



**VILLAGE OF OTTAWA
PUTNAM COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

VILLAGE OF OTTAWA
PUTNAM COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Ottawa
Putnam County
136 North Oak Street
Ottawa, Ohio 45875-1810

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ottawa, Putnam County, Ohio (the Village), as of and for the year ended December 31, 2004, 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 opinions 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 opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the modified 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 modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ottawa, Putnam County, Ohio, as of December 31, 2004, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Income Tax, and Budget Stabilization Funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

For the year ended December 31, 2004, 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 June 21, 2006, 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.

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

June 21, 2006

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

This discussion and analysis of the Village of Ottawa's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2004, within the limitations of the Village's modified 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 2004 are as follows:

- Net assets of governmental activities increased \$1,056,569, or 17 percent, a significant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the Budget Stabilization Fund, which was established with one-time revenue from a detrimental reliance settlement.
- The Village's general receipts are primarily debt proceeds and income taxes. These receipts represent respectively 21 and 42 percent of the total cash received for governmental activities during the year. The debt proceeds are non-recurring revenue. Income tax receipts for 2004 decreased over 26 percent compared to 2003 due to the closing of the largest employer in the Village.
- The Water Operating Fund and the Sewer Operating Fund, the Village of Ottawa's major business-type activities, realized decreases in net assets of 12.5 and 31 percent respectively. These decreases are due to the loss of L.G. Philips, a major user of water and sewer. The Village of Ottawa has passed ordinances to adjust its water and sewer rates over a multiyear period to align the rates with anticipated expenditures.

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 modified 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 village-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

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 modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified 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.

Reporting the Government as a Whole

This annual report includes all activities for which the Village is fiscally responsible. These activities, defined as the Village's reporting entity, are operated within separate legal entities that make up the primary government. The primary government consists of the Village.

The statement of net assets and the statement of activities reflect how the Village did financially during 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year-end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type 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 or business-type activity 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 modified 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 non-financial 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, we divide the Village into two types of activities:

Governmental activities. Most 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.

Business-type activity. The Village has two business-type activities, the provision of water and sewer. Business-type activities are financed by a fee charged to the customers receiving the service.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

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. The funds of the Village are split into two categories: governmental and proprietary.

Governmental Funds - Most 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 non-major 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, Income Tax Fund and Budget Stabilization Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has three enterprise funds, the Water Operating Fund, Sewer Operating Fund, and Enterprise Debt Service Reserve Fund. When the services are provided to other departments of the Village, the service is reported as an internal service fund. The Village has no internal service funds.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2004 compared to 2003 on a cash basis:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Assets						
Cash and Cash Equivalents	\$7,237,480	\$6,180,911	\$2,768,588	\$3,450,833	\$10,006,068	\$9,631,744
Total Assets	<u>\$7,237,480</u>	<u>\$6,180,911</u>	<u>\$2,768,588</u>	<u>\$3,450,833</u>	<u>\$10,006,068</u>	<u>\$9,631,744</u>
Net Assets						
Restricted for:						
Capital Outlay	277,582	103,941			277,582	103,941
Other Purposes	4,979,579	3,963,872			4,979,579	3,963,872
Unrestricted	<u>1,980,319</u>	<u>2,113,098</u>	<u>2,768,588</u>	<u>3,450,833</u>	<u>4,748,907</u>	<u>5,563,931</u>
Total Net Assets	<u>\$7,237,480</u>	<u>\$6,180,911</u>	<u>\$2,768,588</u>	<u>\$3,450,833</u>	<u>\$10,006,068</u>	<u>\$9,631,744</u>

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

As mentioned previously, net assets of governmental activities increased \$1,056,569 or 17 percent during 2004. The primary reasons contributing to the increases in cash balances are as follows:

- The Village of Ottawa received a detrimental reliance settlement from L.G. Philips (the Village's largest employer and major user of water and sewer) when they relocated to Mexico. This one-time revenue in the amount of \$1,223,413 is reflected in the fund balance of the Budget Stabilization Fund and is the main reason for the increase in net assets restricted for other purposes.
- The increase was offset by a decrease in net assets in the Income Tax Fund of \$958,653 due in part to a \$200,000 advance to another governmental fund that will be repaid. Income tax receipts decreased over 26% from 2003 due to the closing of L.G. Philips.
- The General Fund had a 6 percent decrease net assets due in part to a decline in personal property tax revenues as a result of the relocation of industry as mentioned above.

