had three main objectives: promote and market the advantages of locating business in the County; promote a stronger business environment by facilitating retention and expansion efforts of local employers; and deliver a seamless network of economic development services and value-added programs to existing businesses, local government, and prospective companies throughout Pickaway County. Because P<sup>3</sup> is subject to joint control and the participants have no equity interest in P<sup>3</sup>, P<sup>3</sup> is a jointly governed organization of the City. The City contributed \$30,000 to P<sup>3</sup> during the year.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 18 – CONTRACTUAL COMMITMENTS**

The City has entered into various contracts for the construction of capital assets. The outstanding contractual commitments at December 31, 2006, are:

<u>Contractor</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance At December 31, 2006</u>
KMC Paving - 2006 Mill and Fill	\$540,195	\$395,225	\$144,970
KMC Paving - 2005 Mill and Fill	308,348	261,577	46,771
Gunton Corporation, DBA Pella	224,269	0	224,269
Total	<u>\$1,072,812</u>	<u>\$656,802</u>	<u>\$416,010</u>

**NOTE 19 – CONTINGENT LIABILITIES**

**A. Litigation**

The City of Circleville is party to various legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**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 disallowance, if any, would be immaterial.

**NOTE 20 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS**

**A. Change in Accounting Principle**

For 2006, the City has implemented *GASB Statement No. 47, "Accounting for Termination Benefits"*.

GASB Statement No. 47 establishes accounting and financial reporting standards for termination benefits. This statement clarifies and establishes reporting requirements for those benefits provided by employers to employees as an incentive or settlement for voluntary early termination or as a consequence of the involuntary early termination of services. The implementation of this statement had no effect on the City's financial statements for 2006.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 20 – CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR NET ASSETS** *(continued)*

**B. Restatement of Prior Year Net Assets**

For 2006, the City began paying lease payments for a fold and insert machine from the Waterworks Operating and Sewer Operating Funds. In the past, the City made such payments from only the Waterworks Operating Fund. Therefore, a restatement is necessary to record a portion of the remaining liability and the related capital asset and accumulated depreciation to the Sewer Operating Fund. Also, for 2006, a restatement of construction in progress was necessary between the Waterworks Operating and the Sewer Operating Funds. The effect of these changes resulted in the following restatements of net assets:

	Waterworks Operating Fund	Sewer Operating Fund	Total
Net Assets, December 31, 2005	\$9,300,427	\$13,609,390	\$22,909,817
Capital Lease Reallocation	4,078	(4,078)	0
Restatement of Nondepreciable Capital Assets	53,184	(53,184)	0
Restatement of Depreciable Capital Assets, Net	(4,535)	4,535	0
Net Assets, December 31, 2005 as Restated	\$9,353,154	\$13,556,663	\$22,909,817

**NOTE 21 – SUBSEQUENT EVENTS**

On April 3, 2007, the City received a federal grant in the amount of \$721,000.

On June 19, 2007, the City passed an ordinance to rollover its 2006 Various Purpose Bond Anticipation Notes on July 18, 2007. The ordinance states that of the \$2,100,000 notes issued for the purpose of improving and extending the municipal water system by constructing and installing water lines, \$1,965,000 will be rolled over and \$135,000 will be retired by the City. Of the \$2,995,000 notes issued for the purpose of improving and extending the municipal sewer system by constructing and installing sanitary sewers, \$2,570,000 will be rolled over and \$425,000 will be retired by the City. Of the \$405,000 notes issued for the purpose of paying the costs of restoring, updating and otherwise improving City Hall, \$97,000 will be rolled over and \$8,000 will be retired by the City.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 22 – BERGER HEALTH SYSTEM**

As indicated in Note 1 to the Basic Financial Statements, the following disclosures are made on behalf of Berger Health System (the System).

**A. Basis of Accounting**

The System uses the government model of *GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments,”*. The System follows the “business-type” activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the System’s financial activities. The System also applies the Financial Accounting Standards Board Statements and Interpretations to the extent that they do not conflict with or contradict GASB pronouncements.

**B. Budgetary Basis of Accounting**

Budgetary information for the System is not presented because it is not included in the entity for which the “appropriated budget” is adopted and does not maintain separate budgetary financial records.

**C. Deposits and Investments**

*Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year-end, the System had approximately \$1,563,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured but are collateralized with securities held by the pledging financial institution. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 22 – BERGER HEALTH SYSTEM** *(continued)*

*Investments*

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk. At year-end, the following approximates the investment securities that were collateralized, with securities held by the counterparty or by its trust department or agent:

Type of Investment	Fair Value	How Held
US Agency Bonds	\$22,328,000	Counterparty
STAROhio	238,000	System's Name
Totals	\$22,566,000	

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System does not have an investment policy that addresses interest rate risk. At year-end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
US Agency Bonds	\$22,328,000	1.45 Years
STAROhio	238,000	-----
Totals	\$22,566,000	

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 22 – BERGER HEALTH SYSTEM** *(continued)*

Credit Risk

The System does not have an investment policy that addresses credit risk. At the end of the year, the credit quality ratings of debt securities (other than the U.S. Government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating on</u>
US Agency Bonds	\$22,328,000	AAA	Standard & Poor's
STAROhio	238,000	AAAm	Standard & Poor's
Totals	<u>\$22,566,000</u>		

**D. Capital Assets**

Capital assets activity for the year ended December 31, 2006, was as follows:

