

**Village of Chippewa Lake
Medina County, Ohio**

* * *

Basic Financial Statements

December 31, 2005



**Auditor of State
Betty Montgomery**

Members of Council
Village of Chippewa Lake
P. O. Box 25
Chippewa Lake, Ohio 44215-0025

We have reviewed the *Independent Auditor's Report* of the Village of Chippewa Lake, Medina County, prepared by Rea & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. 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.

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 Chippewa Lake is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 25, 2006

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Village of Chippewa Lake, Medina County, Ohio

For the Year Ended December 31, 2005

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June 9, 2006

To the Members of Council
Village of Chippewa Lake
Medina County, Ohio

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Chippewa Lake, Medina County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Chippewa Lake'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the 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 opinions.

As described more fully in Note 2, 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, each major fund, and the aggregate remaining fund information of the Village of Chippewa Lake, Medina County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Street Construction Maintenance and Repair, and Pochedley Park funds thereof for the year ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 9, 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 grants 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of Chippewa Lake
Independent Auditor's Report
Page 2

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Rea & Associates, Inc.

Village of Chippewa Lake, Medina County, Ohio
Management's Discussion and Analysis
December 31, 2005
(Unaudited)

The discussion and analysis of the Village of Chippewa Lake, Medina County, Ohio (the Village's) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Villages' modified cash basis of accounting. The intent of this discussion and analysis is to look at the Village's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Village's financial performance.

The Management's Discussion and Analysis (the "MD&A") is an element of the new reporting model adopted by the Government Accounting Standards Board (GASB) in their Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments" issued in June of 1999. Since this is the first year of financial presentation under GASB Statement No. 34, some analyses with the prior year data is not available. Future analyses will be comparative.

Financial Highlights

Key Financial Highlights for 2005 are as follows:

- General Receipts accounted for approximately \$167,872 in revenue or 29.4% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for approximately \$403,269 or 70.6% of total revenues of \$571,141.
- Total program expenses were \$580,179 in Governmental Activities.
- Net assets of Governmental Activities decreased \$9,038, which represents a 3.5% decrease from 2004.

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 Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

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

Village of Chippewa Lake, Medina County, Ohio
Management's Discussion and Analysis
December 31, 2005
(Unaudited)

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 accounting principals generally accepted in the United States of America (GAAP). 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 Village as a Whole

Statement of Net Assets and the Statement of Activities

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

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the 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 nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes. The statement of net assets and the statement of activities reflect how the Village did financially during 2005, within the limitations of modified cash basis accounting.

In the statement of net assets and the statement of activities the Village funds are reported as follows:

Governmental Activities All of the Village's activities are reported here, including security of persons and property and general governmental services.

Village of Chippewa Lake, Medina County, Ohio
Management's Discussion and Analysis
 December 31, 2005
 (Unaudited)

Reporting the Village's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Village uses many funds to account for financial transactions. However, these fund financial statements focus on the Village's most significant funds. The funds of the Village are reported as governmental funds.

Governmental Funds - The Village's activities are reported in governmental funds. The governmental fund statements provide a detailed view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent to finance the Village's programs. The Village's major governmental funds are the general fund, the street construction, maintenance and repair special revenue fund, the Pochedley park special revenue fund, and the Issue II capital project fund. The programs reported in government funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The Village as a Whole

Recall that the statement of net assets provides the perspective of the Village as a whole. Table 1 provides a summary of Village's net assets for 2005. Since the Village did not prepare financial statements in this format in 2004, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Table 1
Net Assets
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 252,369
Total Assets	<u>\$ 252,369</u>
 Net Assets	
Restricted for:	
Street Construction	\$ 17,969
Park Improvements	83,117
Other Purposes	6,249
Unrestricted	145,034
Total Net Assets	<u>\$ 252,369</u>

Village of Chippewa Lake, Medina County, Ohio
Management's Discussion and Analysis
 December 31, 2005
 (Unaudited)