Table 2 reflects the changes in net assets in 2004. Since the Village did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

(Table 2)
Changes in Net Assets

	Governmental Activities 2004	Business Type Activities 2004	Total 2004
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$81,981	\$1,252,083	\$1,334,064
Operating Grants and Contributions	193,157		193,157
Capital Grants and Contributions	30,587		30,587
Total Program Receipts	<u>305,725</u>	<u>1,252,083</u>	<u>1,557,808</u>
General Receipts:			
Property and Other Local Taxes	228,425		228,425
Income Taxes	1,103,615		1,103,615
Grants and Entitlements Not Restricted to Specific Programs	167,091		167,091
Notes Issued	180,823		180,823
Other Debt Proceeds	373,800		373,800
Sale of Fixed Assets	34,817		34,817
Interest	137,523		137,523
Miscellaneous	74,579	54,802	129,381
Total General Receipts	<u>2,300,673</u>	<u>54,802</u>	<u>2,355,475</u>
Total Receipts	<u>2,606,398</u>	<u>1,306,885</u>	<u>3,913,283</u>
Disbursements:			
General Government	488,092		488,092
Security of Persons and Property:	494,323		494,323
Leisure Time Activities	117,040		117,040
Economic Development	15,129		15,129
Basic Utilities	14,088		14,088
Transportation	174,747		174,747
Capital Outlay	1,875,459		1,875,459
Principal Retirement	366,526		366,526
Interest and Fiscal Charges	163,903		163,903
Water Operating		849,053	849,053
Sewer Operating		1,096,550	1,096,550
Total Disbursements	<u>3,709,307</u>	<u>1,945,603</u>	<u>5,654,910</u>
Deficiency Before Transfers and Special Items	(1,102,909)	(638,718)	(1,741,627)
Special Item - Tax Abatement Settlement	2,115,951		2,115,951
Transfers	43,527	(43,527)	
Increase (Decrease) in Net Assets	<u>1,056,569</u>	<u>(682,245)</u>	<u>374,324</u>
Net Assets, January 1, 2004	<u>6,180,911</u>	<u>3,450,833</u>	<u>9,631,744</u>
Net Assets, December 31, 2004	<u>\$7,237,480</u>	<u>\$2,768,588</u>	<u>\$10,006,068</u>

**VILLAGE OF OTTAWA
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
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(Continued)**

Program receipts represent only 39 percent of total receipts and are primarily comprised of water and sewer user fees. Restricted intergovernmental receipts such as motor vehicle license and gas tax money, Ohio Water Development Authority (OWDA) loan revenues for the Water Treatment Plant Improvements Project, and Ohio Arts Council grant and donations for restoration of the fireman's statue, as well as swimming pool admissions, recreational entry fees and license and permit fees are also included in program receipts.

General receipts represent 61 percent of the Village of Ottawa's total receipts, and of this amount, over 23 percent are debt proceeds which are one-time revenues. Over 57 percent are local taxes; 7 percent are state and federal grants and entitlements; 6 percent are interest earnings, which can fluctuate annually due to the rate of return. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Village of Ottawa and the support services provided for the other Government activities. These include the costs of council, mayor, municipal director, solicitor, clerk-treasurer, and community environment departments, as well as internal services such as payroll and purchasing.

Security of Persons and Property are the costs of police and fire protection; Leisure Time Activities are the costs of maintaining the pool and parks; the economic development department promotes the Village of Ottawa to industry and commerce as well as working with other governments in the area to attract new business; Basic Utilities are costs associated with the water and sewer systems in special revenue funds; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Village of Ottawa. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for capital improvements, which account for 50 percent of all governmental disbursements. Debt service, security of persons and property and general government also represent significant costs, about 14 percent, 13 percent and 13 percent, respectively. 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 Government 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. Since the Village did not prepare financial statements in this format for 2003, a comparative analysis of total cost of services and the net cost has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

(Table 3)

Governmental Activities

	Total Cost Of Services 2004	Net Cost of Services 2004
	<u>2004</u>	<u>2004</u>
General Government	\$488,092	\$456,947
Security of Persons and Property	494,323	487,818
Leisure Time Activities	117,040	74,965
Community Environment	15,129	9,443
Basic Utilities	14,088	13,138
Transportation	174,747	(44,617)
Capital Outlay	1,875,459	1,875,459
Principal Retirement	366,526	366,526
Interest and Fiscal Charges	163,903	163,903
Total Expenses	<u>\$3,709,307</u>	<u>\$3,403,582</u>

The dependence upon property and income tax receipts is apparent as over 32 percent of governmental activities are supported through these general receipts.

Business-type Activities

The Village of Ottawa has two major business type activities, the provision of water and sewer, which are accounted for in the Water Operating Fund and the Sewer Operating Fund. Charges for services support 64 percent of the business type activity disbursements. The relocation out of Ottawa at the end of 2002 of L.G. Philips, a major water and sewer user, caused the rates charged for water and sewer to fall out of line of expenditures. The Village of Ottawa has passed ordinances to adjust its water and sewer rates over a multiyear period to align the revenues with anticipated expenditures. In addition, the Village sells water and sewer to neighboring communities to help to stabilize rates.

The Government's Funds

As you look at the Statement of Cash Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balances you will see total governmental funds had receipts and other financing sources of \$5,732,349 and disbursements and other financing uses of \$4,675,780. The greatest change within governmental funds occurred within the Budget Stabilization Fund, a new fund established to stabilize the Village's budget against cyclical uncertainties. The Budget Stabilization Fund balance of \$1,973,413 is special one-time revenue from a detrimental reliance settlement and a transfer from the General Fund.

