

**PINNACLE COMMUNITY  
INFRASTRUCTURE FINANCING AUTHORITY**  
Franklin County

Financial Statements and  
Independent Auditor's Reports

For the Fiscal Years Ended  
December 31, 2006 and 2005



**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Pinnacle Community Infrastructure Financing Authority

We have audited the accompanying basic financial statements of the Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio (the Authority), as of and for the years ended December 31, 2006 and December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio, as of December 31, 2006 and December 31, 2005, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Kennedy Cottrell Richards  
July 31, 2008

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**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005  
(UNAUDITED)**

The management's discussion and analysis of the Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio, (the Authority), financial performance provides an overall review of the Authority's financial activities for the fiscal years ended December 31, 2006 and 2005. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Authority's financial performance.

**Financial Highlights**

1. The Authority encourages the orderly development of a well-planned, diversified community of approximately 588 acres in Franklin County, including the City of Grove City.
2. Net Assets at December 31, 2006 and 2005 totaled \$166,212 and \$137,411, respectively, each representing a slight increase from the previous fiscal year.
3. The Authority previously incurred long term debt of \$14,815,000 in community facilities bonds on August 10, 2004. The Authority's debt will be paid through the collection of community development charges imposed on the chargeable properties benefiting from the capital asset.
4. Construction in Progress at December 31, 2006 and 2005 was \$12,808,021 and \$10,456,349, respectively, each representing a significant increase from the previous fiscal year end.
5. In fiscal year 2006, the Authority assessed the first Community Development Charge, totaling \$1,080,000, to be collected in February 2007.

**Overview of the Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Authority's financial activities and financial position. The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Authority, including all short-term and long-term financial resources and obligations. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included in the Statement of Net Assets. The Statement of Net Assets represents the financial position of the Authority. The Statement of Revenues, Expenses, and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005  
(UNAUDITED)**

**Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows**

These financial statements look at all financial transactions and asks the question, "How did we do financially?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets answer this question. These statements include *all assets, liabilities, revenues, and expenses* using the *accrual basis of accounting*, similar to the accounting used by most private-sector companies. The accrual 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 Authority's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Authority as a whole, the *financial position* of the Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

The Statement of Cash Flows provides information about how the Authority finances and meets the cash flow needs of its operations. The Statement of Cash Flows can be found on page 9 of this report.

The basic financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

**Financial Analysis**

Table 1 provides a summary of Authority's net assets for fiscal years 2006, 2005 and 2004.

	Table 1 Net Assets		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Assets:</b>			
Current and Other Assets	\$ 4,458,269	\$ 8,756,622	\$14,596,812
Capital Assets	12,808,021	10,456,349	4,445,546
<b>Total Assets</b>	17,266,290	19,212,971	19,042,358
<b>Liabilities:</b>			
Current Liabilities	2,285,078	4,260,560	4,111,209
Long Term Liabilities	14,815,000	14,815,000	14,815,000
<b>Total Liabilities</b>	17,100,078	19,075,560	18,926,209
<b>Net Assets:</b>			
Unrestricted	166,212	137,411	116,149
<b>Total Net Assets</b>	\$ 166,212	\$ 137,411	\$ 116,149

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005  
(UNAUDITED)**

The significant decrease in current and other assets and correlating significant increase in capital assets are the result of the Authority's infrastructure improvements. All improvements will be contributed to the City of Grove City and Franklin County upon completion.

Table 2 reflects the changes in net assets for fiscal years 2006, 2005 and 2004.

Table 2  
Change in Net Assets

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Operating Revenue</b>	\$ 0	\$ 0	\$ 0
<b>Non-Operating Revenues/Expenses</b>			
Earnings on Investments	143,308	217,717	138,138
Interest Expense	(89,173)	(163,579)	(9,509)
<b>Operating Expenses</b>	(25,334)	(32,876)	(12,480)
<b>Change in Net Assets</b>	\$ 28,801	\$ 21,262	\$ 116,149

**Change in Net Assets:** The Authority had an increase in net assets for the three years presented. The increases are due to the fact that the Authority was created for the purpose of financing the cost of community facilities, which will be donated upon completion. Accordingly, since none of these assets have been donated to the city or the county, the Authority assets increased over the three years. The Authority acquires infrastructure improvements and then contributes the assets to the appropriate government parties.