	<u>Balance At</u> <u>12/31/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance At</u> <u>12/31/2006</u>
Capital Assets, Not Being Depreciated:				
Land	\$3,528,490	\$9,251	(\$327,130)	\$3,210,611
Construction in Progress	801,300	(710,777)	0	90,523
Total Capital Assets, Not Being Depreciated	<u>4,329,790</u>	<u>(701,526)</u>	<u>(327,130)</u>	<u>3,301,134</u>
Depreciable Capital Assets:				
Land Improvements	1,472,076	54,929	0	1,527,005
Buildings	32,786,188	2,937,215	(200,499)	35,522,904
Building Improvements	16,954,090	344,846	0	17,298,936
Equipment	33,877,121	4,565,697	(7,395)	38,435,423
Total Depreciable Capital Assets	<u>85,089,475</u>	<u>7,902,687</u>	<u>(207,894)</u>	<u>92,784,268</u>
Less Accumulated Depreciation:				
Land Improvements	(908,918)	(92,728)	0	(1,001,646)
Buildings	(9,421,340)	(1,380,259)	40,291	(10,761,308)
Building Improvements	(7,531,572)	(952,080)	0	(8,483,652)
Equipment	(24,521,774)	(2,939,827)	0	(27,461,601)
Total Accumulated Depreciation	<u>(42,383,604)</u>	<u>(5,364,894)</u>	<u>40,291</u>	<u>(47,708,207)</u>
Depreciable Capital Assets, Net	<u>42,705,871</u>	<u>2,537,793</u>	<u>(167,603)</u>	<u>45,076,061</u>
Capital Assets, Net	<u>\$47,035,661</u>	<u>\$1,836,267</u>	<u>(\$494,733)</u>	<u>\$48,377,195</u>

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

**NOTE 22 – BERGER HEALTH SYSTEM** *(continued)*

**E. Long-Term Obligations**

The change in the System's long-term obligations during the year consisted of the following:

Types / Issues	Balance 12/31/2005	Issued	Retired	Balance 12/31/2006	Due Within One Year
1997 - 5.036% - 5.400% City of Circleville Loan \$2,000,000	\$1,407,500	\$0	\$90,000	\$1,317,500	\$90,417
<u>Revenue Bonds</u>					
2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003A	2,045,000	0	1,980,000	65,000	37,143
2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003B	8,500,000	0	500,000	8,000,000	0
2003 - City of Circleville Hospital Facilities Revenue Bonds Series 2003C	7,362,500	0	712,500	6,650,000	0
Total Revenue Bonds	17,907,500	0	3,192,500	14,715,000	37,143
<u>Other Long-Term Obligations</u>					
Capital Leases	3,815,807	0	565,554	3,250,253	585,553
Compensated Absences	990,263	1,846,652	1,723,029	1,113,886	0
Total Other Long-Term Obligations	4,806,070	1,846,652	2,288,583	4,364,139	585,553
Total Long-Term Obligations	\$24,121,070	\$1,846,652	\$5,571,083	\$20,396,639	\$713,113

Scheduled principal payments of long-term obligations are as follows:

Year	Long-Term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2007	\$127,560	\$840,310	\$585,553	\$103,828
2008	123,274	835,781	606,257	83,122
2009	3,187,917	829,340	627,696	61,685
2010	1,055,833	595,877	1,430,747	28,840
2011	4,565,417	527,272	0	0
2012 - 2016	6,830,417	547,569	0	0
2017 - 2021	142,082	7,672	0	0
Total	\$16,032,500	\$4,183,821	\$3,250,253	\$277,475

**City of Circleville**  
Notes To The Basic Financial Statements  
For The Year Ended December 31, 2006

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**NOTE 22 – BERGER HEALTH SYSTEM** *(continued)*

On September 1, 2003, the System entered into a financing agreement with the City of Circleville in which the City issued \$6,500,000 of Hospital Facilities Revenue Bonds (Series 2003A Bonds). The Series 2003A Bonds mature in quarterly principal installments ranging from \$495,000 in March 2004 to \$9,000 in September 2008, at a rate of 2.80 percent.

On September 1, 2003, the System entered into a financing agreement with the City of Circleville in which the City issued \$10,000,000 of Hospital Facilities Revenue Bonds (Series 2003B Bonds). During 2006, the System refinanced the Series 2003B Bonds to change maturity of the instrument. The System will pay interest-only payments, at a rate of 4.10 percent, until December 2011, at which time a lump-sum payment of \$3,500,000 will be due followed by quarterly principal installments ranging from \$167,000 in March 2012 to \$3,500,000 in September 2013, plus interest.

On September 1, 2003, the System entered into a financing agreement with the City of Circleville in which the City issued \$9,500,000 of Hospital Facilities Revenue Bonds (Series 2003C Bonds). During 2006, the System refinanced the Series 2003C Bonds to change maturity of the instrument. The System will pay interest-only payments, at a rate of LIBOR plus 1.25 percent, until December 2009, at which time a lump-sum payment of \$3,087,500 will be due followed by quarterly principal installments ranging from \$238,000 through September 2013, plus interest.

In conjunction with the Series 2003A, Series 2003B, and Series 2003C Bonds, the System is required to maintain certain financial covenants as defined in the debt agreements. Management believes it is in compliance with all such financial covenants.

The Series 2003A, Series 2003B, and Series 2003C Bonds are collateralized by System revenues and receipts, and unexpended bonds proceeds and income from bond fund related investments.

**F. Self-Insured Benefits**

The System is partially self-insured under a plan covering substantially all employees for health benefits. The plan is covered by a stop-loss policy that covers claims over \$100,000 per employee. Claims, charged to operations when incurred, were approximately \$5,800,000 for the year ended December 31, 2006.