The Income Tax Fund had a balance decrease of \$958,653, due in part to a \$200,000 advance to another governmental fund that will be repaid. Income tax receipts decreased over 26% from 2003 due to the closing of L.G. Philips, the largest employer in the Village. Management feels that short-term deficit spending is acceptable based upon fund balance.

General Fund receipts were less than disbursements. The difference was partly offset by a one-time revenue from a detrimental reliance settlement. Subsequently, \$750,000 was transferred out of General Fund into the Budget Stabilization Fund resulting in a General Fund Balance decrease of \$132,779. Management feels that short-term deficit spending is acceptable based upon fund balance.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

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

Final disbursements and other financing uses in the General Fund were budgeted at \$3,645,187 while actual disbursements and other financing uses were \$1,694,763. The Village of Ottawa employs a conservative approach to budgeting by estimating receipts low and appropriations high. In 2004, the Village of Ottawa budgeted for certain capital improvements in the General Fund but decided not to pursue those improvements at this time in keeping with its conservative approach.

Capital Assets and Debt Administration

Capital Assets

The Village of Ottawa does not currently keep track of its capital assets and infrastructure in the accompanying financial statements, but records payments for capital assets as disbursements.

Debt

At December 31, 2004, the Village of Ottawa's outstanding debt included \$1,760,000 in general obligation bonds issued for various purposes, and \$5,551,661 in OWDA loans for improvements to water and sewer system buildings and structures. For further information regarding the Village of Ottawa's debt, refer to Note 12 to the basic financial statements.

Current Issues

The challenge for all Governments 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. The loss of L.G. Philips impacted the Village of Ottawa affecting the General Fund with the decrease in personal property taxes; the Income Tax Fund with a decrease in income tax receipts; and the Water and Sewer Fund as Philips accounted for approximately 50 percent of the water produced and sewer treated by the Village of Ottawa. Fortunately, the Village has adequate fund balances to make this transition. All departments have been asked to reduce their spending.

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 Barbara J. Brickner, Clerk-Treasurer, Village of Ottawa, 136 N. Oak Street, Ottawa, Ohio 45875-1810.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Net Assets - Modified Cash Basis
December 31, 2004*

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$7,237,480</u>	<u>\$2,768,588</u>	<u>\$10,006,068</u>
<i>Total Assets</i>	<u><u>\$7,237,480</u></u>	<u><u>\$2,768,588</u></u>	<u><u>\$10,006,068</u></u>
Net Assets			
Restricted for:			
Capital Projects	\$277,582		\$277,582
Other Purposes	4,979,579		4,979,579
Unrestricted	<u>1,980,319</u>	<u>\$2,768,588</u>	<u>4,748,907</u>
<i>Total Net Assets</i>	<u><u>\$7,237,480</u></u>	<u><u>\$2,768,588</u></u>	<u><u>\$10,006,068</u></u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2004*

	Program Cash Receipts				Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$488,092	\$31,145			(\$456,947)		(\$456,947)
Security of Persons and Property	494,323	4,056	\$296	\$2,153	(487,818)		(487,818)
Leisure Time Activities	117,040	41,675		400	(74,965)		(74,965)
Community Environment	15,129	4,942		744	(9,443)		(9,443)
Basic Utility Services	14,088			950	(13,138)		(13,138)
Transportation	174,747	163	192,861	26,340	44,617		44,617
Capital Outlay	1,875,459				(1,875,459)		(1,875,459)
Debt Service:							
Principal	366,526				(366,526)		(366,526)
Interest	163,903				(163,903)		(163,903)
<i>Total Governmental Activities</i>	<u>3,709,307</u>	<u>81,981</u>	<u>193,157</u>	<u>30,587</u>	<u>(3,403,582)</u>		<u>(3,403,582)</u>
Business Type Activity							
Water	849,053	656,272				(\$192,781)	(192,781)
Sewer	1,096,550	595,811				(500,739)	(500,739)
<i>Total Business Type Activities</i>	<u>1,945,603</u>	<u>1,252,083</u>				<u>(693,520)</u>	<u>(693,520)</u>
Total	<u>\$5,654,910</u>	<u>\$1,334,064</u>	<u>\$193,157</u>	<u>\$30,587</u>	<u>(3,403,582)</u>	<u>(693,520)</u>	<u>(4,097,102)</u>
General Receipts							
Property Taxes Levied for General Purposes					228,425		228,425
Municipal Income Taxes					1,103,615		1,103,615
Grants and Entitlements not Restricted to Specific Programs					167,091		167,091
Notes Issued					180,823		180,823
Other Debt Proceeds					373,800		373,800
Sale of Capital Assets					34,817		34,817
Interest					137,523		137,523
Miscellaneous					74,579	54,802	129,381
<i>Total General Receipts</i>					<u>2,300,673</u>	<u>54,802</u>	<u>2,355,475</u>
Special Item - Tax Abatement Settlement					2,115,951		2,115,951
Transfers					43,527	(43,527)	
<i>Total General Receipts, Special Item, and Transfers</i>					<u>4,460,151</u>	<u>11,275</u>	<u>4,471,426</u>
Change in Net Assets					1,056,569	(682,245)	374,324
Net Assets Beginning of Year					6,180,911	3,450,833	9,631,744
<i>Net Assets End of Year</i>					<u>\$7,237,480</u>	<u>\$2,768,588</u>	<u>\$10,006,068</u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004*

