



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

March 27, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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VILLAGE OF DELLROY
CARROLL COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Dellroy
Carroll County
2 East Main Street
PO Box 174
Dellroy, Ohio 44620-0174

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Dellroy, Carroll County, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village'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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As discussed in Note 2.C, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Dellroy, Carroll County, Ohio, as of December 31, 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General and the Street Construction, Maintenance and Repair Fund thereof for the year then ended in conformity with the basis of accounting Note 2.C describes.

For the year ended December 31, 2005, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2006 our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 27, 2006

**VILLAGE OF DELLROY
CARROLL COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

This discussion and analysis of the Village of Dellroy's financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Village's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2005 are as follows:

The Village's general receipts are primarily property taxes. These receipts represent respectively 40 percent of the total cash received for governmental activities during the year. Property and income tax receipts for 2005 changed very little compared to 2004 as development within the Village has slowed.

This year we did some Municipal Building repairs and street paving along with repairs to catch basins. We are expecting to purchase additional property in the year 2006 that we have been careful to keep money in reserve for that purchase instead of having to borrow.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**VILLAGE OF DELLROY
CARROLL COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

Reporting the Village as a Whole

Our Village of Dellroy only has governmental activities. We do have three Special Revenue Funds in our governmental activities that are restricted.

The statement of net assets and the statement of activities reflect how the Village did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each Governmental function draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, the Village reports one type of activities:

Governmental activities. All of the Village's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose.

Governmental Funds - All of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General Fund and the Street Construction, Maintenance and Repair Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

**VILLAGE OF DELLROY
CARROLL COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2005 compared to 2004 on a cash basis:

| Net Assets | | |
|-------------------|-------------------------|----------|
| | Governmental Activities | |
| | 2005 | 2004 |
| Assets | | |
| Cash | \$65,041 | \$51,395 |
| Total Assets | \$65,041 | \$51,395 |
| Net Assets | | |
| Restricted for: | | |
| Other Purposes | \$13,475 | \$13,905 |
| Unrestricted | 51,566 | 37,490 |
| Total Net Assets | \$65,041 | \$51,395 |

Table 2 reflects the changes in net assets in 2005. Since the Village did not prepare financial statements in this format for 2004, a comparative analysis of Village-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

| | |
|--|----------|
| Program Receipts: | |
| Charges for Services and Sales | \$330 |
| Operating Grants and Contributions | 18,763 |
| Total Program Receipts | 19,093 |
| General Receipts: | |
| Property and Other Local Taxes | 30,920 |
| Grants and Entitlements Not Restricted to Specific Programs | 43,323 |
| Interest | 76 |
| Miscellaneous | 150 |
| Total General Receipts | 74,469 |
| Total Receipts | 93,562 |
| Disbursements: | |
| General Government | 37,857 |
| Security of Persons and Property: | 23,005 |
| Public Health Services | 1,609 |
| Economic Development | 44 |
| Transportation | 17,401 |
| Total Disbursements | 79,916 |
| Increase (Decrease) in Net Assets | 13,646 |
| Net Assets, January 1, 2005 | 51,395 |
| Net Assets, December 31, 2005 | \$65,041 |

**VILLAGE OF DELLROY
CARROLL COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

Program receipts represent only 21% percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

General receipts represent 79% percent of the Village's total receipts, and of this amount, over 41% percent are local taxes. State and federal grants and entitlements make up the balance of the Village's general receipts (58% percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for general government represent the overhead costs of running the Village and the support services provided for the other government activities. These include the costs of council, and the clerk/treasurer, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs to 50% of General Fund unrestricted receipts.

Security of Persons and Property are the costs of police and fire protection; Public Health Services is the health department; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for Governmental activities are for transportation and security of persons and property, which account for 22 and 29 percent of all Governmental disbursements, respectively. General Government also represents a significant cost, about 47 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

| | Total Cost Of Services 2005 | Net Cost of Services 2005 |
|----------------------------------|-----------------------------------|---------------------------------|
| | 2005 | 2005 |
| General Government | \$37,857 | \$37,527 |
| Security of Persons and Property | 23,005 | 23,005 |
| Public Health Services | 1,609 | 1,609 |
| Economic Development | 44 | 44 |
| Transportation | 17,401 | (1,362) |
| Total Expenses | \$79,916 | \$60,823 |

The dependence upon property tax receipts is apparent as over 76 percent of governmental activities are supported through these general receipts.

**VILLAGE OF DELLROY
CARROLL COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

The Village's Funds

Total Governmental funds had receipts of \$93,562 and disbursements of \$79,916. The greatest change within Governmental funds occurred within the General Fund.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Village did not amend its General Fund budget. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$85,905 while actual disbursements were \$55,594. Although receipts failed to live up to expectations, appropriations were not reduced. The Village spent significantly less than the budgeted amounts as demonstrated by the reported variances.