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

Table 2
Changes in Net Assets
For the Year Ending December 31, 2005

	<u>Governmental Activities</u>
<i>Receipts</i>	
<i>Program Cash Receipts:</i>	
Charges for Services	\$ 11,871
Operating Grants and Contributions	48,613
Capital Grants and Contributions	342,785
<i>General Receipts:</i>	
Property Taxes	102,598
Excise Taxes	404
Grants and Entitlements, not Restricted	57,430
Interest	1,332
Miscellaneous	6,108
<i>Total Receipts</i>	571,141
 <i>Program Disbursements</i>	
General Government	56,665
Security of Persons and Property	57,806
Leisure Time Activities	31,531
Community Environment	15,806
Transportation	59,838
Capital Outlay	358,533
<i>Total Disbursements</i>	580,179
<i>Change in Net Assets</i>	(9,038)
Net Assets, January 1, 2005	261,407
Net Assets, December 31, 2005	\$ 252,369

Village of Chippewa Lake, Medina County, Ohio
Management's Discussion and Analysis
December 31, 2005
(Unaudited)

Program receipts represent 70.6% of total receipts in 2005 and consist primarily of capital grants and contributions.

General receipts represent 29.4% of the Village's total receipts, and of this amount, over 61.1% are property taxes. State and federal grants and entitlements primarily make up the balance of the Village's general receipts. Other receipts are insignificant and somewhat unpredictable revenue sources.

Disbursements for general government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of the Council and other departments.

Security of persons and property are the costs of police, fire protection and emergency medical services. Leisure Time Activities is the maintenance of the parks providing leisure activities during the year. Transportation is the cost of maintaining the roads. Capital outlay primarily represents the costs associated with the acquisition and improvements to the Villages' facilities and infrastructure.

Governmental Activities

The first column on the statement of activities on page 11 lists the major services provided by the Village. The next column identifies the costs of providing these services. The most significant program disbursements for governmental activities were for capital outlay and transportation, which account for 61.8% and 10.3% of cash disbursements for governmental activities, respectively. The next three columns of the statement, entitled charges for services, operating grants and contributions and capital grants and contributions, identify amounts paid by users who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net (disbursements)/receipts column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which draws on the general receipts of the Village, which is primarily made up of property and income taxes assessed on the citizens and business of the Village and other grants and entitlements that are not restricted for particular purposes.

Table 3 summarizes the total cost and net cost of providing services to the residents and local businesses of the Village. Since the Village did not prepare financial statements in this format in 2004, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Village of Chippewa Lake, Medina County, Ohio
Management's Discussion and Analysis
 December 31, 2005
 (Unaudited)

Table 3
Total and Net Cost of Service

	Governmental Activities	
	Total Cost of Service	Net Cost of Service
<i>Program Disbursements</i>		
General Government	\$ 56,665	\$ (56,665)
Security of Persons and Property	57,806	(57,806)
Leisure Time Activities	31,531	(21,000)
Community Environment	15,806	(14,466)
Transportation	59,838	(11,225)
Capital Outlay	358,533	(15,748)
	<u>\$ 580,179</u>	<u>\$ (176,910)</u>
<i>Total Disbursements</i>		

The dependence upon general receipts is apparent as over 30.5% of governmental activities are supported through these general receipts.

The Village's Funds

Total governmental funds had receipts of \$571,141 and disbursements of \$580,179. The fund balance of the General Fund increased \$15,540 or 12% and the fund balance of the Street Construction, Maintenance and Repair fund decreased by \$13,599 or 43.1%. The fund balance of the Pochedley Park fund increased \$1,765 or 2.2%.

General Fund Budgeting Highlights

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

The Village uses site-based budgeting and the budgeting system which are designed to tightly control total site budgets but provide flexibility for site management.

For the General fund, actual receipts and other financing sources fell short of the final budgeted revenues and other financing sources by almost \$51,000 due to an expected sale of capital assets that did not happen. No amendments were made to the General fund budget.

