



**VILLAGE OF WATERVILLE
LUCAS COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF WATERVILLE
LUCAS COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2006.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2005.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Schedule of Prior Audit Finding	21

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Mary Taylor, CPA
Auditor of State

Village of Waterville
Lucas County
25 North Second Street
P.O. Box 140
Waterville, Ohio 43566-0140

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 29, 2007

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Waterville
Lucas County
25 North Second Street
P.O. Box 140
Waterville, Ohio 43566-0140

To the Village Council:

We have audited the accompanying financial statements of the Village of Waterville, Lucas County, (the Village) as of and for the years ended December 31, 2006 and 2005. 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. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006 and 2005, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Waterville, Lucas County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007, on 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.



Mary Taylor, CPA
Auditor of State

October 29, 2007

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$398,139	\$38,073		\$7,693	\$443,905
Municipal Income Tax	1,776,659			592,220	2,368,879
Intergovernmental	610,358	269,819		81,026	961,203
Special Assessments	16,203			6,653	22,856
Charges for Services	89,138			3,500	92,638
Fines, Licenses and Permits	19,140	57,455			76,595
Earnings on Investments	129,402	2,236	\$62,648	178	194,464
Miscellaneous	25,754	7,988			33,742
Total Cash Receipts	3,064,793	375,571	62,648	691,270	4,194,282
Cash Disbursements:					
Current:					
Security of Persons and Property	1,677,067	49,555			1,726,622
Public Health Services	21,757				21,757
Leisure Time Activities	56,959				56,959
Community Environment	82,041	3,264			85,305
Basic Utility Service	209,862				209,862
Transportation		225,467			225,467
General Government	981,215				981,215
Debt Service:					
Redemption of Principal		902,295	139,184	898,332	1,939,811
Interest and Fiscal Charges		35,684	101,762	35,311	172,757
Capital Outlay	60,764	648,990		472,480	1,182,234
Total Cash Disbursements	3,089,665	1,865,255	240,946	1,406,123	6,601,989
Total Cash Receipts Under Cash Disbursements	(24,872)	(1,489,684)	(178,298)	(714,853)	(2,407,707)
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes	30,547	890,000	17,210	1,142,119	2,079,876
Transfers-In			181,763	809,189	990,952
Transfers-Out	(69,453)			(921,499)	(990,952)
Advances-In	110,000				110,000
Advances-Out				(110,000)	(110,000)
Other Financing Sources			87		87
Other Financing Uses			(10,088)		(10,088)
Total Other Financing Receipts / (Disbursements)	71,094	890,000	188,972	919,809	2,069,875
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	46,222	(599,684)	10,674	204,956	(337,832)
Fund Cash Balances, January 1	119,703	1,058,691	37,078	1,632,441	2,847,913
Fund Cash Balances, December 31	\$165,925	\$459,007	\$47,752	\$1,837,397	\$2,510,081
Reserve for Encumbrances, December 31	\$16,487	\$306,228	\$13,074	\$13,297	\$349,086