The significant increase in earnings on investments from 2004 to 2005 is the result of the Authority issuing debt towards the end of fiscal year 2004. The significant decrease in earnings on investments from 2005 to 2006 is the result of a decrease in amount invested as a result of the Authority's infrastructure improvements.

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005  
(UNAUDITED)**

**Budgeting**

The Authority is not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705.

**Capital Assets**

All infrastructure assets are capitalized. The Authority does not depreciate capital assets as the assets will be donated as acquired. The Authority has not donated infrastructure during fiscal years 2004, 2005, and 2006. The Authority's capital asset additions were \$2,351,672 and \$6,010,803 during fiscal years 2006 and 2005, respectively. Upon completion of the improvements and approval by the receiving party, the assets become capital contributions.

**Debt**

The Authority issued Community Facilities Bonds totaling \$14,815,000 to purchase community facilities, which include a community center, community recreation improvements, entry monumentation, landscape and signage, water and sewer facilities, stormwater management features, roadways and traffic control improvements. The debt service will be paid annually by the revenue received from the Community Development Charges. Accrued interest in excess of the cash available from Community Development Charges will be added to the principal.

**Current Issues**

The Pinnacle Club golf course opened during the summer of 2006. Construction of homes and sale of lots is still ongoing. Condominium Pod I and J were sold to Mews at Pinnacle Club LLC and Cottages at Pinnacle LLC, respectively. As of December 31, 2007, at least 422 building permits have been issued and 277 homes have closed and are currently occupied.

**Contacting Authority's Financial Management**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the Authority's finances and to reflect the Authority's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Charles Kungu, MuniCap, Inc, Administrator, Pinnacle Community Infrastructure Financing Authority, 6760 Alexander Bell Drive, Suite 220, Columbia, Maryland 21046.

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,717,216	\$ 7,187,511
Investments	-	886,023
Community Development Charge Receivable	1,080,000	-
<b>Noncurrent Assets</b>		
Construction in Progress	12,808,021	10,456,349
Deferred Bond Issuance Cost	661,053	683,088
Total Assets	17,266,290	19,212,971
<b>Current Liabilities</b>		
Accounts Payable	520,946	3,326,858
Retainage Payable	684,132	933,702
Unearned Revenue	1,080,000	
<b>Long-Term Liabilities</b>		
Debt Due in less than 1 year	185,000	-
Debt Due in more than 1 year	14,630,000	14,815,000
Total Liabilities	17,100,078	19,075,560
<b>Net Assets</b>		
Unrestricted	166,212	137,411
Total Net Assets	\$ 166,212	\$ 137,411

**See Accompanying Notes to the Financial Statements**

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
<b>Operating Revenues</b>		
Community Development Charges	\$ -	\$ -
Total Operating Revenues	-	-
<b>Operating Expenses</b>		
Accounting and Auditing Fees	3,470	3,150
Consulting	11,329	17,069
Legal Fees	10,535	12,657
Total Operating Expenses	25,334	32,876
Operating Income (Loss)	(25,334)	(32,876)
<b>Non-Operating Revenues (Expenses)</b>		
Interest and Dividend Revenue	143,308	217,717
Interest Expense	(89,173)	(163,579)
Total Non-Operating Revenues (Expenses)	54,135	54,138
Change in Net Assets	28,801	21,262
Net Assets, Beginning of Year	137,411	116,149
Net Assets, End of Year	\$ 166,212	\$ 137,411