	General	Income Tax Fund	Budget Stabilization Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$1,980,319	\$2,467,400	\$1,973,413	\$816,348	\$7,237,480
<i>Total Assets</i>	<u>\$1,980,319</u>	<u>\$2,467,400</u>	<u>\$1,973,413</u>	<u>\$816,348</u>	<u>\$7,237,480</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$26,076	\$346,943		\$294,629	\$667,648
Unreserved:					
Undesignated, Reported in:					
General Fund	1,954,243				1,954,243
Special Revenue Funds		2,120,457	\$1,973,413	507,291	4,601,161
Capital Projects Funds				14,428	14,428
<i>Total Fund Balances</i>	<u>\$1,980,319</u>	<u>\$2,467,400</u>	<u>\$1,973,413</u>	<u>\$816,348</u>	<u>\$7,237,480</u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004*

	General	Income Tax Fund	Budget Stabilization Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes		\$1,103,615			\$1,103,615
Property and Other Local Taxes	\$228,425				228,425
Special Assessments	258	7,193			7,451
Charges for Services	45,950			\$162	46,112
Fines, Licenses and Permits	35,075			535	35,610
Intergovernmental	187,188	2,153		193,357	382,698
Interest	130,721			6,802	137,523
Miscellaneous	15,753	59,223		548	75,524
<i>Total Receipts</i>	<u>643,370</u>	<u>1,172,184</u>		<u>201,404</u>	<u>2,016,958</u>
Disbursements					
Current:					
General Government	183,196	295,503		9,393	488,092
Security of Persons and Property	493,200			1,123	494,323
Leisure Time Activities	117,040				117,040
Community Environment	14,385			744	15,129
Basic Utility Services				14,088	14,088
Transportation	136			174,611	174,747
Capital Outlay	108,441	1,133,875		633,143	1,875,459
Debt Service:					
Principal Retirement		366,526			366,526
Interest and Fiscal Charges		163,903			163,903
<i>Total Disbursements</i>	<u>916,398</u>	<u>1,959,807</u>		<u>833,102</u>	<u>3,709,307</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(273,028)</u>	<u>(787,623)</u>		<u>(631,698)</u>	<u>(1,692,349)</u>
Other Financing Sources (Uses)					
Notes Issued				180,823	180,823
Other Debt Proceeds				373,800	373,800
Sale of Capital Assets		34,817			34,817
Transfers In			\$750,000	60,000	810,000
Transfers Out	(752,289)	(5,847)		(8,337)	(766,473)
Advance In				200,000	200,000
Advance Out		(200,000)			(200,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(752,289)</u>	<u>(171,030)</u>	<u>750,000</u>	<u>806,286</u>	<u>632,967</u>
Special Item					
Tax Abatement Settlement	892,538		1,223,413		2,115,951
<i>Net Change in Fund Balances</i>	<u>(132,779)</u>	<u>(958,653)</u>	<u>1,973,413</u>	<u>174,588</u>	<u>1,056,569</u>
Fund Balances Beginning of Year	<u>2,113,098</u>	<u>3,426,053</u>		<u>641,760</u>	<u>6,180,911</u>
<i>Fund Balances End of Year</i>	<u>\$1,980,319</u>	<u>\$2,467,400</u>	<u>\$1,973,413</u>	<u>\$816,348</u>	<u>\$7,237,480</u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Receipts				
Property and Other Local Taxes	\$235,997	\$235,997	\$228,425	(\$7,572)
Special Assessments	500	500	258	(242)
Charges for Services	53,551	53,551	45,950	(7,601)
Fines, Licenses and Permits	27,160	27,160	35,075	7,915
Intergovernmental	195,047	195,047	187,188	(7,859)
Interest	223,191	223,191	130,721	(92,470)
Miscellaneous	806,400	806,400	15,753	(790,647)
<i>Total Receipts</i>	<u>1,541,846</u>	<u>1,541,846</u>	<u>643,370</u>	<u>(898,476)</u>
Disbursements				
Current:				
General Government	267,683	263,219	186,839	76,380
Security of Persons and Property	598,351	597,430	508,464	88,966
Public Health Services	2,100	2,100		2,100
Leisure Time Activities	200,278	199,688	118,605	81,083
Community Environment	88,793	88,676	15,086	73,590
Transportation	300	138	136	2
Capital Outlay	1,746,427	1,741,547	113,344	1,628,203
<i>Total Disbursements</i>	<u>2,903,932</u>	<u>2,892,798</u>	<u>942,474</u>	<u>1,950,324</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(1,362,086)</u>	<u>(1,350,952)</u>	<u>(299,104)</u>	<u>1,051,848</u>
Other Financing Uses				
Transfers Out	(752,289)	(752,289)	(752,289)	
Other Financing Uses	(100)	(100)		100
<i>Total Other Financing Uses</i>	<u>(752,389)</u>	<u>(752,389)</u>	<u>(752,289)</u>	<u>100</u>
Special Item				
Tax Abatement Settlement			892,538	892,538
<i>Net Change in Fund Balance</i>	(2,114,475)	(2,103,341)	(158,855)	1,944,486
<i>Fund Balance Beginning of Year</i>	1,992,983	1,992,983	1,992,983	
Prior Year Encumbrances Appropriated	120,115	120,115	120,115	
<i>Fund Balance End of Year</i>	<u>(\$1,377)</u>	<u>\$9,757</u>	<u>\$1,954,243</u>	<u>\$1,944,486</u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Income Tax Fund
For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Receipts				
Municipal Income Taxes	\$1,000,000	\$1,000,000	\$1,103,615	\$103,615
Special Assessments	6,661	6,661	7,193	532
Intergovernmental			2,153	2,153
Miscellaneous	28,000	28,000	59,223	31,223
<i>Total Receipts</i>	<u>1,034,661</u>	<u>1,034,661</u>	<u>1,172,184</u>	<u>137,523</u>
Disbursements				
Current:				
General Government	405,805	405,220	295,863	109,357
Capital Outlay	3,318,634	3,170,670	1,480,458	1,690,212
Debt Service:				
Principal Retirement	366,526	366,526	366,526	
Interest and Fiscal Charges	163,903	163,903	163,903	
<i>Total Disbursements</i>	<u>4,254,868</u>	<u>4,106,319</u>	<u>2,306,750</u>	<u>1,799,569</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(3,220,207)</u>	<u>(3,071,658)</u>	<u>(1,134,566)</u>	<u>1,937,092</u>
Other Financing Sources (Uses)				
Sale of Capital Assets			34,817	34,817
Transfers Out		(5,847)	(5,847)	
Advances Out		(200,000)	(200,000)	
<i>Total Other Financing Sources (Uses)</i>		<u>(205,847)</u>	<u>(171,030)</u>	<u>34,817</u>
<i>Net Change in Fund Balance</i>	(3,220,207)	(3,277,505)	(1,305,596)	1,971,909
<i>Fund Balance Beginning of Year</i>	2,808,561	2,808,561	2,808,561	
Prior Year Encumbrances Appropriated	617,492	617,492	617,492	
<i>Fund Balance End of Year</i>	<u>\$205,846</u>	<u>\$148,548</u>	<u>\$2,120,457</u>	<u>\$1,971,909</u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Budget Stabilization Fund
For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources				
Transfers In			\$750,000	\$750,000
<i>Total Other Financing Sources</i>			750,000	750,000
Special Item				
Tax Abatement Settlement			1,223,413	1,223,413
<i>Net Change in Fund Balance</i>			1,973,413	1,973,413
<i>Fund Balance End of Year</i>			<u>\$1,973,413</u>	<u>\$1,973,413</u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2004*