The notes to the financial statements are an integral part of this statement

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$1,594,885		\$1,594,885
Miscellaneous	16,464		16,464
Total Operating Cash Receipts	<u>1,611,349</u>		<u>1,611,349</u>
Operating Cash Disbursements:			
Personal Services	504,021		504,021
Contractual Services	519,269		519,269
Supplies and Materials	74,238		74,238
Travel Transportation	2,233		2,233
Total Operating Cash Disbursements	<u>1,099,761</u>		<u>1,099,761</u>
Operating Income	<u>511,588</u>		<u>511,588</u>
Non-Operating Cash Receipts:			
Intergovernmental	129,202		129,202
Sale of Notes	920,000		920,000
Other Non-Operating Cash Receipts	1,876	\$1,302	3,178
Total Non-Operating Cash Receipts	<u>1,051,078</u>	<u>1,302</u>	<u>1,052,380</u>
Non-Operating Cash Disbursements:			
Capital Outlay	702,557		702,557
Redemption of Principal	1,044,078		1,044,078
Interest and Other Fiscal Charges	174,600		174,600
Other Non-Operating Cash Disbursements		1,622	1,622
Total Non-Operating Cash Disbursements	<u>1,921,235</u>	<u>1,622</u>	<u>1,922,857</u>
Net Receipts Under Disbursements	(358,569)	(320)	(358,889)
Fund Cash Balances, January 1	<u>1,516,711</u>	<u>\$320</u>	<u>1,517,031</u>
Fund Cash Balances, December 31	<u>\$1,158,142</u>		<u>\$1,158,142</u>
Reserve for Encumbrances, December 31	<u>\$433,708</u>		<u>\$433,708</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Local Taxes	\$362,252	\$62,431			\$424,683
Municipal Income Tax	1,674,438			\$558,146	2,232,584
Intergovernmental	685,942	220,284		75,865	982,091
Special Assessments	218			18,019	18,237
Charges for Services	85,169	300		13,500	98,969
Fines, Licenses and Permits	24,727	53,698			78,425
Earnings on Investments	83,111	4,686	\$19,468	108	107,373
Miscellaneous	24,821	2,480			27,301
Total Cash Receipts	<u>2,940,678</u>	<u>343,879</u>	<u>19,468</u>	<u>665,638</u>	<u>3,969,663</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	1,591,730	38,837			1,630,567
Public Health Services	19,150				19,150
Leisure Time Activities	53,272				53,272
Community Environment	50,494	6,389			56,883
Basic Utility Service	197,607				197,607
Transportation		216,081			216,081
General Government	990,060				990,060
Debt Service:					
Redemption of Principal	754,813		160,000	151,157	1,065,970
Interest and Fiscal Charges			108,150		108,150
Capital Outlay	30,249	150,561		150,888	331,698
Total Cash Disbursements	<u>3,687,375</u>	<u>411,868</u>	<u>268,150</u>	<u>302,045</u>	<u>4,669,438</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(746,697)</u>	<u>(67,989)</u>	<u>(248,682)</u>	<u>363,593</u>	<u>(699,775)</u>
Other Financing Receipts / (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes	880,000	902,295	13,074		1,795,369
Transfers-In	643	2,000	268,151	563,521	834,315
Transfers-Out	(84,800)			(749,515)	(834,315)
Advances-In				267,034	267,034
Advances-Out				(267,034)	(267,034)
Total Other Financing Receipts / (Disbursements)	<u>795,843</u>	<u>904,295</u>	<u>281,225</u>	<u>(185,994)</u>	<u>1,795,369</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	49,146	836,306	32,543	177,599	1,095,594
Fund Cash Balances, January 1	70,557	222,385	4,535	1,454,842	1,752,319
Fund Cash Balances, December 31	<u>\$119,703</u>	<u>\$1,058,691</u>	<u>\$37,078</u>	<u>\$1,632,441</u>	<u>\$2,847,913</u>
Reserve for Encumbrances, December 31	<u>\$93,694</u>	<u>\$861,956</u>	<u>\$13,074</u>	<u>\$76,978</u>	<u>\$1,045,702</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$1,675,135		\$1,675,135
Miscellaneous	13,300		13,300
Total Operating Cash Receipts	<u>1,688,435</u>		<u>1,688,435</u>
Operating Cash Disbursements:			
Personal Services	457,447		457,447
Contractual Services	576,167		576,167
Supplies and Materials	41,308		41,308
Travel Transportation	2,233		2,233
Total Operating Cash Disbursements	<u>1,077,155</u>		<u>1,077,155</u>
Operating Income	<u>611,280</u>		<u>611,280</u>
Non-Operating Cash Receipts:			
Sale of Notes	877,705		877,705
Other Non-Operating Cash Receipts	160	\$2,079	2,239
Total Non-Operating Cash Receipts	<u>877,865</u>	<u>2,079</u>	<u>879,944</u>
Non-Operating Cash Disbursements:			
Capital Outlay	328,080		328,080
Redemption of Principal	166,986		166,986
Interest and Other Fiscal Charges	137,453		137,453
Other Non-Operating Cash Disbursements		2,074	2,074
Total Non-Operating Cash Disbursements	<u>632,519</u>	<u>2,074</u>	<u>634,593</u>
Net Receipts Over Disbursements	856,626	5	856,631
Fund Cash Balances, January 1	<u>660,085</u>	<u>315</u>	<u>660,400</u>
Fund Cash Balances, December 31	<u>\$1,516,711</u>	<u>\$320</u>	<u>\$1,517,031</u>
Reserve for Encumbrances, December 31	<u>\$1,033,687</u>	<u>\$240</u>	<u>\$1,033,927</u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Waterville, Lucas County, (the Village) as a Chartered Home-rule body corporate and politic. A publicly-elected six-member Council and Mayor governs the Village according to its' charter. The Village provides water and sewer utilities, park operations, and police and fire services.