**See Accompanying Notes to the Financial Statements**

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	<b>2006</b>	<b>2005</b>
<b>Cash Flows from Operating Activities</b>		
Cash Payments for Accounting and Auditing Fees	\$ (3,470)	\$ (3,150)
Cash Payments for Consulting Fees	(8,789)	(20,600)
Cash Payments for Legal Fees	(10,535)	(17,866)
Net Cash Used in Operating Activities	(22,794)	(41,616)
<b>Cash Flows from Investing Activities</b>		
Interest and Dividends Received	143,308	217,717
Proceeds from Sales/Maturities	886,023	901,390
Net Cash Provided By (Used in) Investing Activities	1,029,331	1,119,107
<b>Cash Flows from Capital and Related Financing Activities</b>		
Interest Paid on Bonds	(914,050)	(914,050)
Acquisition of Capital Assets	(4,562,782)	(5,080,206)
Net Cash Provided by (Used In) Capital and Related Financing Activities	(5,476,832)	(5,994,256)
Net Increase (Decrease) In Cash	(4,470,295)	(4,916,765)
Cash, Beginning of year	7,187,511	12,104,276
Cash, End of year	\$ 2,717,216	\$ 7,187,511
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating Loss	\$ (25,334)	\$ (32,876)
<b>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities</b>		
Increase (Decrease) in Payables	2,540	(8,740)
Net Cash Used in Operating Activities	\$ (22,794)	\$ (41,616)

**See Accompanying Notes to the Financial Statements**

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PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 1 – REPORTING ENTITY**

The Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio (the Authority) is a “community authority” created pursuant to Chapter 349 of the Ohio Revised Code (the Act). On February 12, 2004, M/I Homes of Central Ohio and the Pinnacle Development Company of Grove City (collectively, the Developer) filed a petition (the Petition) for creation of the Authority with the Board of County Commissioners of Franklin County, Ohio. The Petition, which may be subject to amendment or change, allows the Authority to finance the costs of publicly owned and operated community facilities with assessed Community Development Charges. In accordance with the Act, the Petition was accepted by the County Commissioners’ Resolution No. 275-04 and approved March 30, 2004. By its Resolution, the County Commissioners determined that the new community district would be conducive to the public health, safety, convenience and welfare, and that it was intended to result in the development of a new community as described in the Act. The Authority thereby organized as a body corporate and politic in the State.

On August 6, 2004, a "Declaration of Covenants and Restrictions for the Authority" (the "Declaration") was filed by the Developers with the Franklin County Recorder under the Act placing, among other things, a "Community Development Charge" on the property within the boundaries of the Pinnacle Community Infrastructure Financing District (the "District") to cover all or part of the cost of the acquisition, development, construction, operation and maintenance of land, "Community Land Development", and "Community Facilities", and all other costs incurred by the Authority in the exercise of its powers pursuant to the Act, including without limitation the reimbursement of loans, advances or expenditures made to or by the Developers for such purposes.

The Pinnacle Community Infrastructure Financing Authority, (Grove City, Ohio) Community Facility Bonds Series 2004A were issued pursuant to a Master Trust Agreement by and between the Authority and the Huntington National Bank (the Trustee), dated as of July 15, 2004 and a limited offering memorandum for the bonds dated August 4, 2004. Bond proceeds in the amount of \$6,846,600 are to be used to construct the public improvements of residential section known as Part I and bonds in the amount of \$4,000,000 are to be used for construction of the storm sewer project known as Part II. Part I of the development, which is known as the Residential Project is being undertaken by the M/I Homes. Pinnacle Development Company is in charge of Part II of the development, which is referred to as the Storm Sewer Project.