Village of Chippewa Lake, Medina County, Ohio
Management's Discussion and Analysis
December 31, 2005
(Unaudited)

Actual disbursements and other financing uses of the general fund were \$153,662 below the final budgeted amount of \$313,059. The primary factor contributing to this was expenditures for general government services and leisure time activities being approximately \$69,000 and \$68,000, respectively below budgeted amounts. This was achieved by Council putting the building of the new community center on hold.

Capital Assets

The Village maintains capital asset listings of its land, buildings, infrastructure, and vehicles. Other capital assets are not maintained on their detailed capital asset listing. These records are not required to be presented in the financial statements.

Current Issues

The Village is continuing to upgrade the storm sewers by participating in the Issue II funding. There are many phases planned in the future, but as of now, the Village has completed Phase One and is anticipating completion of Phase Two during 2006. The Village will apply for additional funding through Issue II next year, so that we may continue the storm sewer improvements that the Village needs. The Village has completed replacing the bridge that is located on Beachside Blvd., near McCabe's Creek. It has been widened and is now structurally sound for many years to come. Council is still currently deliberating on plans to build a new community center for the Village. The purpose of the new community center would be to have a facility large enough to hold the Village meetings, voting place for our residents, and hopefully many future community events. The Village continues to maintain and improve the parks and beautiful lakefront community for the residents.

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 show the Village's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cathy Osborn, Clerk/Treasurer, of the Village of Chippewa Lake, P.O. Box 25, Chippewa Lake, Ohio 44215-0025.

Village of Chippewa Lake, Medina County, Ohio

Statement of Net Assets - Modified Cash Basis

December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 252,369</u>
<i>Total Assets</i>	<u><u>\$ 252,369</u></u>
Net Assets	
Restricted for:	
Street Construction	\$ 17,969
Park Improvements	83,117
Other Purposes	6,249
Unrestricted	<u>145,034</u>
<i>Total Net Assets</i>	<u><u>\$ 252,369</u></u>

See accompanying notes to the basic financial statements

Village of Chippewa Lake, Medina County, Ohio

Statement of Activities - Modified Cash Basis

For the Year Ended December 31, 2005

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
Governmental Activities					
General Government	\$ 56,665	\$ 0	\$ 0	\$ 0	\$ (56,665)
Security of Persons and Property	57,806	0	0	0	(57,806)
Leisure Time Activities	31,531	10,531	0	0	(21,000)
Community Environment	15,806	1,340	0	0	(14,466)
Transportation	59,838	0	48,613	0	(11,225)
Capital Outlay	358,533	0	0	342,785	(15,748)
Total	\$ 580,179	\$ 11,871	\$ 48,613	\$ 342,785	(176,910)
		General Receipts			
		Property Taxes Levied for General Purposes			102,598
		Excise Taxes			404
		Grants and Entitlements not Restricted to Specific Programs			57,430
		Interest			1,332
		Miscellaneous			6,108
		<i>Total General Receipts</i>			<u>167,872</u>
		Change in Net Assets			(9,038)
		<i>Net Assets, Beginning of Year</i>			<u>261,407</u>
		<i>Net Assets, End of Year</i>			<u>\$ 252,369</u>

See accompanying notes to the basic financial statements.

Village of Chippewa Lake, Medina County, Ohio
Statement of Modified Cash Basis Assets and Fund Balances
 Governmental Funds
 December 31, 2005

	General	Street Construction Maintenance and Repair	Pochedley Park Fund	Issue II Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 145,034	\$ 17,969	\$ 83,117	\$ 0	\$ 6,249	\$ 252,369
<i>Total Assets</i>	<u>\$ 145,034</u>	<u>\$ 17,969</u>	<u>\$ 83,117</u>	<u>\$ 0</u>	<u>\$ 6,249</u>	<u>\$ 252,369</u>
Fund Balances						
Unreserved:						
Undesignated, Reported in:						
General Fund	\$ 145,034	\$ 0	\$ 0	\$ 0	\$ 0	\$ 145,034
Special Revenue Funds	0	17,969	83,117	0	6,249	107,335
Capital Project	0	0	0	0	0	0
<i>Total Fund Balances</i>	<u>\$ 145,034</u>	<u>\$ 17,969</u>	<u>\$ 83,117</u>	<u>\$ 0</u>	<u>\$ 6,249</u>	<u>\$ 252,369</u>

See accompanying notes to the basic financial statements.