	Business-Type Activities			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Other Enterprise Funds	
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,382,300	\$1,071,391	\$314,897	\$2,768,588
<i>Total Assets</i>	<u>\$1,382,300</u>	<u>\$1,071,391</u>	<u>\$314,897</u>	<u>\$2,768,588</u>
Net Assets				
Unrestricted	<u>\$1,382,300</u>	<u>\$1,071,391</u>	<u>\$314,897</u>	<u>\$2,768,588</u>

See accompanying notes to the financial statements

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2004*

	Business-Type Activities			Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Other Enterprise Fund	
Operating Receipts				
Charges for Services	\$655,481	\$595,507		\$1,250,988
Other Operating Receipts	17,606	37,196		54,802
<i>Total Operating Receipts</i>	<u>673,087</u>	<u>632,703</u>		<u>1,305,790</u>
Operating Disbursements				
Personal Services	299,300	290,835		590,135
Fringe Benefits	163,236	158,193		321,429
Contractual Services	99,501	169,441		268,942
Materials and Supplies	95,191	48,552		143,743
<i>Total Operating Disbursements</i>	<u>657,228</u>	<u>667,021</u>		<u>1,324,249</u>
<i>Operating Income (Loss)</i>	15,859	(34,318)		(18,459)
Non-Operating Receipts (Disbursements)				
Special Assessments	791	304		1,095
Capital Outlay	(83,818)	(14,970)		(98,788)
Principal Payments	(60,565)	(316,454)		(377,019)
Interest and Fiscal Charges	(47,442)	(98,105)		(145,547)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(191,034)</u>	<u>(429,225)</u>		<u>(620,259)</u>
<i>Loss before Transfers</i>	(175,175)	(463,543)		(638,718)
Transfers Out	(22,560)	(20,967)		(43,527)
<i>Change in Net Assets</i>	(197,735)	(484,510)		(682,245)
Net Assets Beginning of Year	<u>1,580,035</u>	<u>1,555,901</u>	<u>\$314,897</u>	<u>3,450,833</u>
<i>Net Assets End of Year</i>	<u><u>\$1,382,300</u></u>	<u><u>\$1,071,391</u></u>	<u><u>\$314,897</u></u>	<u><u>\$2,768,588</u></u>