At December 31, 2006, the Authority consisted of approximately 588 acres of land in City of Grove City, Ohio, which is in southwestern Franklin County and is located east of Interstate 71 and south of the Stringtown Road interchange. The District is located approximately seven miles from downtown Columbus, Ohio and approximately twenty miles from Port Columbus International Airport. The property in the District is being developed as a planned unit development (PUD) encompassing a 201-acre 18-hole golf course, and a residential community, comprising approximately 1,594 homes. Other planned amenities include a community center, swimming pool, tennis courts and a clubhouse. The planned mix of units includes estate homes, single-family homes, town homes, and cluster home condominiums. At inception, M/I Homes had estimated that the residential property would be sold out by the year 2011 and that the golf course would be open not later than summer of 2006. The golf course opened in summer of 2006 as planned.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 1 – REPORTING ENTITY (Continued)**

Land within the district was initially owned by nine separate entities. Pursuant to the Acquisition Agreements, this land has been transferred to Jim Hendrix, Joseph Ciminello and JBJ Venture (collectively, the Assignors). On November 5, 2003, the Assignor entered into an Agreement of Sale and Assignment of Purchase Contract (the Purchase Agreement) with M/I Homes. Under this Purchase Agreement, M/I Homes agreed to purchase and assume the rights of the Assignors to acquire the district lands pursuant to the Acquisition Agreements. The Purchase Agreement allocated certain development rights and obligations relating to the district lands between M/I Homes and the Assignors. The Assignors subsequently designated Pinnacle Development to carry out their development rights and obligations under the Purchase Agreement.

The Authority is governed by a seven member Board of Trustees. The Franklin County Board of County Commissioners, a related organization, appoints four of the Trustees, three (3) of whom are citizen members, to represent the interests of present and future residents of the community district, and one (1) of whom is a representative of local government. The remaining three (3) Trustees are appointed by the Developers. All Trustees are empowered to vote on all matters within the authority of the board of trustees, and no vote by a member appointed by the developer shall be construed to give rise to civil or criminal liability for conflict of interest on the part of public officials. A schedule established by the Franklin County Board of County Commissioners provides for the trustee citizen members appointed by the Franklin County Board of County Commissioners to be replaced by elected citizen members each time the District gains its one-sixth of its projected total population up until such time as all of the appointed members are replaced. A similar schedule established by the Franklin County Board of County Commissioners provides for replacement of trustees appointed by the Developers by elected citizen members each time the District gains one-third of its projected total population up until such time as all of the Developers appointed members are replaced.

The Authority's management believes these financial statements present all activities for which the Authority is financially accountable.

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

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

**A. Basis of Presentation**

The Authority's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. The Authority uses enterprise fund accounting to maintain its financial records during the fiscal year. Enterprise fund accounting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

**B. Measurement Focus and Basis of Accounting**

The Authority's financial activity is accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the Authority are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Net Assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The Statement of Cash Flows reflects how the Authority finances and meets its cash flow needs.

Net Assets are segregated into Invested in Capital Assets, Net of Related Debt, Restricted, and Unrestricted components, in applicable.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements and measurement focus relates to the timing of the measurements made.

The Authority uses the accrual basis of accounting and the flow of economic resources measurement focus for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**C. Cash and Investments**

Cash received by the Authority is deposited with a financial institution or invested. Deposits and investments having an original maturity of three months or less at the time they are purchased are presented in the financial statements as Cash and Cash Equivalents. Investments with an initial maturity of more than three months are reported as Investments. Investments were limited to money market funds, overnight repurchase agreements, and United States Treasuries. Repurchase agreements are valued at Huntington National Bank's reported share price.

**D. Capital Assets**

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets will be recorded at their fair market value on the date that they will be donated. The Authority does not maintain a capitalization threshold as all infrastructure assets are capitalized. The Authority does not depreciate capital assets as all assets will be donated upon completion/acquisition.

**E. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Authority first applies restricted resources when an expense is incurred for which both restricted and unrestricted net assets are available. The Authority had no restricted net assets at fiscal years end 2006 and 2005.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

**F. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Authority, these revenues are community development charges. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the Authority. All revenues and expenses not meeting this definition are reported as non-operating.

**G. Use of 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 – DEPOSITS AND INVESTMENTS**

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

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

Inactive deposits are public deposits that the Board of Trustees 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, pass book accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that 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 pass book accounts.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

State statute permits interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Banks, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio).