Village of Chippewa Lake, Medina County, Ohio
Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Street Construction Maintenance and Repair	Pochedley Park Fund	Issue II Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Property and Other Local Taxes	\$ 103,002	\$ 0	\$ 0	\$ 0	\$ 2,374	\$ 105,376
Charges for Services	10,531	0	0	0	0	10,531
Fines, Licenses and Permits	1,340	0	0	0	0	1,340
Intergovernmental	57,430	46,067	0	327,670	18,156	449,323
Interest	1,332	172	518	0	0	2,022
Miscellaneous	1,302	0	1,247	0	0	2,549
<i>Total Receipts</i>	<u>174,937</u>	<u>46,239</u>	<u>1,765</u>	<u>327,670</u>	<u>20,530</u>	<u>571,141</u>
Disbursements						
Current:						
General Government	54,254	0	0	0	2,411	56,665
Security of Persons and Property	57,806	0	0	0	0	57,806
Leisure Time Activities	31,531	0	0	0	0	31,531
Community Environment	15,806	0	0	0	0	15,806
Transportation	0	59,838	0	0	0	59,838
Capital Outlay	0	0	0	327,670	30,863	358,533
<i>Total Disbursements</i>	<u>159,397</u>	<u>59,838</u>	<u>0</u>	<u>327,670</u>	<u>33,274</u>	<u>580,179</u>
<i>Net Change in Fund Balances</i>	15,540	(13,599)	1,765	0	(12,744)	(9,038)
<i>Fund Balances, Beginning of Year</i>	<u>129,494</u>	<u>31,568</u>	<u>81,352</u>	<u>0</u>	<u>18,993</u>	<u>261,407</u>
<i>Fund Balances, End of Year</i>	<u>\$ 145,034</u>	<u>\$ 17,969</u>	<u>\$ 83,117</u>	<u>\$ 0</u>	<u>\$ 6,249</u>	<u>\$ 252,369</u>

See accompanying notes to the basic financial statements.

Village of Chippewa Lake, Medina County, Ohio

Statement of Receipts, Disbursements and Changes

In Fund Balance - Budget and Actual -Budget Basis

General Fund

For the Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property and Other Local Taxes	\$ 93,248	\$ 93,248	\$ 103,002	\$ 9,754
Charges for Services	9,696	9,696	10,531	835
Fines, Licenses and Permits	510	510	1,340	830
Intergovernmental	64,119	64,119	57,430	(6,689)
Interest	300	300	1,332	1,032
Miscellaneous	1,500	1,500	1,302	(198)
<i>Total receipts</i>	<u>169,373</u>	<u>169,373</u>	<u>174,937</u>	<u>5,564</u>
Disbursements				
Current:				
General Government	122,901	122,901	54,254	68,647
Security of Persons and Property	66,367	66,367	57,806	8,561
Leisure Time Activities	99,991	99,991	31,531	68,460
Community Environment	23,800	23,800	15,806	7,994
<i>Total Disbursements</i>	<u>313,059</u>	<u>313,059</u>	<u>159,397</u>	<u>153,662</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(143,686)</u>	<u>(143,686)</u>	<u>15,540</u>	<u>159,226</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	56,400	56,400	0	(56,400)
<i>Net Change in Fund Balance</i>	<u>(87,286)</u>	<u>(87,286)</u>	<u>15,540</u>	<u>102,826</u>
<i>Fund Balance, Beginning of Year</i>	129,494	129,494	129,494	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance, End of Year</i>	<u>\$ 42,208</u>	<u>\$ 42,208</u>	<u>\$ 145,034</u>	<u>\$ 102,826</u>

See accompanying notes to the basic financial statements.