Current Issues

The challenge for all Villages is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base. Our newly prepared financial forecast predicts a deficit for 2007; therefore, the finance committee and the administration implemented a strategy to delay the deficit. This plan became effective for 2006. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Village. All departments have been asked to reduce their spending for supplies by 10-20 percent.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village'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 Amy L. Graham, Clerk-Treasurer, Village of Dellroy, P.O. Box 174, 2 East Main St., Dellroy, Ohio 44620.

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VILLAGE OF DELLROY
CARROLL COUNTY

Statement of Net Assets - Cash Basis
December 31, 2005

| | Governmental Activities | Total |
|--|----------------------------|-----------------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$65,041 | \$65,041 |
| <i>Total Assets</i> | <u>\$65,041</u> | <u>\$65,041</u> |
| | | |
| Net Assets | | |
| Restricted for: | | |
| Other Purposes | \$13,475 | \$13,475 |
| Unrestricted | 51,565 | 51,565 |
| <i>Total Net Assets</i> | <u>\$65,041</u> | <u>\$65,041</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF DELLROY
CARROLL COUNTY**

**Statement of Activities - Cash Basis
For the Year Ended December 31, 2005**

| | Program Cash Receipts | | | Net (Disbursements) Receipts and Changes in Net Assets |
|---|-----------------------|--------------------------------------|--|--|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants and Contributions | Total |
| Governmental Activities | | | | |
| Security of Persons and Property | \$23,005 | | | (23,005) |
| Public Health Services | 1,609 | | | (1,609) |
| Community Environment | 44 | | | (44) |
| Transportation | 17,401 | | 18,763 | 1,362 |
| General Government | 37,857 | 330 | | (37,527) |
| <i>Total Governmental Activities</i> | 79,916 | 330 | 18,763 | (60,823) |
| <i>Total</i> | <u>\$79,916</u> | <u>\$330</u> | <u>\$18,763</u> | <u>(\$60,823)</u> |
| General Receipts | | | | |
| Property Taxes | | | | 29,800 |
| Other Taxes | | | | 1,120 |
| Grants and Entitlements not Restricted to Specific Programs | | | | 43,323 |
| Earnings on Investments | | | | 76 |
| Miscellaneous | | | | 150 |
| <i>Total General Receipts</i> | | | | 74,469 |
| Change in Net Assets | | | | 13,646 |
| <i>Net Assets Beginning of Year</i> | | | | <u>51,395</u> |
| <i>Net Assets End of Year</i> | | | | <u>\$65,041</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF DELLROY
CARROLL COUNTY**

**Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005**

| | General | Street Construction Maintenance and Repair | Other Governmental Funds | Total Governmental Funds |
|--|-----------------|---|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$51,566 | \$8,071 | \$5,404 | \$65,041 |
| <i>Total Assets</i> | <u>\$51,566</u> | <u>\$8,071</u> | <u>\$5,404</u> | <u>\$65,041</u> |
| Fund Balances | | | | |
| Reserved: | | | | |
| Reserved for Encumbrances | \$43 | \$13 | | \$56 |
| Unreserved: | | | | |
| Undesignated (Deficit), Reported in: | | | | |
| General Fund | 51,523 | | | 51,523 |
| Special Revenue Funds | | 8,058 | 5,404 | 13,462 |
| <i>Total Fund Balances</i> | <u>\$51,566</u> | <u>\$8,071</u> | <u>\$5,404</u> | <u>\$65,041</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF DELLROY
CARROLL COUNTY**

**Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005**

| | General | Street Construction Maintenance and Repair | Other Governmental Funds | Total |
|---|-----------------|---|--------------------------------|-----------------|
| Receipts | | | | |
| Property and Other Local Taxes | \$21,843 | | \$4,479 | \$26,322 |
| Intergovernmental | 46,658 | \$14,640 | 4,801 | 66,099 |
| Fines, Licenses and Permits | 915 | | | 915 |
| Earnings on Investments | 61 | 11 | 4 | 76 |
| Miscellaneous | 150 | | | 150 |
| Total Receipts | <u>69,627</u> | <u>14,651</u> | <u>9,284</u> | <u>93,562</u> |
| Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 16,041 | | 6,964 | 23,005 |
| Public Health Services | 1,609 | | | 1,609 |
| Community Environment | 44 | | | 44 |
| Transportation | | 16,482 | 919 | 17,401 |
| General Government | 37,857 | | | 37,857 |
| Total Disbursements | <u>55,551</u> | <u>16,482</u> | <u>7,883</u> | <u>79,916</u> |
| Excess of Receipts Over (Under) Disbursements | <u>14,076</u> | <u>(1,831)</u> | <u>1,401</u> | <u>13,646</u> |
| Fund Balances Beginning of Year | <u>37,490</u> | <u>9,902</u> | <u>4,003</u> | <u>51,395</u> |
| Fund Balances End of Year | <u>\$51,566</u> | <u>\$8,071</u> | <u>\$5,404</u> | <u>\$65,041</u> |

