



**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007



Mary Taylor, CPA
Auditor of State

VILLAGE OF OTTOVILLE
PUTNAM COUNTY

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Mary Taylor, CPA

Auditor of State

Village of Ottoville
Putnam County
150 Park Drive
P.O. Box 488
Ottoville, Ohio 45876-0488

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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 18, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Ottoville
Putnam County
150 Park Drive
P.O. Box 488
Ottoville, Ohio 45876-0488

To the Village Council:

We have audited the accompanying financial statements of the Village of Ottoville, Putnam County, (the Village) as of and for the years ended December 31, 2007 and 2006. 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 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, 2007 and 2006, 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, 2007 and 2006, 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 the Village of Ottoville, Putnam County, as of December 31, 2007 and 2006, 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 June 18, 2008, 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

June 18, 2008

**OTTOVILLE VILLAGE
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$58,741	\$38,691		\$97,432
Municipal Income Tax	363,696			363,696
Intergovernmental	47,962	46,116		94,078
Payment in Lieu of Taxes	9,046			9,046
Special Assessments	1,482			1,482
Charges for Services	83,038			83,038
Fines, Licenses and Permits	320			320
Earnings on Investments	27,479	1,486		28,965
Miscellaneous	6,311	822		7,133
	<u>598,075</u>	<u>87,115</u>		<u>685,190</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	184,356	13,424		197,780
Transportation	8,965	149,989		158,954
General Government	90,895			90,895
Capital Outlay	5,058	26,839	\$504,796	536,693
	<u>289,274</u>	<u>190,252</u>	<u>504,796</u>	<u>984,322</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>308,801</u>	<u>(103,137)</u>	<u>(504,796)</u>	<u>(299,132)</u>
Other Financing Receipts / (Disbursements):				
Transfers-In		85,000	500,000	585,000
Transfers-Out	(595,000)			(595,000)
Other Financing Uses	(3,638)			(3,638)
	<u>(598,638)</u>	<u>85,000</u>	<u>500,000</u>	<u>(13,638)</u>
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(289,837)	(18,137)	(4,796)	(312,770)
Fund Cash Balances, January 1	715,377	165,904	19,899	901,180
Fund Cash Balances, December 31	<u>\$425,540</u>	<u>\$147,767</u>	<u>\$15,103</u>	<u>\$588,410</u>
Reserve for Encumbrances, December 31	<u>\$759</u>	<u>\$377</u>		<u>\$1,136</u>

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

**OTTOVILLE VILLAGE
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Proprietary Fund Type Enterprise
Operating Cash Receipts:	
Charges for Services	\$307,802
Miscellaneous	6,228
	<u>314,030</u>
Total Operating Cash Receipts	<u>314,030</u>
Operating Cash Disbursements:	
Personal Services	56,001
Employee Fringe Benefits	17,206
Contractual Services	444,911
Supplies and Materials	41,041
Other	1,050
	<u>560,209</u>
Total Operating Cash Disbursements	<u>560,209</u>
Operating Loss	<u>(246,179)</u>
Non-Operating Cash Receipts:	
Proceeds from OWDA	352,905
Earnings on Investments	5,278
	<u>358,183</u>
Total Non-Operating Cash Receipts	<u>358,183</u>
Non-Operating Cash Disbursements:	
Capital Outlay	67,016
Redemption of Principal	75,729
Interest and Other Fiscal Charges	13,154
	<u>155,899</u>
Total Non-Operating Cash Disbursements	<u>155,899</u>
Excess of Cash Disbursements over Cash Receipts Before Interfund Transfers	<u>(43,895)</u>
Transfers-In	<u>10,000</u>
Net Cash Disbursements over Cash Receipts	<u>(33,895)</u>
Fund Cash Balances, January 1	<u>412,040</u>
Fund Cash Balances, December 31	<u>\$378,145</u>
Reserve for Encumbrances, December 31	<u>\$350</u>