Village of Chippewa Lake, Medina County, Ohio

Statement of Receipts, Disbursements and Changes

In Fund Balance - Budget and Actual -Budget Basis

Street Construction Maintenance and Repair

For the Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Intergovernmental	\$ 40,075	\$ 40,075	\$ 46,067	\$ 5,992
Interest Income	125	125	172	47
<i>Total receipts</i>	<u>40,200</u>	<u>40,200</u>	<u>46,239</u>	<u>6,039</u>
Disbursements				
Transportation	<u>70,000</u>	<u>70,000</u>	<u>59,838</u>	<u>10,162</u>
<i>Net Change in Fund Balance</i>	(29,800)	(29,800)	(13,599)	16,201
<i>Fund Balance, Beginning of Year</i>	31,568	31,568	31,568	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance, End of Year</i>	<u>\$ 1,768</u>	<u>\$ 1,768</u>	<u>\$ 17,969</u>	<u>\$ 16,201</u>

See accompanying notes to the basic financial statements.

Village of Chippewa Lake, Medina County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Pochedley Park Fund
For the Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Interest	\$ 200	\$ 200	\$ 518	\$ 318
Miscellaneous	0	0	1,247	1,247
<i>Total receipts</i>	<u>200</u>	<u>200</u>	<u>1,765</u>	<u>1,565</u>
Disbursements				
Contractual Services	<u>80,000</u>	<u>80,000</u>	<u>0</u>	<u>80,000</u>
<i>Net Change in Fund Balance</i>	(79,800)	(79,800)	1,765	81,565
<i>Fund Balance, Beginning of Year</i>	81,352	81,352	81,352	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance, End of Year</i>	<u>\$ 1,552</u>	<u>\$ 1,552</u>	<u>\$ 83,117</u>	<u>\$ 81,565</u>

See accompanying notes to the basic financial statements.

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Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

NOTE 1: REPORTING ENTITY

The Village of Chippewa Lake, Medina County, is a body political and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected six member Council. The Village provides general governmental services, including park operations leisure time activities and road maintenance. The Village contracts police services with the County Sheriff's department.

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

Basis of Presentation

For 2005, the Village has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34 for financial reporting on a modified cash basis, which is a basis other than accounting principals generally accepted in the United States of America (GAAP). The Village has also implemented GASB Statement No. 38 and No. 40, for certain note disclosures. There was no effect on the beginning fund balances caused by the implementation of these Standards due to no change in the basis of accounting.

This modified cash basis of accounting differs from GAAP. Generally accepted accounting principles include all relevant GASB pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. 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.

In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Village's accounting policies:

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

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

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental 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. Fiduciary funds are reported by type. The Village has no enterprise or fiduciary funds.

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. The Village has no proprietary funds.

Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Village are all classified as governmental.

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Village's major governmental funds:

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.

Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

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

Pochedley Park Fund The Pochedley Park fund accounts for private donations received to be used on the development and maintenance of the Village park and grounds.

Issue II Fund The Issue II fund is a capital project fund used to account for direct payments from the state to contractors for capital improvements.

The other governmental funds of the Village are used to account for proceeds from specific sources such as Police, FEMA or for the acquisition or construction of facilities, to include any maintenance on assets of the Village.

Basis of Accounting

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

As a result of the use of this 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.

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.

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 object level for all funds. Outstanding encumbrances at year end are canceled and reappropriated in the subsequent year and unencumbered appropriations lapse at year end.

Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

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

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

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively. During 2005, the Village invested in STAROhio.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$1,332, which includes \$275 assigned from other Village funds.

Restricted Assets

Cash and cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributions, grantors, or laws of other governments, or imposed by law through constitutional provision or enabling legislation.

Capital Assets

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

Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

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.

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 Note 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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 an other financing source nor capital outlay disbursements are reported at inception. Lease payments are reported when paid.

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 primarily include resources restricted for police, FEMA and streets programs.

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.

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.