See accompanying notes to the financial statements

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**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE 1 – REPORTING ENTITY

The Village of Ottawa, Putnam 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. Beginning January 1, 2000, the Village's form of government was changed from statutory to a charter form of government. A six-member Council elected at large for four-year terms directs the Village. The Mayor is elected to a four-year term, and votes only to break a tie.

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, water and sewer utilities, maintenance of Village roads and bridges, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

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 modified cash basis of accounting. This modified 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 modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, 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 modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. 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 OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(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 and distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year-end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type 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 or business-type activity 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 and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

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 divided into two categories, governmental and proprietary.

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 three major governmental funds including the General Fund, Income Tax Fund and Budget Stabilization 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.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

- The Income Tax Fund is a special revenue fund used primarily to fund capital improvements. Its use is restricted by Village ordinance.
- The Budget Stabilization Fund is classified as a special revenue fund and was established with special one-time revenue to stabilize the Village's budget against cyclical uncertainties. The principal of the fund remains unencumbered and unbudgeted except by special Resolution of Village Council.

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

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major enterprise funds are the Water and Sewer funds.

Water Fund - The water fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

C. Basis of Accounting

The Village's financial statements are prepared using the modified cash basis of accounting. 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.

As a result of the use of this modified 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 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.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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/function/object level for the General, Income Tax, Water and Sewer funds. All other funds have the legal level of control set at the fund level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk-Treasurer. 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

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".

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains at the time of sale are recorded as receipts.

During 2004, the Village invested in nonnegotiable certificates of deposit, savings accounts, money market funds, and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost. The savings accounts and money market accounts are reported at the amount the Village has recorded as of December 31, 2004.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

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 2004 was \$130,721 which includes \$104,849 assigned from other Village funds.

F. Interfund Receivables/Payables

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's modified cash basis of accounting.

H. 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 10 and 11, the employer contributions include portions for pension benefits and for postretirement health care benefits.

I. Long-Term Obligations

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither another financing source nor capital outlay expenditure are reported at inception. Lease payments are reported when paid.

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. Net assets restricted for other purposes include resources restricted for capital expenditures such as land and land improvements, street improvements, and police and fire equipment.

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.

K. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance, which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

L. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

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 modified 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.

NOTE 4 – COMPLIANCE

Contrary to Ohio law, there were no budgetary appropriations for the purchase of land during the year ended December 31, 2004. Also, the Village entered into a promissory note agreement without the proper authority.

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, Income Tax Fund and Budget Stabilization 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 modified cash basis are outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$26,076 for the general fund, and \$346,943 for the Village's income tax fund, a major special revenue 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;

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 6 – DEPOSITS AND INVESTMENTS – (CONTINUED)

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;
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).

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Village by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Village or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year end, the carrying amount of the Village's deposits was \$9,687,838 and the bank balance was \$9,741,910. Of the bank balance \$500,000 was covered by federal depository insurance and \$9,241,910 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Village to a successful claim by the FDIC.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 6 – DEPOSITS AND INVESTMENTS – (CONTINUED)

The Village's investments are required to be categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the Village's name. Investments in STAR Ohio are not classified since they are not evidenced by securities that exist in physical or book-entry form.

Investments as December 31, 2004, were as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
STAR Ohio	\$318,230	\$318,230

NOTE 7 – INCOME TAXES

The Village levies a 1 percent income tax whose proceeds are placed into the Income Tax Fund. The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a credit of the lesser of actual taxes paid to another city or 100 percent of the 1 percent tax rate on taxable income. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Regional Income Tax Authority at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

NOTE 8 – 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 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, 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 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2002, were levied after October 1, 2003, 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.