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

**OTTOVILLE VILLAGE
PUTNAM 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**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$57,014	\$37,253		\$94,267
Municipal Income Tax	346,560			346,560
Intergovernmental	92,212	43,435		135,647
Charges for Services	26,824			26,824
Fines, Licenses and Permits	249			249
Earnings on Investments	24,356	1,478		25,834
Miscellaneous	20,558	2,423		22,981
	<u>567,773</u>	<u>84,589</u>		<u>652,362</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	132,702	14,016		146,718
Transportation	19,853	117,838		137,691
General Government	138,920			138,920
Capital Outlay	135,553	19,890	\$30,501	185,944
	<u>427,028</u>	<u>151,744</u>	<u>30,501</u>	<u>609,273</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>140,745</u>	<u>(67,155)</u>	<u>(30,501)</u>	<u>43,089</u>
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Transfers-In		150,000	45,000	195,000
Transfers-Out	(205,000)			(205,000)
	<u>(205,000)</u>	<u>150,000</u>	<u>45,000</u>	<u>(10,000)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(64,255)	82,845	14,499	33,089
Fund Cash Balances, January 1	779,632	83,059	5,400	868,091
Fund Cash Balances, December 31	<u>\$715,377</u>	<u>\$165,904</u>	<u>\$19,899</u>	<u>\$901,180</u>
Reserve for Encumbrances, December 31	<u>\$708</u>	<u>\$193</u>		<u>\$901</u>

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

**OTTOVILLE VILLAGE
PUTNAM COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$284,118
Miscellaneous	2,782
	286,900
Total Operating Cash Receipts	286,900
Operating Cash Disbursements:	
Personal Services	50,094
Employee Fringe Benefits	16,423
Contractual Services	66,776
Supplies and Materials	30,781
Other	600
	164,674
Total Operating Cash Disbursements	164,674
Operating Income	122,226
Non-Operating Cash Receipts:	
Proceeds from OWDA	24,721
Earnings on Investments	3,513
Sale of Notes	246,237
	274,471
Total Non-Operating Cash Receipts	274,471
Non-Operating Cash Disbursements:	
Capital Outlay	21,659
Redemption of Principal	278,077
Interest and Other Fiscal Charges	22,462
Other Financing Uses	1,057
	323,255
Total Non-Operating Cash Disbursements	323,255
Excess of Cash Receipts Over Cash Disbursements Before Interfund Transfers	73,442
Transfers-In	10,000
Net Cash Receipts Over Cash Disbursements	83,442
Fund Cash Balances, January 1	328,598
Fund Cash Balances, December 31	\$412,040
Reserve for Encumbrances, December 31	\$330

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 Ottoville, Putnam County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, and police services. The Village appropriates general fund money to support a volunteer fire department.

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 at cost.

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.

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 Funds:

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

Police Levy Fund – This fund receives tax revenue for maintaining police protection services.

3. 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:

Village Improvement Fund - This fund is used for major projects in the Village such as the purchase of a new Village hall. The projects are financed with a transfer from the General Fund.

4. 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.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

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, function 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.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 2007 and 2006 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.

2. EQUITY IN POOLED CASH

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

	2007	2006
Demand deposits	\$542,202	\$909,082
Certificates of deposit	424,353	404,138
Total deposits	\$966,555	\$1,313,220

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$581,157	\$598,075	\$16,918
Special Revenue	227,091	172,115	(54,976)
Capital Projects	560,000	500,000	(60,000)
Enterprise	709,504	682,213	(27,291)
Total	\$2,077,752	\$1,952,403	(\$125,349)

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,333,578	\$888,671	\$444,907
Special Revenue	355,168	190,629	164,539
Capital Projects	579,900	504,796	75,104
Enterprise	1,059,118	716,458	342,660
Total	<u>\$3,327,764</u>	<u>\$2,300,554</u>	<u>\$1,027,210</u>

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$575,558	\$567,773	(\$7,785)
Special Revenue	229,932	234,589	4,657
Capital Projects	60,000	45,000	(15,000)
Enterprise	1,014,926	571,371	(443,555)
Total	<u>\$1,880,416</u>	<u>\$1,418,733</u>	<u>(\$461,683)</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,342,924	\$632,736	\$710,188
Special Revenue	292,177	151,937	140,240
Capital Projects	60,000	30,501	29,499
Enterprise	1,325,583	488,259	837,324
Total	<u>\$3,020,684</u>	<u>\$1,303,433</u>	<u>\$1,717,251</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 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.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

4. PROPERTY TAX – (CONTINUED)

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 one 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.

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. Income tax receipts are credited to the General Fund

6. DEBT

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan #1	\$ 24,870	0%
Ohio Public Works Commission Loan #2	198,756	1.00%
Ohio Water Development Authority #1	496,600	0%
Ohio Water Development Authority #2	353,762	0%
Note Payable	<u>221,614</u>	4.50%
Total	<u>\$ 1,295,602</u>	

Ohio Public Works Commission (OPWC) loan #1 was entered into in 1994, for the purpose of providing revenues for a waterline and valve replacement project. The 20 year interest free loan had an original principal of \$71,057. The Village makes semiannual installments of \$1,776, with final maturity in 2015.

