

VILLAGE OF OHIO CITY
VAN WERT COUNTY, OHIO
REGULAR AUDIT
JANUARY 1, 2005 THROUGH DECEMBER 31, 2006
YEARS AUDITED UNDER GAGAS: 2006 AND 2005

CAUDILL & ASSOCIATES CPA's

725 5th Street
Portsmouth, Ohio 45662



Mary Taylor, CPA

Auditor of State

Village Council
Village of Ohio City
P.O. Box 246
Ohio City, Ohio 45874

We have reviewed the *Independent Auditor's Report* of the Village of Ohio City, Van Wert County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Ohio City is responsible for compliance with these laws and regulations.

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

Mary Taylor, CPA
Auditor of State

November 27, 2007

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VILLAGE OF OHIO CITY
VAN WERT COUNTY

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Caudill & Associates, CPA's

725 5th Street
Portsmouth, OH 45662

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Independent Auditor's Report

Member of Council
Village of Ohio City
Van Wert County
103 South Main Street
Ohio City, Ohio 45874

We have audited the accompanying financial statements of the Village of Ohio City (The Village), Van Wert County, Ohio, as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also presenting its larger (i.e. major) funds separately for 2006 and 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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

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

Members of Council
Village of Ohio City
Independent Auditor's Report
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As disclosed in Note 9 to the financial statements, the Village restated fund balance to adjust income tax receipts from the Expendable Trust to the General Fund due to inquiry with Village Management of use of income tax receipts, review of Village Ordinance 2-3-86 and the Auditor of State Village Handbook classifications of municipal income tax levied at the local level per Village Handbook 3-47.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Caudill & Associates, CPAs

Caudill & Associates, CPA's
October 15, 2007

VILLAGE OF OHIO CITY
VAN WERT COUNTY

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

| | Governmental Funds Types | | | Totals (Memorandum Only) |
|--|--------------------------|------------------|------------------|-----------------------------|
| | General | Special Revenue | Capital Projects | |
| Cash Receipts | | | | |
| Property and Other Taxes | \$ 141,707 | \$ 32,702 | \$ - | \$ 174,409 |
| Intergovernmental Receipts | 41,314 | 53,667 | 9,432 | 104,413 |
| Charges for Services | 37,880 | 23,995 | - | 61,875 |
| Fines, Licences & Permit | 4,646 | - | - | 4,646 |
| Earnings on Investments | 28,243 | 848 | - | 29,091 |
| Miscellaneous | 8,672 | 410 | - | 9,082 |
| Total Cash Receipts | <u>262,462</u> | <u>111,622</u> | <u>9,432</u> | <u>383,516</u> |
| Disbursements: | | | | |
| Security of Persons and Property | 52,037 | 46,516 | - | 98,553 |
| Public Health Services | 4,863 | - | - | 4,863 |
| Leisure Time Activities | 2,592 | - | - | 2,592 |
| Community Environment | 105 | - | - | 105 |
| Basic Utility Service | 1,312 | - | - | 1,312 |
| Transportation | - | 41,661 | - | 41,661 |
| General Government | 75,207 | - | - | 75,207 |
| Capital Outlay | 19,701 | 21,907 | 33,703 | 75,311 |
| Total Cash Disbursements | <u>155,817</u> | <u>110,084</u> | <u>33,703</u> | <u>299,604</u> |
| Total Receipts Over (Under) Disbursements | <u>106,645</u> | <u>1,538</u> | <u>(24,271)</u> | <u>83,912</u> |
| Other Financing Receipts (Disbursements) | | | | |
| Transfers In | - | 3,250 | 34,081 | 37,331 |
| Transfers Out | (62,400) | - | - | (62,400) |
| Total Other Financing Receipts (Disbursements) | <u>(62,400)</u> | <u>3,250</u> | <u>34,081</u> | <u>(25,069)</u> |
| Excess of Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Disbursements | 44,245 | 4,788 | 9,810 | 58,843 |
| Fund Cash Balance, January 1 | <u>124,930</u> | <u>33,503</u> | <u>17,822</u> | <u>176,255</u> |
| Fund Cash Balance, December 31 | <u>\$ 169,175</u> | <u>\$ 38,291</u> | <u>\$ 27,632</u> | <u>\$ 235,098</u> |