The Village participates in the Ohio Government Risk Management Plan public entity risk pool. Note 9 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit and U.S. Treasury Notes at cost. The investments in STAR Ohio (State Treasurer's investment pool) are recorded at share values reported by STAR Ohio.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

General Obligation Bond Fund – This fund is used to account for the payment of general obligation bonds principal and interest.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Five-Year Operating Budget Capital Fund – This fund is used for projected capital expenditures over the next five years.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs. The water is purchased from the City of Toledo.

Sanitary Sewer Fund - This fund receives charges for services from residents to cover sanitary sewer service costs. The Village pays Lucas County for processing the sewerage.

Sanitary Sewer Capital/Debt Fund - This fund receives charges for services based on a flat surcharge fee per customer to pay sewer debt and pay for capital improvements related to the sanitary sewer department.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

6. Fiduciary Funds (Agency)

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund (Lucas County Water Line Charge) accounts for charges for services from residents outside the Village limits to cover the cost of providing this utility.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, department or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2006	2005
Demand deposits	\$2,174,989	\$3,421,577
Certificates of deposit	1,099,000	700,000
Total deposits	3,273,989	4,121,577
U.S. Treasury Notes	350,487	199,798
STAR Ohio	43,747	43,569
Total investments	394,234	243,367
Total deposits and investments	\$3,668,223	\$4,364,944

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: The Federal Reserve holds the Village's U.S. Treasury Notes in book-entry form by, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,190,623	\$3,095,340	(\$95,283)
Special Revenue	1,258,471	1,265,571	7,100
Debt Service	241,763	261,708	19,945
Capital Projects	2,350,470	2,642,578	292,108
Enterprise	2,554,800	2,662,427	107,627
Fiduciary	2,000	1,302	(698)
Total	\$9,598,127	\$9,928,926	\$330,799

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,294,464	\$3,175,605	\$118,859
Special Revenue	2,251,847	2,171,483	80,364
Debt Service	268,592	264,108	4,484
Capital Projects	2,809,240	2,340,919	468,321
Enterprise	3,756,482	3,454,704	301,778
Fiduciary	2,240	1,622	618
Total	<u>\$12,382,865</u>	<u>\$11,408,441</u>	<u>\$974,424</u>

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$3,810,564	\$3,821,321	\$10,757
Special Revenue	1,234,581	1,248,174	13,593
Debt Service	293,941	300,693	6,752
Capital Projects	1,485,959	1,229,159	(256,800)
Enterprise	2,513,304	2,566,300	52,996
Fiduciary	2,100	2,079	(21)
Total	<u>\$9,340,449</u>	<u>\$9,167,726</u>	<u>(\$172,723)</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,881,119	\$3,865,869	\$15,250
Special Revenue	1,294,356	1,273,824	20,532
Debt Service	281,225	281,224	1
Capital Projects	1,420,477	1,128,538	291,939
Enterprise	2,787,469	2,743,361	44,108
Fiduciary	2,415	2,314	101
Total	<u>\$9,667,061</u>	<u>\$9,295,130</u>	<u>\$371,931</u>

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October or November date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village. Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 2 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. Seventy-five percent (75%) of the income tax proceeds are placed into the General Fund while twenty-five percent (25%) of the income tax proceeds are earmarked for capital expenditures.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds	\$1,970,000	4.88 to 7.38%
General Obligation Notes	2,982,666	4.50%
Ohio Public Works Commission Loans	701,491	0.00 to 1.00%
Ohio Water Development Authority Loan	273,310	5.85%
Total	<u>\$5,927,467</u>	

The Ohio Water Development Authority (OWDA) loan relates to a water system expansion project the Ohio Environmental Protection Agency mandated. The OWDA approved up to \$508,000 in loans to the Village for this project. The Village will repay the loans in annual installments totaling \$43,752, including interest, over 20 years. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. DEBT – (CONTINUED)

The Village issued General Obligation Bonds of \$600,000 at 7.38 percent interest, payable semiannually over twenty years for the construction of a municipal and maintenance buildings.