Tangible personal property tax receipts received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. 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.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 8 – PROPERTY TAXES – (CONTINUED)

The full tax rate for all Village operations for the year ended December 31, 2004, was \$2.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	
Residential	\$52,487,730
Agriculture	458,570
Commercial/Industrial/Mineral	19,402,650
Public Utility Property	
Real	25,840
Personal	2,422,040
Tangible Personal Property	15,277,776
Total Assessed Value	<u>\$90,074,606</u>

NOTE 9 – RISK MANAGEMENT

Risk Pool Membership

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 claim, including loss 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 \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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 local government.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 9 – RISK MANAGEMENT – (CONTINUED)

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:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,547,049	\$25,288,098
Liabilities	<u>(16,989,918)</u>	<u>(12,872,985)</u>
Retained earnings	<u>\$13,557,131</u>	<u>\$12,415,113</u>
<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$3,652,970	\$3,158,813
Liabilities	<u>(544,771)</u>	<u>(792,061)</u>
Retained earnings	<u>\$3,108,199</u>	<u>\$2,366,752</u>

NOTE 10 – DEFINED BENEFIT PENSION PLANS

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.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 10 – DEFINED BENEFIT PENSION PLANS – (CONTINUED)

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002, were \$98,948, \$93,279, and \$90,975 respectively. The full amount has been contributed for 2004, 2003, and 2002.

B. Ohio Police and Fire Pension Fund

The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the Village is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The Village's required contributions to the Fund for the years ended December 31, 2004, 2003, and 2002, were \$25,796, \$26,028, and \$21,810. The full amount has been contributed for 2004, 2003, and 2002.

NOTE 11 - 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, 2004, 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.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 11 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$41,444. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2008. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis.

The total police employer contribution rate is 19.5 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2005 and 2004. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2002, all retirees and survivors have monthly health care contributions.

The Village's actual contributions for 2004 that were used to fund postemployment benefits were \$17,014 for police. The OP&F's total health care expense for the year ended December 31, 2004 (the latest information available), was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,662 for police and 10,474 for firefighters.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 12 – DEBT

The Village's long-term debt activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds 2001	2.5-4.1%	\$2,200,000		\$440,000	\$1,760,000	\$225,000
Promissory Note	0%		\$373,800		373,800	124,600
OPWC Loan – Sewer	0%	360,867		30,072	330,795	30,072
OWDA Loan #3790	3.02%	1,130,057	180,823	55,565	1,255,315	unknown
Total Governmental Activities		\$3,690,924	\$554,623	\$525,637	\$3,719,910	\$379,672
<u>Business-type Activities</u>						
OPWC Loan – Water	0%	\$42,500		\$5,000	\$37,500	\$5,000
OWDA Loan #2447	4.12%	4,509,254		212,908	4,296,346	109,754
Total Business-type Activities		\$4,551,754		\$217,908	\$4,333,846	\$114,754

Total reductions in governmental activities in the above table are \$159,111 higher than principal retirements in the governmental financial statements because the Village retires certain debt issues from both governmental funds and proprietary funds. Additionally, for the same reason, reductions in business-type activities in the above table are \$159,111 lower than principal payments in the business-type financial statements.

The general obligation bonds are supported by the full faith and credit of the Village and are payable from unvoted property tax receipts to the extent that other resources are not available to meet annual principal and interest payments.

The Ohio Public Works Commission (OPWC) 0% loans relate to a storm sewer and water tank improvement. The storm sewer loan will be repaid in semiannual installments of \$15,036 over 20 years. The water tank loan will be repaid in semiannual installments of \$2,500 over 20 years. Income tax revenues are the dedicated source of repayment for these loans.

The Ohio Water Development Authority (OWDA) loan #2447 for the wastewater treatment plant improvements relates to a sewer system expansion project that was mandated by the Ohio Environmental Protection Agency. The loan will be repaid in semiannual installments of \$198,259 including interest, over 20 years. The loan is secured by sewer receipts and income tax revenues.

The OWDA loan #3790 for the water treatment plant improvements relates to a water system expansion project that was necessary to meet upcoming Environmental Protection Agency requirements. The improvements have not been completed to date and a final amortization schedule is unavailable. The loan will be repaid in semiannual installments of an estimated \$51,504 including interest, over 20 years. Water receipts secure this loan. The Village has set utility rates sufficient to cover debt service.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 12 – DEBT – (CONTINUED)

The promissory note is an agreement between C&K Farms and the Village requiring the three annual payments of \$124,600. This note was used to finance the Village's purchase of 70 acres of land in Ottawa Township.

The following is a summary of the Village's future annual debt service requirements:

Year	G.O. Bonds		OWDA Loans		OPWC Loan	Promissory Note
	Principal	Interest	Principal	Interest	Principal	Principal
2005	\$225,000	\$65,198	\$109,754	\$88,505	\$35,072	\$124,600
2006	225,000	58,110	226,338	170,180	35,072	124,600
2007	250,000	50,685	235,759	160,759	35,072	124,600
2008	250,000	41,810	245,573	150,945	35,072	
2009	250,000	32,435	255,794	140,724	35,072	
2010 - 2014	560,000	34,370	1,447,826	534,765	162,860	
2015 - 2019			1,775,301	207,289	30,075	
2020 - 2024						
Totals	<u>\$1,760,000</u>	<u>\$282,608</u>	<u>\$4,296,345</u>	<u>\$1,453,167</u>	<u>\$368,295</u>	<u>\$373,800</u>

The Ohio Revised Code provides that net general obligation debt of the Village, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the Village. The Revised Code further provides that total voted and unvoted net debt of the Village less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2004, were an overall debt margin of \$3,194,103 and an unvoted debt margin of \$7,697,833.