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

VILLAGE OF OHIO CITY
VAN WERT COUNTY

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

| | <u>PROPRIETARY FUND TYPE</u> |
|--|----------------------------------|
| | <u>Enterprise</u> |
| Operating Cash Receipts | |
| Charges for Services | \$ 877,132 |
| Total Operating Cash Receipts | <u>877,132</u> |
| Operating Cash Disbursements | |
| Personal Services | 215,825 |
| Transportation | 900 |
| Contractual Services | 518,171 |
| Supplies and Materials | 81,632 |
| Capital Outlay | 18,764 |
| Total Operating Cash Disbursements | <u>835,292</u> |
| Operating Income | <u>41,840</u> |
| Non-Operating Cash Receipts | |
| Other Non-Operating Receipts | |
| Proceeds from sale of notes | 9,804 |
| Total Non-Operating Cash Receipts | <u>9,804</u> |
| Non-Operating Cash Disbursements: | |
| Debt Service - Principal | (40,832) |
| Debt Services - Interest | (21,974) |
| Other Non-operating Cash Disbursements | (10,089) |
| Total Non-Operating Cash Disbursements | <u>(72,895)</u> |
| Receipts over Disbursements Before Interfund Transfer | (21,251) |
| Transfer-In | <u>25,069</u> |
| Net Receipts over Disbursements | 3,818 |
| Fund Cash Balance, January 1 | <u>419,032</u> |
| Fund Cash Balance, December 31 | <u>\$ 422,850</u> |

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

VILLAGE OF OHIO CITY
VAN WERT COUNTY

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

| | Governmental Funds Types | | | Totals |
|--|--------------------------|------------------|------------------|-------------------|
| | General | Special Revenue | Capital Projects | (Memorandum Only) |
| <u>Cash Receipts</u> | | | | |
| Property and Other Local Taxes | \$ 107,307 | \$ 19,221 | \$ - | \$ 126,528 |
| Intergovernmental Receipts | 85,348 | 83,987 | 663,792 | 833,127 |
| Charges for Services | 36,991 | 22,071 | - | 59,062 |
| Fines, Licences & Permit | 3,311 | 738 | - | 4,049 |
| Earnings on Investment | 14,158 | 405 | - | 14,563 |
| Miscellaneous | 4,768 | - | - | 4,768 |
| Total Cash Receipts | 251,883 | 126,422 | 663,792 | 1,042,097 |
| <u>Disbursements:</u> | | | | |
| Security of Persons and Property | 54,132 | 43,248 | - | 97,380 |
| Public Health Services | 4,731 | - | - | 4,731 |
| Leisure Time Activities | 6,116 | - | - | 6,116 |
| Community Environment | 188 | - | - | 188 |
| Basic Utility Service | 14,586 | - | - | 14,586 |
| Transportation | - | 42,850 | - | 42,850 |
| General Government | 97,388 | - | - | 97,388 |
| Capital Outlay | - | 69,035 | 730,712 | 799,747 |
| Total Cash Disbursements | 177,141 | 155,133 | 730,712 | 1,062,986 |
| Total Receipts Over (Under) Disbursements | 74,742 | (28,711) | (66,920) | (20,889) |
| <u>Other Financing Receipts (Disbursements)</u> | | | | |
| Sale of Fixed Assets | 8,170 | - | - | 8,170 |
| Transfers-In | - | 12,880 | 84,742 | 97,622 |
| Transfers-Out | (77,622) | - | - | (77,622) |
| Total Other Financing Receipts (Disbursements) | (69,452) | 12,880 | 84,742 | 28,170 |
| Excess of Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Disbursements | 5,290 | (15,831) | 17,822 | 7,281 |
| Fund Cash Balance, January 1 (restated) | 119,640 | 49,334 | - | 168,974 |
| Fund Cash Balance, December 31 | \$ 124,930 | \$ 33,503 | \$ 17,822 | \$ 176,255 |