The Authority 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 Authority.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 3 – DEPOSITS AND INVESTMENTS (Continued)**

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Deposits**

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that, in the event of a bank failure, the District’s deposits may not be returned. The carrying amount of the Authority’s deposits at December 31, 2006 and 2005 was \$0.

**Investments**

As of December 31, 2006 and 2005, the Authority had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 months or less</u>	<u>7 to 12 months</u>
<b>2006</b>			
Money Market Funds	\$ 144,222	\$ 144,222	\$ -
Repurchase Agreement	2,572,994	2,572,994	-
Total	<u>\$ 2,717,216</u>	<u>\$ 2,717,216</u>	<u>\$ -</u>
<b>2005</b>			
Money Market Funds	\$ 115,984	\$ 115,984	\$ -
Repurchase Agreement	7,071,527	7,071,527	-
United States Treasuries	886,023	445,765	440,258
Total	<u>\$ 8,073,534</u>	<u>\$ 7,633,276</u>	<u>\$ 440,258</u>

*Interest Rate Risk.* Interest rate risk is the risk that an interest rate change could adversely affect an investment’s fair value. The Authority does not have a policy to limit its exposure to interest rate risk, however, the Authority’s investments in money market funds are withdrawable on demand.

*Credit Risk.* Credit risk is the risk that an issuer or counterparty to an investment will be unable to fulfill its obligations. The Authority does not have a policy to limit its exposure to credit risk. The Authority’s money market funds were unrated.

*Concentration of Credit Risk.* Credit risk also can arise in the wake of a failure to adequately diversify investments. The Authority places no limit on the amount that may be invested in any one issuer.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 4 – COMMUNITY DEVELOPMENT CHARGE**

Community Development Charges (Charge) are payments to be levied on the property in the district pursuant to a Declaration of Covenants and Restrictions (the Declaration) filed by the Authority under Sections 349.06(Q) and 349.07 of the Ohio Revised Code. This Declaration, which was filed and recorded with the Franklin County Recorder on August 9, 2004, created covenants running with the land and established the obligation of current and future landowners to pay the Charge. This obligation is subject to certain maximum Charge limits as set out in the Declaration. The Charge will generally be collected in the same manner as real property taxes.

A uniform Charge is to be collected each year based the acreage of each chargeable parcel. An aggregate maximum sub-area charge is specified in Section 5.2 of the Declaration. This charge is dependent on the estimated acreage of property in each sub-area in the District. An annual charge is to be collected from the chargeable property within the Authority each year in an amount equal to the “Annual Revenue Requirement.”

The annual revenue requirement is defined in Section 2.05 of the Declaration as an amount equal to:

(A) the amount required in any year to pay; (i) debt service and other periodic costs (including deposits to any sinking funds) on the Bonds to be paid from the Charge collected in such year, (ii) Administrative Expenses to be incurred in the year or incurred in any previous year and not paid by the Authority, (iii) any amount required to replenish any reserve fund established in association with the Bonds, (iv) an amount equal to the estimated delinquencies expected in payment of the Charges, and (v) the costs of remarketing, credit enhancement, bond insurance, and liquidity facility fees (including such fees for instruments that serve as the basis of a reserve fund related to any indebtedness in lieu of cash), less (B) (i) any credits available pursuant to the Trust Agreement, such as capitalized interest and investment earnings on any account balances, and (ii) any other revenues available to apply to the Annual Revenue Requirement.

Community development charges are to be imposed proportionately on each parcel of chargeable property in an amount up to the maximum charge for such chargeable parcel to the extent necessary to fund the annual revenue requirement. For the fiscal years ended December 31, 2006 and 2005, the annual revenue requirement was equal to zero. Accordingly, no community development charges were collected during these periods.