NOTE 13 – INTERFUND TRANSFERS

A transfer in the amount of \$750,000 out of the General Fund was made to the Budget Stabilization Fund. The \$750,000 was part of the detrimental reliance settlement. Transfers totaling \$60,000 were made out of the General, Street CMR, Income Tax, Water Operating and Sewer Operating Fund in 2004 into the Termination Benefits Fund, a reserve fund used to pay leave balances upon termination of employment.

NOTE 14 – CONSTRUCTION AND CONTRACTUAL COMMITMENTS

The Village is in the process of several large construction contracts including the Putnam County Educational Service Center/Community Learning Center and the 2004 Street Projects. These obligations are included in the amounts reserved for encumbrances on the Statement of Modified Cash Basis Assets and Fund Balances.

The Village has entered into an agreement to provide water to the Village of Bluffton. The engineering fees for this project are included in the amounts reserved for encumbrances on the Statement of Cash Basis Assets and Fund Balances.

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 15 – CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

NOTE 16 – SUBSEQUENT EVENTS

The Village of Ottawa issued bonds in the amount of \$2,000,000 for the construction of the Putnam County Educational Service Center/Community Learning Center. These bonds will be used as the local portion of the project, which is also being funded by a \$1,725,000 grant from the Economic Development Agency. The Center will host the offices of the Putnam County Educational Service Center as well as lease space to area institutes of higher education.

The Village has entered into an agreement to provide water to the Village of Bluffton. The portion of the construction of the waterline to be paid by the Village of Ottawa is estimated at \$1,300,000. The Village has received federal Section 594 funding in the amount of \$298,000 and expects to finance the remaining \$1,000,000 through an OEPA-DEFA WSRLA, 2.75% loan. The repayment will be over a 20-year period. The dedicated source of repayment will be water rates. Since the Village of Bluffton is a large volume user, this contract should help to stabilize rates for all users of the water system. The Village has passed an ordinance to adjust its water rates over a five-year period to cover debt service.

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**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 Ottawa
Putnam County
136 North Oak Street
Ottawa, Ohio 45875-1810

To the Village Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Ottawa, Putnam County, (the Village) as of and for the year ended December 31, 2004, which collectively comprise the Village's basic financial statements and have issued our report dated June 21, 2006, wherein, we noted the Village prepares its financial statements on the modified cash basis of accounting. 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 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 in order to express our opinions 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 June 21, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the Village's management dated June 21, 2006, we reported other matters 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

June 21, 2006

**VILLAGE OF OTTAWA
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

FINDING NUMBER 2004-001

Noncompliance Citation

The Ohio Constitution, in providing for the organization of villages, requires the General Assembly to restrict their powers of borrowing money, contracting debts, and loaning their credit (Article XIII, Section 6 and Article XVIII, Section 13). These restrictions cannot be avoided by a municipality by ordinance, resolution or adoption of a home rule charter provision. The General Assembly, in fulfilling the Constitutional requirement to limit the ability of a village to incur debt, enacted Chapter 133 of the Ohio Revised Code. This chapter, also known as the Uniform Bond Law, relates to the debt limits of subdivisions generally and also limits the debt specifically of municipal corporations. Chapter 133 contains the different authorized methods in which a village may borrow money and contract debt. It also includes the general proposition that debt may not be entered into unless it is in anticipation of future revenues. Unless provided for in the code, a village may not incur debt.

The Village of Ottawa executed a three-year promissory note with a general partnership in 2004 whereby the Village received \$373,800. Three equal payments of \$124,600 are due April 30 of each year beginning in 2005. The Village entered into this agreement pursuant to Village Resolution 4690.

This type of debt issue is not specifically provided for in Chapter 133 of the Revised Code. As noted above, a village cannot supersede the limitations required by the Ohio Constitution and enacted by the General Assembly. As a result, the Village did not have the authority to enter into the promissory note agreement.

Officials' Response

Prior to entering into this transaction, the Village of Ottawa consulted with legal counsel who felt the transaction was appropriate for a charter municipality.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision shall make any expenditure of money unless it has been appropriated as provided in such chapter. The Village acquired land valued at \$498,400 in 2004. The purchase was financed through an up front cash payment of \$124,600 and a loan in the amount of \$373,800 made with the individual who sold the Village the property. Although the cash payment was budgeted and accounted for the loan transaction was never accounted for by the Village, nor was an appropriation made for it. After an audit adjustment was made to post the activity expenditures exceeded appropriations by \$373,800. We recommend the Village post revenues and expenditures for any similar debt issuances in the future.

Officials' Response

The Village of Ottawa considered this transaction a capital expenditure in the year cash was paid and accounted for it as such. Appropriation was in place for the capital expenditure. Had the Village considered this a debt issue, there would have been adequate appropriation made.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF OTTAWA

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 13, 2006**