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

VILLAGE OF OHIO CITY
VAN WERT COUNTY

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

| | <u>PROPRIETARY FUND TYPE</u> |
|---|----------------------------------|
| | <u>Enterprise</u> |
| Operating Cash Receipts | |
| Charges for Services | \$ 709,679 |
| Total Operating Cash Receipts | <u>709,679</u> |
| Operating Cash Disbursements | |
| Personal Services | 176,519 |
| Transportation | 900 |
| Contractual Services | 343,960 |
| Supplies and Materials | 86,339 |
| Capital Outlay | 26,424 |
| Total Operating Cash Disbursements | <u>634,142</u> |
| Operating Income | <u>75,537</u> |
| Non-Operating Cash Receipts | |
| Other Non-Operating Receipts | 3,174 |
| Proceeds from the Sale of Notes | 65,747 |
| Total Non-Operating Cash Receipts | <u>68,921</u> |
| Non-Operating Cash Disbursements: | |
| Debt Service - Principal | (40,212) |
| Debt Services - Interest | (22,146) |
| Other Non-operating Cash Disbursements | (6,426) |
| Total Non-Operating Cash Disbursements | <u>(68,784)</u> |
| Receipts over Disbursements Before Interfund Transfers | 75,674 |
| Transfers-Out | <u>(20,000)</u> |
| Net Receipts over Disbursements | 55,674 |
| Fund Cash Balance, January 1 | <u>363,358</u> |
| Fund Cash Balance, December 31 | <u>\$ 419,032</u> |

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

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Ohio City, Van Wert County, (the Village), is a body corporate and political established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The village is directed by a publicly-elected six-member Council governs the Village. The village provides general governmental services, including water, sewer and electric utilities, park operations, police services, and fire services.

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

B. Basis of Accounting

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

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

Repurchase agreements are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

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

Fire Levy Fund – This fund receives tax levy monies to be used for protection.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

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

Issue II Fund – This fund received OPWC monies for the payment of planning cost associated with the Carmean Street project.

4. Enterprise Funds

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

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Electric Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Facilities Construction Fund – This fund receives proceeds from charges for services, income tax transfers, and grants and loans offered by the Ohio Public Works Commission and the Ohio Water Development Agency. The proceeds are being used to construct new Sewer Facilities.

E. Budgetary Process

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

1. Appropriations

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

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

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

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2006 | 2005 |
|----------------------|-----------|-----------|
| Repurchase Agreement | 0 | \$595,287 |
| Demand deposits | \$657,948 | 0 |
| Total deposits | \$657,948 | \$595,287 |

In 2006, the Village changed from a repurchase agreement to an interest bearing checking account.

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

Investments: The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|--------------------------|------------------------|--------------------|
| General | \$238,759 | \$262,462 | \$23,703 |
| Special Revenue | 138,494 | 114,872 | (23,622) |
| Capital Projects | 532,099 | 43,513 | (488,586) |
| Enterprise | 909,068 | 912,005 | 2,937 |
| Total | \$1,818,420 | \$1,332,852 | (\$485,568) |

2006 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|--------------------------------|-------------------------------|------------------|
| General | \$289,541 | \$218,217 | \$71,324 |
| Special Revenue | 133,700 | 110,084 | 23,616 |
| Capital Projects | 500,098 | 33,703 | 466,395 |
| Enterprise | 1,060,560 | 908,187 | 152,373 |
| Total | \$1,983,899 | \$1,270,191 | \$713,708 |

2005 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|--------------------------|------------------------|--------------------|
| General | \$331,249 | \$260,053 | (\$71,196) |
| Special Revenue | 153,419 | 139,302 | (14,117) |
| Capital Projects | 808,604 | 748,534 | (60,070) |
| Enterprise | 832,237 | 778,600 | (53,637) |
| Total | \$2,125,509 | \$1,926,489 | (\$199,020) |

2005 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|--------------------------------|-------------------------------|------------------|
| General | \$303,519 | \$254,763 | \$48,756 |
| Special Revenue | 171,200 | 155,133 | 16,067 |
| Capital Projects | 792,614 | 730,712 | 61,902 |
| Enterprise | 985,929 | 722,926 | 263,003 |
| Total | \$2,253,262 | \$1,863,534 | \$389,728 |