**NOTE 5 – RECEIVABLES**

Receivables at December 31, 2006 consisted of community development charges. All receivables are considered collectible in full within one year.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 6 – CAPITAL ASSETS**

During fiscal year 2004, the Authority began constructing both the Residential Portion and Storm Sewer Portion of the facilities. The Residential Project is being constructed by M/I Homes LLC and the Storm Sewer Project is being constructed by Pinnacle Development Company.

The Authority’s capital asset activity for the year ended December 31, 2006 and 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
<b>2006</b>				
Nondepreciable Capital Assets				
Construction in Process	\$ 10,456,349	\$ 2,351,672	\$ -	\$ 12,808,021
Total Capital Assets	<u>\$ 10,456,349</u>	<u>\$ 2,351,672</u>	<u>\$ -</u>	<u>\$ 12,808,021</u>
<b>2005</b>				
Nondepreciable Capital Assets				
Construction in Process	\$ 4,445,546	\$ 6,010,803	\$ -	\$ 10,456,349
Total Capital Assets	<u>\$ 4,445,546</u>	<u>\$ 6,010,803</u>	<u>\$ -</u>	<u>\$ 10,456,349</u>

**NOTE 7 – LONG-TERM OBLIGATIONS**

The Authority’s long-term obligations activity for the years ended December 31, 2006 and 2005 were as follows:

<u>Community Facilities Fixed Term Bonds</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>2006</b>					
Series 2004 Term 2022	\$ 4,755,000	\$ -	\$ -	\$ 4,755,000	\$ 185,000
Series 2004 Term 2036	10,060,000	-	-	10,060,000	-
	<u>\$ 14,815,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,815,000</u>	<u>\$ 185,000</u>
<b>2005</b>					
Series 2004 Term 2022	\$ 4,755,000	\$ -	\$ -	\$ 4,755,000	\$ -
Series 2004 Term 2036	10,060,000	-	-	10,060,000	-
	<u>\$ 14,815,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,815,000</u>	<u>\$ -</u>

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 7 – LONG-TERM OBLIGATIONS (Continued)**

Community Facilities Bonds, Series 2004

On August 14, 2004, the Authority issued \$14,815,000 in Community Facilities Bonds Series 2004A, for the purpose of providing funds to acquire community facilities. These bonds constitute two term bonds, Term 2022 Bonds and Term 2036 Bonds. The interest rate on Term 2022 and Term 2036 Bonds is 6.00% and 6.25%, respectively. Interest on these Bonds shall be paid on June 1<sup>st</sup> and December 1<sup>st</sup> of each year. Principal payment on the Bonds is due each December 1 from mandatory sinking fund redemption with first principal payment due on December 1, 2007. Interest shall be calculated based on a year of 360 days.

Debt Service to Maturity

The Series 2004A Bonds are also subject to mandatory sinking fund redemption, extraordinary mandatory redemption and optional redemption as follows:

Mandatory Sinking Fund Redemption

The Series 2004A Bonds are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the Series. That mandatory redemption is to occur on December 1 in each of the years 2007 through 2036 at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest to the redemption date, according to the schedule below (including the amount of Series 2004A Bonds redeemed at maturity):

<u>Term 2022 Bonds</u>	<u>6.00%</u>	<u>4,755,000</u>	<u>Term 2036 Bonds</u>	<u>6.25%</u>	<u>10,060,000</u>
2007		185,000	2023		470,000
2008		196,000	2024		500,000
2009		208,000	2025		531,000
2010		221,000	2026		564,000
2011		234,000	2027		599,000
2012		248,000	2028		637,000
2013		263,000	2029		677,000
2014		278,000	2030		719,000
2015		295,000	2031		764,000
2016		313,000	2032		812,000
2017		332,000	2033		862,000
2018		351,000	2034		916,000
2019		373,000	2035		974,000
2020		395,000	2036		1,035,000
2021		419,000			
2022		444,000			

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 7 – LONG-TERM OBLIGATIONS (Continued)**