Interfund Transactions

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 Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

NOTE 3: CHANGE IN BASIS OF ACCOUNTING

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.

With the implementation of the provisions of GASB Statement No. 34, it was determined that the Village's Expendable Trust fund should be classified as a Special Revenue fund. No restatement presentation is considered necessary since there is no effect on the beginning governmental fund balance.

NOTE 4: 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, Streets Construction, Maintenance and Repair fund, and the Pochedley Park fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). There are no outstanding encumbrances at year end, therefore, there is no difference in the fund balances.

NOTE 5: EQUITY IN POOLED CASH

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.

Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
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.

Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of District cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited.

Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions

Deposits At fiscal year end, the carrying amount of the Village's deposits was \$241,555 and the bank balance was \$243,626. Of the bank balance:

1. \$100,000 was covered by federal depository insurance; and
2. \$143,626 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Village to a successful claim by the FDIC.

Investments

Investments are reported at fair value. STAROhio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. As of December 31, 2005, the Village had the following investments:

<u>Issue</u>	<u>Fair Value</u>
STAROhio	\$ 10,814

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Village's policy indicates that investments must mature within five years, unless matched to a specific obligation or debt of the Village. During the year, the Village's only investment was STAROhio, which has a maturity of less than one year.

Credit Risk – The Village's only investment at December 31, 2005 was STAROhio, which is rated AAAM by Standard & Poor's.

Concentration of Credit Risk - The Village's investment policy is to diversify its investments by security type and institution. With the exception of U.S. Treasury securities and authorized pools, no more than 50% of the entity's total investment portfolio will be invested in a single security type or with a single financial institution. During the year, the Village's only investment was STAROhio.

NOTE 6: PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village of Chippewa Lake. The State Board of Tax Equalization adjusts these

Village of Chippewa Lake, Medina County, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2005

rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property taxes to the County by each April 30.

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

NOTE 7: RETIREMENT SYSTEMS

Public Employees Retirement System

The Village Council, Village Clerk, and other employees of the Village belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost sharing, multiple employer plan. This plan provides retirement benefits, including postretirement health care, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. The Public Employee Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Contribution rates are also prescribed by the Ohio Revised Code. For 2005, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

NOTE 8: RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Automobile
- Public Officials Liability

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

June 9, 2006

To the Members of Council
Village of Chippewa Lake
Medina County, Ohio

INDEPENDENT AUDITOR'S 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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Chippewa Lake, Medina County, Ohio (the "Village") as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated June 9, 2006, wherein we noted the Village revised its financial presentation comparable to the requirements of Government Accounting Standards No. 34. 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 of Chippewa Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted a matter involving the internal control over financial reporting and its operation that we consider to be a material weakness, which is disclosed in the accompanying schedule of findings as item 2005-001. We also noted other immaterial matters involving the internal control over financial reporting that we have reported to management of Village of Chippewa Lake in a separate letter dated June 9, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Chippewa Lake'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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 9, 2006.

This report is intended solely for the information and use of Council Members, management, and others within the village, and it is not intended to be and should not be used by anyone other than those specified parties.

Rea & Associates, Inc.

**Village of Chippewa Lake
Medina County
Schedule of Findings
December 31, 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2005-001

Material Weakness

Auditor of State Technical Bulletin 2002-004 requires that when payments are made directly to a contractor, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the appropriate fund equal to the amount disbursed by the State.

During 2005, the State of Ohio Public Works Commission (OPWC) paid \$327,670 (Issue II Grant monies) directly to contractors. These transactions were not appropriately accounted for based on the aforementioned criteria. This condition resulted in a loss of accountability over the revenue and expenditures of the Issue II project.

When the Village participates in an Issue II project, it must for each project awarded, establish a capital projects fund to account for both the revenue and expenditure of the Issue II monies and local matching funds. The financial statement for 2005 was adjusted to properly present the Issue II state grant.



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**VILLAGE OF CHIPPEWA LAKE
MEDINA 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
AUGUST 8, 2006**