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

4. PROPERTY TAX

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2006 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|--|-------------------------|----------------------|
| Ohio Public Works Commission Loan #1 | \$17,000 | 0.00% |
| Ohio Public Works Commission Loan #2 | 166,358 | 0.00% |
| Ohio Public Works Commission Loan #3 | 148,408 | 2.00% |
| Ohio Water Development Authority Loan #1 | 15,000 | 0.00% |
| Ohio Water Development Authority Loan #2 | 141,083 | 5.65% |
| Ohio Water Development Authority Loan #3 | 40,000 | 0.00% |
| Ohio Water Development Authority Loan #4 | 223,709 | 4.85% |
| AMP-Ohio Loan | <u>23,584</u> | 3.50% |
| Total | <u><u>\$775,142</u></u> | |

The Ohio Public Works Commission (OPWC) loans #1 and #3 and the Ohio Water Development Authority (OWDA) loan #2 relate to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The project has been split into phases and the OPWC and OWDA have approved loans to apply to specific phases of the project. OPWC loan #1 will be repaid in semiannual installments of \$1,000, with 0% interest, over 20 years. The OPWC #3 loan will be repaid in semiannual installments of \$5,302, including interest, over 30 years. The OWDA loan #2 will be paid in semiannual installments of \$5,255, including interest, over 30 years.

The Ohio Water Development Authority loan #1 relates to the planning phase of the water plant expansion project. The Ohio Public Works Commission (OPWC) loan #2 relates to a water plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OPWC loan will be repaid in semiannual installments of \$5,737, with 0% interest, over 20 years. The OWDA loan #1 will be repaid in annual installments of \$2,500 over 10 years.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

5. DEBT (Continued)

The Ohio Water Development Authority (OWDA) loan #3 relates to the planning phase of the water plant expansion project. The OWDA loan #3 will be repaid in annual installments of \$5,000 with 0% interest, over 10 years.

The Ohio Water Development Authority (OWDA) loan #4 relates to the planning phase of the water plant expansion project. The OWDA loan #4 is drawn from as needed to a maximum of \$256,088. This loan is to be rolled into a consolidated federal loan as of January 1, 2009. No payments are required to be paid before the roll-over, therefore, this loan is not included in the amortization schedule below. The loan had \$9,356 of capitalized interest accumulated during 2005 and \$9,804 during 2006.

The AMP-Ohio loan relates to the purchase of a new Bucket Truck for the Electric Department. The AMP-Ohio loan is to be repaid in monthly payments of \$910, with 3.5% interest, over 5 years.

Amortization of the above debt, including interest, follows:

| Year ending December 31: | OPWC Loan #1 | OPWC Loan #2 | OPWC Loan #3 | OWDA Loan #1 | OWDA Loan #2 | OWDA Loan #3 | AMP- Ohio Loan |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------------|
| 2007 | \$2,000 | \$11,473 | \$10,605 | \$2,500 | \$10,509 | \$5,000 | \$10,915 |
| 2008 | 2,000 | 11,473 | 10,605 | 2,500 | 10,509 | 5,000 | 10,915 |
| 2009 | 2,000 | 11,473 | 10,605 | 2,500 | 10,509 | 5,000 | 1,754 |
| 2010 | 2,000 | 11,473 | 10,605 | 2,500 | 10,509 | 5,000 | |
| 2011 | 2,000 | 11,473 | 10,605 | 2,500 | 10,509 | 5,000 | |
| 2012-2016 | 7,000 | 57,365 | 53,023 | 2,500 | 52,547 | 15,000 | |
| 2017-2021 | | 51,628 | 53,023 | | 52,547 | | |
| 2022-2026 | | | 15,908 | | 52,547 | | |
| 2027-2031 | | | | | 52,547 | | |
| 2032 | | | | | 5,254 | | |
| Total | <u>\$17,000</u> | <u>\$166,358</u> | <u>\$174,979</u> | <u>\$15,000</u> | <u>\$267,987</u> | <u>\$40,000</u> | <u>\$23,584</u> |

6. RETIREMENT SYSTEM

The Village's employees and officials belong to the Ohio Public Employees Retirement Systems (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5 percent, respectively, of their gross salaries. The Village contributed an amount equaling 13.70 and 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles; and
- Errors and omissions.

The Village maintains coverage as listed above through private carriers with limits of two million on liability, one million for personal injury, fifty thousand for fire damages and five thousand for medical expenses for any one person.