Ohio Public Works Commission (OPWC) loan #2 was entered into in 2002, for the purpose of providing revenues for a wastewater treatment plant sludge handling improvement. The 20 year loan is for \$243,683. The Village began making semiannual installments of \$6,737 in 2004, with final maturity in 2024.

Ohio Water Development Authority (OWDA) loan #1 was entered into in 2005, for the purpose of providing revenues for phase II of a wastewater treatment plant sludge handling improvement. The 20 year loan is for \$522,737. The Village began making annual installments of \$26,137 in 2007, with final maturity in 2027.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. DEBT – (CONTINUED)

Ohio Water Development Authority (OWDA) loan #2 was entered into in 2006, for the purpose of providing revenues for phase III of a wastewater treatment plant sludge handling improvement. The 20 year loan is for \$353,762. The Village does not yet have an amortization schedule for this loan.

The Note at Ottoville Bank was entered into in 2006 to retire the Sewerage System First Mortgage Revenue Bond which was entered into for the purpose of paying the cost of constructing a municipal sewage collection and treatment system in 1977. The note has a 4.50 percent interest rate and is scheduled to be paid in full in 2017.

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

Year ending December 31:	OWDA Loan #1	OPWC Loans		General	General
		Principal	Interest	Obligation Notes	Obligation Notes
				Principal	Interest
2008	\$26,137	\$15,067	\$1,959	\$24,624	\$11,081
2009	26,137	15,183	1,843	24,624	10,000
2010	26,137	15,300	1,727	24,624	8,864
2011	26,137	15,417	1,609	24,624	7,757
2012	26,137	15,536	1,490	24,624	6,648
2013-2017	117,616	68,849	5,624	98,494	15,528
2018-2022	130,684	64,901	2,467		
2023-2027	117,615	13,373	101		
Total	<u>\$496,600</u>	<u>\$223,626</u>	<u>\$16,820</u>	<u>\$221,614</u>	<u>\$59,878</u>

7. RETIREMENT SYSTEMS

The Village's 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 2007 and 2006, OP&F participants contributed 10% of their wages. For 2007 and 2006, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. 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

For an occurrence prior to January 1, 2006, 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.

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Villages can elect up to \$10,000,000 in additional coverage 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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006) as noted above.

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Traveler's provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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 government.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

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

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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$15,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2005	\$18,472
2006	\$15,140
2007	\$12,694

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they 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 contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

9. SUBSEQUENT EVENTS

The Village is the recipient of the Emergency Preparedness and Response Directorate's FY 07 Assistance to Firefighters Grant Program in the amount of \$454,919. This grant is to be used for equipment, personal protective equipment and training.

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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 Ottoville
Putnam County
150 Park Drive
P.O. Box 488
Ottoville, Ohio 45876-0488

To the Village Council:

We have audited the financial statements of the Village of Ottoville, Putnam County, (the Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated June 18, 2008, 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 also noted 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. 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 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.

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

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.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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 and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We noted certain matters that we reported to the Village's management in a separate letter dated June 18, 2008.

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 noted a certain noncompliance matter that we reported to the Village's management in a separate letter dated June 18, 2008.

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



Mary Taylor, CPA
Auditor of State

June 18, 2008

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness

Financial Reporting

Inaccurate posting of transactions impedes the ability of the Council to accurately assess the financial status of the Village. We noted examples such as the following during our audit:

- An Enterprise Fund was misclassified as a Debt Service Fund in 2007 and 2006.
- Payments received from OWDA for Phase III in the amount of \$352,905 was posted as miscellaneous revenue instead of OWDA proceeds in FY07.
- Payments received from OWDA for Phase II in the amount of \$24,721 was posted as miscellaneous revenue instead of OWDA proceeds in FY06.

As a result, the Village's financial statements did not correctly reflect the financial activity of the Village. Five adjusting entries were posted to the financial statements to correct these and other errors. We recommend the Fiscal Officer post all transactions in accordance with the guidance established by the Village Officer's Handbook. Further, the Village should adopt policies and procedures including a fiscal review of the financial statements by the Fiscal Officer and the Council to ensure that errors and omissions are detected and corrected.

Official's Response

We did not receive a response from Officials to this finding.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 and 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Finding for Recovery for \$107.50 against Resolution Number T-296	Yes	
2005-002	Mortgage Revenue Bonds 13(c) lack of an annual audit	Yes	
2005-003	ORC § 5705.41(D) improper certification of funds	Yes	
2005-004	ORC § 5705.41(B) Expenditures in excess of appropriation	Yes	
2005-005	ORC § 5705.40(B) Approved appropriations did not equal posted appropriations	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF OTTOVILLE

PUTNAM 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
JULY 15, 2008**