The Village issued General Obligation Bonds of \$2,100,000 at a variable rate not to exceed 6.00 percent interest, payable semiannually over twenty-five years for the purpose of construction of a new fire station and associated costs, and to remodel and develop old fire station into a community multi-purpose center.

The Village issued General Obligation Bond Anticipation Notes of \$2,982,666 at 4.50 percent interest, payable in one year for various municipal capital improvement purposes.

The Village's taxing authority collateralizes the General Obligation Bonds and Notes.

The Ohio Public Works Commission (OPWC) loans totaling \$1,285,010 were for sewer improvements of \$609,276, water improvements of \$150,689 and road improvements of \$525,045. One sewer project related loan of \$129,202 carries a 1.0% interest rate, the other loans are non-interest bearing, all payable semiannually over up to a twenty-year period.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OPWC Loans	OWDA Loan	General Obligation Bonds	General Obligation Notes
2007	\$90,824	\$43,752	\$188,025	\$3,116,886
2008	90,824	43,752	183,803	
2009	74,924	43,752	179,460	
2010	74,924	43,752	179,998	
2011	67,554	43,752	185,250	
2012 – 2016	194,440	131,256	729,910	
2017 – 2021	78,758		718,058	
2022 – 2026	42,917		722,203	
Total	<u>\$715,165</u>	<u>\$350,016</u>	<u>\$3,086,707</u>	<u>\$3,116,886</u>

7. CAPITAL LEASES – LESSEE DISCLOSURE

The Village entered into capitalized leases for the acquisition of a pickup truck, front end loader and a Bobcat loader for \$107,290, and a dump truck and snow plow for \$73,015. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. CAPITAL LEASES – LESSEE DISCLOSURE

The following is a schedule of the future minimum lease payments required under the capital leases. Amortization of the above debt, including interest, follows:

Year ending December 31:	Bobcat Loader Pickup	Dump Truck Snow Plow	Total Capital Leases
2007	\$29,364	\$16,062	\$45,426
2008	29,364		29,364
Total	\$58,728	\$16,062	\$74,790

8. RETIREMENT SYSTEM

The Village's certified Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OP&F participants contributed 10% of their wages. For 2006 and 2005, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

9. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

9. RISK MANAGEMENT – (CONTINUED)

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2005 and 2004 (the latest information available):

	2005	2004
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

10. CONTRACTUAL COMMITMENTS

In 1973, the Village entered into an agreement with the Lucas County Commissioners to provide for the use of the Maumee River Waste Treatment Plant. In 1996, the Plant was expanded. The Village is to pay a portion of the construction cost of the plant to Lucas County over a period of 40 years. As of December 31, 2006, the Village owed Lucas County \$677,698 in principal and interest. The annual requirements to amortize this commitment are as follows:

Year ending December 31:	Amount
2007	\$72,116
2008	72,116
2009	72,116
2010	72,116
2011	72,116
2012 – 2017	317,118
Total	<u><u>\$677,698</u></u>

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

11. SUBSEQUENT EVENTS

On August 9, 2007, the Village issued \$3,396,930 in bond anticipation notes at 4.38 percent interest maturing August 7, 2008. The proceeds were used to pay off the 2006 bond anticipation note principal and interest and provide for various new capital projects the Village undertook.



Mary Taylor, CPA
Auditor of State

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

Village of Waterville
Lucas County
25 North Second Street
P.O. Box 140
Waterville, Ohio 43566-0140

To the Village Council:

We have audited the financial statements of the Village of Waterville, Lucas County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated October 29, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

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 internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 29, 2007

**VILLAGE OF WATERVILLE
LUCAS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
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; <i>Explain</i>
2004-001	State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) & AOS Bulletin 2003-0005 – Expenditure of Public Funds/Proper “Public Purpose”	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF WATERVILLE

LUCAS 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
NOVEMBER 29, 2007**