The Village also provides health insurance and dental coverage to full-time employees through a private carrier.

8. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

9. RESTATEMENT OF FUND BALANCE

The restatement of the Expendable Trust to the General Fund was to adjust income tax receipts due to inquiry with Village Management of use of income tax receipts, review of Village Ordinance 2-3-86 and the Auditor of State Village Handbook classifications of municipal income tax levied at the local level per Village Handbook 3-47 and has been restated as presented below:

| | Expendable Trust | General |
|---------------------------------------|-----------------------------|----------------|
| Fund Balance December 31, 2004 | \$108,472 | \$11,168 |
| Adjustment for income tax receipts | (\$108,472) | \$108,472 |
| Adjusted Fund Balance January 1, 2005 | \$0 | \$119,640 |

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

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

10. RELATED PARTIES

In 2005 and 2006 the Village paid Steve Vaske Construction to perform roof repair and other miscellaneous repairs. The Village paid Vaske Construction \$10,000 in 2005 and \$12,189 in 2006. Steve Vaske Construction is owned by President of Village Council, Steve Vaske.

11. TRANSFERS

Transfers are used to move revenues from funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; to return money to the fund from which it was originally provided once a project is completed; and to transfer capital assets. Several transfers occurred in 2005 and 2006. The Following transfers occurred in 2005 and 2006:

In 2005, the Village made a transfer from the General Fund to the Street Fund in the amount of \$2,880 and to the Fire Fund in the amount of \$10,000 upon approval from Village Council. The Village transferred from the General Fund to the Capital Project Street Reconstruction and Capital Project Equipment in the amount of \$64,742 upon approval from Village Council. The Electric fund transferred \$10,000 in 2005 to the Capital Project Street Construction and the Water and Sewer each transferred \$5,000 to the Capital Project Street Construction upon approval from Court of Common Pleas.

In 2006, the Village made a transfer from the General Fund of \$62,400 into numerous funds and consist of the following: \$3,250 to the Street Fun; \$34,080 to the Capital Project Street Reconstruction and Capital Project Equipment; and \$25,069 to the Electric Fund. All transfers were approved by Village Council.

12. SUBSEQUENT EVENTS

The Village was awarded a \$500,000 community development block grant by United States Department of Housing and Urban Development on August 1, 2007. As of the date of the report (10/15/2007), no receipts had been received by the Village.

The Village was awarded on July 26, 2007 a loan from the Ohio Water Development Authority not to exceed \$137,198 at 0% interest for 20 years.

13. COMPLIANCE

Contrary to Ohio Rev. Code Section 5705.41 (D), the Village did not properly certify funds prior to a commitment being paid during 2005 and 2006. 28% of the expenditures in 2006 and 15% in 2005 tested were not properly certified contrary to Section 5705.41 (D).

The Village invested in a sweep repurchase agreement. Contrary to Ohio Rev. Code Section 135.14(B) (5), the Village invested in Goldman Sachs Prime Obligation Fund which is not an eligible mutual fund for the repurchase agreement.

Caudill & Associates, CPA's

725 5th Street
Portsmouth, OH 45662

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants
Kentucky Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of Council
Village of Ohio City
Van Wert County
Ohio City, Ohio 45874

We have audited the accompanying financial statements of the Village of Ohio City (the Village), Van Wert County, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Village's financial statements, and have issued our report thereon dated October 15, 2007, wherein we noted the Village uses a comprehensive basis of accounting other than generally accepted accounting principles. As disclosed in Note 9 to the financial statements, the Village restated fund balance to adjust income tax receipts from the Expendable Trust to the General Fund due to inquiry with Village Management of use of income tax receipts, review of Village Ordinance 2-3-86 and the Auditor of State Village Handbook classifications of municipal income tax levied at the local level per Village Handbook 3-47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as items 2006-003, 2004-004, 2006-005, 2006-006, 2006-007, and 2006-008.

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

Village of Ohio City

Van Wert County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Page 2

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiency described in the accompanying schedule of findings and responses to be a material weakness in internal control over financial reporting as item 2006-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Responses as items No. 2006-001 and 2006-002.

The Village's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the Village in a separate letter dated October 15, 2007.