Extraordinary Mandatory Redemption

Bonds are subject to extraordinary mandatory redemption prior to maturity by the Authority in whole, on any date, or in part, on any Interest Payment Date, at a redemption price equal to 100% of the principal amount of the Series 2004A Bonds to be redeemed, plus interest accrued to the redemption date, as follows:

- a. from moneys on deposit in the Series 2004A Debt Service Account upon the prepayment in whole or in part of any Community Development Charges pursuant to Section 5.04 of the Declaration, including excess moneys transferred from the Series 2004A Reserve Fund;
- b. from moneys on deposit in the Series 2004A Debt Service Account resulting from the transfer from the Series 2004A Project Account on or after the Termination Date, including excess moneys transferred from the Series 2004A Reserve Fund;
- c. from moneys on deposit in the Series 2004A Debt Service Account following condemnation by, or the sale of any portion of the Series 2004A Project to, a governmental Person under threat of condemnation by such governmental Person, including excess moneys transferred from the Series 2004A Reserve Fund; and
- d. from moneys on deposit in the Series 2004A Debt Service Account following damage or destruction of all or substantially all of the Series 2004A Project and the determination by the Authority that the repair and restoration of the Series 2004A Project would not be economical or would be impracticable, including excess moneys transferred from the Series 2004A Reserve Fund.

Optional Redemption

The Series 2004A Bonds are also subject to optional prior redemption on or after December 1, 2014 by and at the sole option of the Authority, either in whole or in part (as selected by the Authority) on any date and in integral multiples of \$1,000, at the percentage of par specified below plus accrued interest to the redemption date.

<u>Date</u>	<u>Percentage of Par</u>
On or after December 1, 2014	101%
On or after December 1, 2015	100%

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 8 – RELATED PARTY TRANSACTIONS**

The petition for creation of the Authority pursuant to Chapter 349 of the Ohio Revised Code was filed with the Franklin County Commissioners by M/I Homes of Central Ohio and the Pinnacle Development Company of Grove City (collectively, the Developer). Three of the seven Authority Board members are comprised of individuals appointed by the Developer based on the County Commissioners' Resolution and Chapter 349 of the Ohio Revised Code.

Land within the district was initially owned by nine separate entities. Pursuant to the Acquisition Agreements, this land has been transferred to Jim Hendrix, Joseph Ciminello and JBJ Venture (collectively, the Assignors). On November 5, 2003, the Assignor entered into an Agreement of Sale and Assignment of Purchase Contract (the Purchase Agreement) with M/I Homes. Under this Purchase Agreement, M/I Homes agreed to purchase and assume the rights of the Assignors to acquire the district lands pursuant to the Acquisition Agreements. The Purchase Agreement allocated certain development rights and obligations relating to the district lands between M/I Homes and the Assignors. The Assignors subsequently designated Pinnacle Development to carry out their development rights and obligations under the Purchase Agreement. Some of the land in the Authority is to be sold to additional developers by the Developers.

The Authority had Infrastructure Acquisition and Construction Agreements, which are dated July 15, 2004 with the Developers to acquire and construct certain community facilities within Authority. Under these agreements, the Developers selected contractors and signed contracts for the construction of the Authority's infrastructure. Payments to contractors by the Authority were made directly with contractors or to the Developer who paid costs to the contractors. The Developer supervised and approved all construction work. Prior to payment of draws, an independent inspector has to sign off on work completed before the Authority can sign off for draws to be paid by the trustee.