See accompanying notes to the basic financial statements

VILLAGE OF DELLROY
CARROLL COUNTY

**Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2005**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|-----------------|-----------------|---|
| | Original | Final | | |
| Receipts | | | | |
| Property and Other Local Taxes | \$22,290 | \$22,290 | \$21,843 | (\$447) |
| Intergovernmental | 48,857 | 48,857 | 46,658 | (2,199) |
| Fines, Licenses and Permits | 750 | 750 | 915 | 165 |
| Earnings on Investments | 65 | 65 | 61 | (4) |
| Miscellaneous | 100 | 100 | 150 | 50 |
| <i>Total receipts</i> | <u>72,062</u> | <u>72,062</u> | <u>69,627</u> | <u>(2,435)</u> |
| Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 22,155 | 22,189 | 16,057 | 6,132 |
| Public Health Services | 1,000 | 1,609 | 1,609 | 0 |
| Community Environment | 125 | 125 | 44 | 81 |
| Transportation | 1,000 | 304 | 0 | 304 |
| General Government | 51,530 | 51,643 | 37,884 | 13,759 |
| Capital Outlay | 10,000 | 10,000 | 0 | 10,000 |
| <i>Total Disbursements</i> | <u>85,810</u> | <u>85,870</u> | <u>55,594</u> | <u>30,276</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(13,748)</u> | <u>(13,808)</u> | <u>14,033</u> | <u>27,841</u> |
| Other Financing Sources (Uses) | | | | |
| Sale of Fixed Assets | 50 | 50 | 0 | (50) |
| Other Financing Uses | 0 | (35) | 0 | 35 |
| <i>Total Other Financing Sources (Uses)</i> | <u>50</u> | <u>15</u> | <u>0</u> | <u>(15)</u> |
| <i>Net Change in Fund Balance</i> | (13,698) | (13,793) | 14,033 | 27,826 |
| <i>Fund Balance Beginning of Year</i> | 37,394 | 37,394 | 37,394 | 0 |
| <i>Prior Year Encumbrances Appropriated</i> | 96 | 96 | 96 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$23,792</u> | <u>\$23,697</u> | <u>\$51,523</u> | <u>\$27,826</u> |

See accompanying notes to the basic financial statements

VILLAGE OF DELLROY
CARROLL COUNTY

**Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Street Construction, Maintenance and Repair Fund
For the Year Ended December 31, 2005**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|----------------|----------------|---|
| | Original | Final | | |
| Receipts | | | | |
| Intergovernmental | \$15,657 | \$15,657 | \$14,640 | (\$1,017) |
| Earnings on Investments | 12 | 12 | 11 | (1) |
| <i>Total receipts</i> | <u>15,669</u> | <u>15,669</u> | <u>14,651</u> | <u>(1,018)</u> |
| Disbursements | | | | |
| Current: | | | | |
| Transportation | 22,655 | 22,723 | 16,495 | 6,228 |
| Capital Outlay | 300 | 300 | 0 | 300 |
| <i>Total Disbursements</i> | <u>22,955</u> | <u>23,023</u> | <u>16,495</u> | <u>6,528</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(7,286)</u> | <u>(7,354)</u> | <u>(1,844)</u> | <u>5,510</u> |
| <i>Fund Balance Beginning of Year</i> | 9,834 | 9,834 | 9,834 | 0 |
| Prior Year Encumbrances Appropriated | 68 | 68 | 68 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$2,616</u> | <u>\$2,548</u> | <u>\$8,058</u> | <u>\$5,510</u> |

See accompanying notes to the basic financial statements

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005**

Note 1 – Reporting Entity

The Village of Dellroy, Carroll County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a six-member Council elected at large for four year terms. The Mayor is elected to a four-year term, serves as the President of Council and votes only to break a tie.

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

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, maintenance of Village roads and bridges, and police services. The Village contracts with the Dellroy Volunteer Fire Department for fire protection.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. Based on these criteria, the Village has no component units.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

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

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

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 Village as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

The statement of net assets presents the cash balance, of the governmental activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Village's general receipts.