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

Caudill & Associates, CPAs

Caudill & Associates, CPA's

October 15, 2007

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005**

| |
|--|
| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2006-001

Non-compliance Citation – Ohio Rev. Code Section 135.14(B)(5)

Ohio Rev. Code Section 135.14(B)(5) allows the treasurer or governing board to invest or deposit any part of all of the interim moneys in no-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) of this Section and repurchase agreements secured by such obligations. The following obligations are described in Ohio Rev. Code Section 134.14(B)(1) and (2): (1) United States treasury bills, notes, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States. Nothing in the classification of eligible obligations set forth in division (B)(1) of this Section or in the classifications of eligible obligations set forth in divisions (B)(2) to (7) of this Section shall be construed to authorize any investment in stripped principal or interest obligations of such eligible obligations; (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan 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.

The Village invested in a sweep repurchase agreement secured by Goldman Sachs Prime Obligation Fund, which is not an eligible mutual fund. At December 31, 2005, the Village held \$595, 287 in the sweep repurchase agreement, 100% of Village funds.

The repurchase agreement was secured by Goldman Sachs Prime Obligation Fund, which may be invested in United States treasury obligations, United States government securities, bank obligations, commercial paper, short-term obligations of corporations and other entities, repurchase agreements, asset backed and receivable backed securities, municipal securities, custodial receipts, unrated securities, and investment companies. The Goldman Sachs Prime Obligation Fund is not an eligible mutual fund for the repurchase agreement.

The Village should review the Ohio Compliance Supplement Chapter 5 and the identified Ohio Revised Code Sections for allowable investments and only invest in authorized obligations.

Village Response:

Village officials will review the Ohio Compliance Supplement Chapter 5 and the identified Code Sections for allowable investments and only invest in authorized obligations.

VILLAGE OF OHIO CITY
VAN WERT COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-002

Non-compliance Citation - Certification of Expenditures

The Ohio Rev. Code Section 5705.41 (D) states that no order or contract involving the expenditure of money is to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

An exception to this requirement provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of the warrant ("Then and Now"). The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Prior certification was not obtained for 28 percent of the expenditures in 2006 and 15 percent of expenditures in 2005

Certification that funds are available should be obtained prior to purchasing goods and services to prevent possible overspending of resources and/or the obligation of amounts in excess of funds available. All purchase orders should be reviewed and signed by the Village Clerk and Village Council.

Village Response:

Village officials will monitor the proper certifying of expenditures more closely.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2006-003

Material Weakness – Village Ordinance 2-3-86

According to Village Ordinance 2-3-86, the purpose of the Village income tax is to provide funds for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and facilitates and capital improvements of the Village of Ohio City.

The Village posted all income tax revenue to an expendable trust fund rather than the general fund. By posting income tax revenue to an expendable trust, the tax revenue can not legally be used for the purpose for which it was established.

We recommend the Clerk/Treasurer begin posting all income tax revenue to the general fund in order to comply with Village Ordinance 2-3-86.

Village Response:

The Village will follow the auditor’s recommendation by posting all income tax revenue to the general fund.

FINDING NUMBER 2006-004

Significant Deficiency – Segregation of Duties - Income Tax

In an entity the size of the Village, it is usually not cost effective to employ the basic internal controls necessary to provide management with reasonable assurance that all related procedures are functioning properly. The Income Tax Clerk is responsible for receiving cash, preparing duplicate receipts, depositing, and preparing income tax ledgers.

When one person performs incompatible functions, there is the possibility for errors or irregularities to occur without being detected in the normal course of business, or in a timely basis.

In order to help ensure the reliability and integrity of financial transactions , we recommend management, finance committee, or other representative independent of the procedures being performed should periodically review the job descriptions and duties of the employees, determine if policies and procedures for job performance are being followed, periodically review procedures performed and acknowledge reviews by initialing and dating reviews of various procedures, initiate job rotation procedures where cost effective, and employ any other procedures designed to act as compensating controls resulting from a lack of segregation of duties.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2006-004 (CONTINUED)

Village Response:

The Village Council will develop internal control procedures that make, to the best extent possible, the segregation of duties for the receipting, expenditure, and cycles, and for the reconciliation of records.