On July 15, 2004, the Authority signed a Lease Agreement with the Pinnacle Club Homeowners' Association Inc to acquire, construct and install certain improvements and personal property on the tract of land measuring 8.143 acres and situated in the State of Ohio, County of Franklin, and City of Grove City. This tract is located in Virginia Military Survey Number 478 and 6840 and being part of the 209.152 acre tract conveyed to M/I Homes of Central Ohio, LLC by deed of record in Instrument Number 00405260121580, *(all references refer to the records of the Recorder's Office, Franklin County, Ohio)* within Authority. Under this lease agreement, the Authority covenanted to construct and install an 8,000 square foot multi-purpose facility (Community Center), including two tennis courts, a 25-meter swimming pool, and an outdoor multipurpose court. The building would include an aerobics workout room, a health and fitness room, a childrens' activity room, locker rooms, and office space. Additional exterior improvements include improved parking, landscaping, and other necessary improvements. The personal property located within the Community Center consists of exercise equipment, sports equipment, office furniture, carpeting and window treatments and computers. The Pinnacle Club Homeowners' Association, Inc. subsequently signed a Base Lease Agreement with Authority for the operation and maintenance of the Community Center.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

**NOTE 8 – RELATED PARTY TRANSACTIONS (Continued)**

On July 1, 2004, the Authority signed an Administrative Services Agreement with MuniCap, Inc. as the Administrator. MuniCap, Inc. will assist the Authority with administration of the District. The Administrator's services include calculation of the annual Community Development Charge, delinquency management, rebate calculations, continuing disclosure, and property owner liaison.

On August 10, 2004, the Authority issued \$14,815,000 in Community Facilities Bonds, Series 2004A, for the purpose of providing funds to acquire community facilities. The Series 2004A Bonds were issued pursuant to a Master Trust Agreement by and between the Authority and the Huntington National Bank (the Trustee), dated as of July 15, 2004 and a limited offering memorandum for the bonds dated August 4, 2004.

**NOTE 9 – CONTINGENT LIABILITIES**

There are no claims or lawsuits pending against the Authority.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Pinnacle Community Infrastructure Financing Authority

We have audited the basic financial statements of the Pinnacle Community Infrastructure Financing Authority, Franklin County, Ohio, (the Authority) as of and for the year ended December 31, 2006 and December 31, 2005, and have issued our report thereon dated July 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2006-01 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described in item 2006-01 above is a material weakness.

### **Compliance and Other Matters**

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

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

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

A handwritten signature in black ink that reads "Kennedy Cottrell Richards LLC". The signature is written in a cursive, flowing style.

Kennedy Cottrell Richards LLC  
July 31, 2008

**PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY**

**SCHEDULE OF FINDINGS**

**DECEMBER 31, 2006 AND 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>Finding Number</b>	<b>2006-01</b>
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**INTERNAL CONTROL WEAKNESS – FINANCIAL REPORTING**

The compilation and presentation of materially correct financial statements and the related footnotes is the responsibility of management of the Authority. This responsibility remains intact, even if management decides to outsource this function for efficiency purposes, or any other reason, to another accountant or consultant. It is also important to note that independent auditors are not part of an entity’s internal control structure and should not be relied upon by management to detect misstatements in the financial statements.

Thus, it is important that management develop control procedures related to drafting financial statements and footnotes that enable management to prevent and detect potential misstatements in the financial statements and footnotes prior to audit.

As a result of our audit, we identified several material misstatements in the Authority’s financial statements, as well as other misstatements that were not necessarily material, but were more than inconsequential. We provided adjusting journal entries to the Authority and the misstatements was subsequently corrected. These misstatements are a strong indicator that a control weakness exists in the Authority’s procedures in place related to financial reporting.

We recommend the Authority implement sufficient control procedures over the financial reporting process in order to enable management to prevent and detect potential misstatements in the financial statements and footnotes. Such procedures should consist of some combination of the following:

- Employee training relating to the application of governmental accounting standards;
- Consultation with the auditor in regards to the application of governmental accounting standards while preparing the financial statements;
- Consultation with other knowledgeable individuals in regards to the application of governmental accounting standards while preparing the financial statements.

**Official’s Response:**

On July 21, 2008, the Authority’s Administrator hired a CPA who will be in charge of all aspects of maintaining and preparing future financial statements of the Authority. This individual will also serve as liaison to the auditor on future audits.

PINNACLE COMMUNITY INFRASTRUCTURE FINANCING AUTHORITY  
FRANKLIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
None.			