Fund Financial Statements

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

B. Fund Accounting

The Village uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The funds of the Village are all classified as governmental.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village has two major governmental funds including the General Fund and the Street Construction, Maintenance and Repair Fund

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

The Street Construction, Maintenance and Repair Fund is financed primarily from gas and motor vehicle taxes. The Street Construction, Maintenance and Repair Fund revenue is primarily used for the maintenance and repair of streets and street related expenses such as curbs and gutters.

The other governmental funds of the Village account for other resources whose use is restricted to a particular purpose.

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except 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 appropriations ordinance, 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 the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund, department, and object level for all funds.

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

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

E. Cash and Investments

Village records identify the purchase of specific investments by specific funds.

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". Cash and cash equivalents that are held separately in accounts at a financial institution for retainage and bond reserves and debt service are reported as "Cash and Cash Equivalents with Fiscal Agents."

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$61.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent Special Revenue Funds for Street Construction Maintenance & Repair, State Highway, and Fire Protection.

G. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

Note 3 – Change in Basis of Accounting and Restatement of Fund Equity

Last year the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Village has implemented the cash basis of accounting described in note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 4 – Compliance

The Village did not properly certify disbursements as required by Ohio Revised Code Section 5705.41(D).

Note 5 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and the Street Construction, Maintenance and Repair Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$42 for the General Fund and \$13.04 for the Street Construction, Maintenance and Repair Fund.

Note 6 – Deposits and Investments

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village 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 held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 6 – Deposits and Investments (Continued)

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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 Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

At year end, the Village had \$66 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 7 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 7 – Property Taxes (Continued)

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Village operations for the year ended December 31, 2005, was \$55.86 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

| | |
|-------------------------------|--------------------|
| Real Property | |
| Residential | \$2,557,410 |
| Commercial/Industrial/Mineral | 535,060 |
| Public Utility Property | 110,990 |
| Tangible Personal Property | 65,800 |
| Total Assessed Value | <u>\$3,269,260</u> |

Note 8 – Defined Benefit Pension Plan

A. Ohio Public Employees Retirement System

The Village 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, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 8 – Defined Benefit Pension Plan (Continued)

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 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 Village's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the Village's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$5,622, \$5,733, and \$4,648 respectively. The full amount has been contributed for 2005, 2004 and 2003. Contributions to the member-directed plan for 2005 were \$3,446 made by the Village and \$2,176 made by the plan members.

Note 9 - 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 primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. 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 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. 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.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual Village contributions for 2005 which were used to fund postemployment benefits were \$1,660. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 9 - Postemployment Benefits (Continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Note 10 – Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective Village.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF DELLROY
CARROLL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2005
(Continued)**

Note 10 – Risk Management (Continued)

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004.

| <u>Casualty Coverage</u> | <u>2005</u> | <u>2004</u> |
|--------------------------|---------------------|---------------------|
| Assets | \$29,719,675 | \$27,437,169 |
| Liabilities | <u>(15,994,168)</u> | <u>(13,880,038)</u> |
| Retained earnings | <u>\$13,725,507</u> | <u>\$13,557,131</u> |

| <u>Property Coverage</u> | <u>2005</u> | <u>2004</u> |
|--------------------------|--------------------|--------------------|
| Assets | \$4,443,332 | \$3,648,272 |
| Liabilities | <u>(1,068,245)</u> | <u>(540,073)</u> |
| Retained earnings | <u>\$3,375,087</u> | <u>\$3,108,199</u> |

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately \$13,346.



**Auditor of State
Betty Montgomery**

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

Village of Dellroy
Carroll County
2 East Main Street
PO Box 174
Dellroy, Ohio 44620-0174

To the Village Council:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Village of Dellroy, Carroll County, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated December 27, 2006, wherein we noted the Village prepares its financial statements on the cash basis of accounting. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated December 27, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Village's management dated December 27, 2006, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

December 27, 2006

VILLAGE OF DELLROY
CARROLL COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Revised Code Section 5705.41 (D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D) (1) and 5705.41(D) (3), respectively of the Ohio Revised Code.

- 1. Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid. If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Council if such expenditure is otherwise valid.
- 2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not be, limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
- 3. Super Blanket Certificate** – The Village may also make expenditures and contracts for any amount from a specific line item appropriation in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extent beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The Village did not properly certify or record the amount against the applicable appropriation accounts for 56% of the tested expenditures during 2005. The Village did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending in negative cash balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Clerk/Treasurer should certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

VILLAGE OF DELLROY
CARROLL COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain |
|----------------|---|------------------|---|
| 2004-001 | ORC Section 5705.41(D) Disbursements were not properly certified. | No | Cited again as Finding Number 2005-001 |



Mary Taylor, CPA
Auditor of State

VILLAGE OF DELLROY

CARROLL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 3, 2007**