FINDING NUMBER 2006-005

Significant Deficiency – Segregation of Duties/Accounting Records

In an entity the size of the Village, it is usually not cost effective to employ the basic internal accounting controls necessary to provide management with a reasonable assurance that all related procedures are functioning properly. The Clerk is responsible for all functions relating to the accounting records, the Clerk is the Utility Collector, and the Clerk is the Income Tax Administrator.

Without the proper separation of duties, there is the possibility that errors or irregularities could occur and not be detected in a timely period.

To strengthen internal accounting and administrative controls, we recommend that a finance committee be appointed, comprised of members of the Council, to periodically review monthly financial statements to determine; whether proper accounting procedures are being followed; and that the bank reconciliations, cash journal and ledgers support the statements submitted. To achieve this, the following could be performed:

- Reconcile the bank statement and investments with the cash journal balance to ensure that the amounts correspond, and that the balance of the cash journal included all active and invested money under the control of the Village.
- Review billings from retirement systems, payroll withholdings, insurance, utilities, and other payable accounts to ensure that the obligations of the Village are being paid in a timely manner.
- Review utility account ledgers to ensure all customers are billed and that collections are properly recorded and deposited.

In addition to performing such a review, officials' signatures or initials should be affixed to the documents reviewed, and a notation of such review and the results thereof should be noted in the Village minutes.

Village Response:

The Village Council will develop internal control procedures that make, to the best extent possible, the segregation of duties for the receipting, expenditure, and cycles, and for the reconciliation of records.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2006-006

Significant Deficiency – Dual Signatures

During our test of disbursements, it was noted the Clerk/Treasurer is the only required signatory on all checks.

The lack of a second required signatory allows for potential fraud in that only one individual is authorizing the check prior to disbursement.

The Village should adopt a written policy that requires a minimum of two signatures on all checks written from the Village's account for amounts over \$500. The second signatory should be an individual that serves on the Village Council.

Village Response:

No response from Village Officials.

FINDING NUMBER 2006-007

Significant Deficiency – Identification of Individuals Subject to Taxation

The Village does not currently have an efficient method of identifying individuals subject to taxation.

Per testing and inquiry of Clerk/Treasurer, there is no control in place to assure that all individuals subject to taxation are filing tax returns. Furthermore, no penalties are assessed for those not filing.

The lack of procedures to identify taxpayers results in loss of revenue to the Village.

Since the Village depends highly on the utility meter books for an accurate listing of individuals subject to taxation, we recommend the Village require all individuals to register with the Village taxation department before utility services can be provided. This will prevent residents of the Village from going undetected by the Village taxation department.

Village Response:

Village officials will implement procedures to more easily identify individuals subject to taxation.

**VILLAGE OF OHIO CITY
VAN WERT COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005**

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

FINDING NUMBER 2006-008

Significant Deficiency – Reconciliation to Subsidiary Records – Payroll

The underlying subsidiary records of the appropriation ledger should support the amounts reported in the financial statements. There was no evidence that the Clerk periodically reconciles the payroll register to amounts recorded in the appropriation ledger.

The lack of reconciliations could result in not detecting errors or irregularities during the normal course of business. The Clerk should perform periodic reconciliations between the subsidiary ledgers and the appropriation ledger of the Village to assure accuracy of the recording and proper posting to the correct fund and accounts.

Village Response:

The Clerk/Treasurer will perform periodic reconciliations between the subsidiary ledgers and the appropriation ledger of the Village to assure accuracy of the recording and proper posting to the correct fund and accounts.

**Village of Ohio City
Van Wert County**
*Schedule of Prior Audit Findings
For the Fiscal Years Ended December 31, 2006 and 2005*

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|------------------|---|
| 2004-001 | ORC Section – 135.14(B)(5) | No | Repeated as Finding 2006-001 |
| 2004-002 | ORC Section – 5705.41(D) | No | Repeated as Finding 2006-002 |
| 2002-30281-001 | Finding for Recovery – Overpayment to council member Dale Boroff | No | Not repaid – owes \$270 |
| 2002-30281-003 | Finding for Recovery – Overpayment of council member Greg Waterman | No | Not repaid – owes \$230 |



Mary Taylor, CPA
Auditor of State

VILLAGE OF OHIO CITY

VAN WERT 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
DECEMBER 11, 2007