



**Auditor of State
Betty Montgomery**

VILLAGE OF OTTOVILLE
PUTNAM COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Proprietary Fund Type - For the Year Ended December 31, 2005.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2004.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2004.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19
Schedule of Prior Audit Findings	22

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**Auditor of State
Betty Montgomery**

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005, interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

October 10, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Ottoville, Putnam County, (the Village) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village started processing its financial transactions with the Auditor of State's Uniform Accounting Network (UAN) in July 2004. *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004.

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, 2005 and 2004, 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, 2005 and 2004, 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 and reserves for encumbrances of the Village of Ottoville, Putnam, County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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, 2005 and 2004. 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 10, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

October 10, 2006

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$54,874	\$63,348		\$118,222
Municipal Income Tax	444,311			444,311
Special Assessments	240			240
Intergovernmental Receipts	94,719	41,255		135,974
Charges for Services	44,835			44,835
Fines, Licenses, and Permits	230			230
Earnings on Investments	13,159	1,023		14,182
Miscellaneous	17,772	944		18,716
	<u>670,140</u>	<u>106,570</u>		<u>776,710</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	170,691	13,676		184,367
Public Health Services	29			29
Transportation	36,579	159,293		195,872
General Government	87,590	15		87,605
Capital Outlay			\$3,700	3,700
	<u>294,889</u>	<u>172,984</u>	<u>3,700</u>	<u>471,573</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>375,251</u>	<u>(66,414)</u>	<u>(3,700)</u>	<u>305,137</u>
Other Financing Receipts and (Disbursements):				
Transfers-In		50,000		50,000
Advances-In	3,700			3,700
Transfers-Out	(60,000)			(60,000)
Advances-Out	(3,700)			(3,700)
	<u>(60,000)</u>	<u>50,000</u>		<u>(10,000)</u>
Total Other Financing Receipts and (Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	315,251	(16,414)	(3,700)	295,137
Fund Cash Balances, January 1	464,381	99,473	9,100	572,954
Fund Cash Balances, December 31	<u>\$779,632</u>	<u>\$83,059</u>	<u>\$5,400</u>	<u>\$868,091</u>
Reserves for Encumbrances, December 31	<u>\$466</u>	<u>\$177</u>		<u>\$643</u>

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$253,330
Miscellaneous	13,873
	<u>267,203</u>
Operating Cash Disbursements:	
Personal Services	52,998
Fringe Benefits	14,861
Contractual Services	126,260
Supplies and Materials	39,595
Capital Outlay	1,050
	<u>234,764</u>
Operating Income	<u>32,439</u>
Non-Operating Cash Receipts:	
Proceed from OWDA Loan	498,017
Earnings on Investments	1,462
	<u>499,479</u>
Non-Operating Cash Disbursements:	
Redemption of Principal	30,728
Interest and Other Fiscal Charges	16,260
Capital Outlay	492,651
	<u>539,639</u>
Excess of Disbursements over Receipts Before Interfund Transfers and Advances	(7,721)
Transfers-In	10,000
Advances-In	3,700
Advance-Out	(3,700)
	<u>2,279</u>
Net Receipts Over Disbursements	2,279
Fund Cash Balances, January 1	<u>326,319</u>
Fund Cash Balances, December 31	\$328,598
Reserve for Encumbrances, December 31	<u>\$297</u>

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$53,345	\$37,428		\$90,773
Municipal Income Tax	387,743			387,743
Intergovernmental Receipts	56,307	40,547		96,854
Charges for Services	19,644			19,644
Fines, Licenses, and Permits	256			256
Earnings on Investments	8,634	812		9,446
Miscellaneous	18,115	2,338		20,453
	<u>544,044</u>	<u>81,125</u>		<u>625,169</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	95,484	13,346		108,830
Public Health Services	479			479
Basic Utility Services	27,425			27,425
Transportation	72,393	150,892		223,285
General Government	117,458			117,458
Capital Outlay			\$231,085	231,085
	<u>313,239</u>	<u>164,238</u>	<u>231,085</u>	<u>708,562</u>
Total Cash Disbursements	<u>313,239</u>	<u>164,238</u>	<u>231,085</u>	<u>708,562</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>230,805</u>	<u>(83,113)</u>	<u>(231,085)</u>	<u>(83,393)</u>
Other Financing Receipts and (Disbursements):				
Transfers-In		100,000	230,000	330,000
Transfers-Out	(340,000)			(340,000)
	<u>(340,000)</u>	<u>100,000</u>	<u>230,000</u>	<u>(10,000)</u>
Total Other Financing Receipts/(Disbursements)	<u>(340,000)</u>	<u>100,000</u>	<u>230,000</u>	<u>(10,000)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(109,195)	16,887	(1,085)	(93,393)
Fund Cash Balances, January 1	<u>\$573,576</u>	<u>\$82,586</u>	<u>\$10,185</u>	<u>\$666,347</u>
Fund Cash Balances, December 31	<u><u>\$464,381</u></u>	<u><u>\$99,473</u></u>	<u><u>\$9,100</u></u>	<u><u>\$572,954</u></u>

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$240,453
Miscellaneous	15,458
	255,911
Operating Cash Disbursements:	
Personal Services	49,901
Fringe Benefits	11,607
Contractual Services	77,325
Supplies and Materials	40,485
Other	675
Capital Outlay	26,477
	206,470
Operating Income	49,441
Non-Operating Cash Receipt:	
Earnings on Investments	1,183
	1,183
Non-Operating Cash Disbursements:	
Redemption of Principal	29,329
Interest and Other Fiscal Charges	17,409
	46,738
Excess of Receipts Over Disbursements Before Interfund Transfers	3,886
Transfers-In	10,000
Net Receipts Over Disbursements	13,886
Fund Cash Balances, January 1	312,433
Fund Cash Balances, December 31	\$326,319

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Ottoville, Putnam County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides governmental services, water and sewer utilities, and police services. The Village appropriates general fund money to support a volunteer fire department.

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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.

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

3. Capital Project Funds

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

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

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund 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. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

3. Encumbrances

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

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH

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

	2005	2004
Demand deposits	\$1,146,144	\$809,273
Certificates of deposit	50,545	90,000
Total deposits	\$1,196,689	\$899,273

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$699,805	\$670,140	(\$29,665)
Special Revenue	199,237	156,570	(42,667)
Capital Projects	60,000		(60,000)
Enterprise	864,055	776,682	(87,373)
Total	\$1,823,097	\$1,603,392	(\$219,705)

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY – (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$632,866	\$355,355	\$277,511
Special Revenue	235,000	173,161	61,839
Capital Projects	60,000	3,700	56,300
Enterprise	471,200	774,700	(303,500)
Total	\$1,399,066	\$1,306,916	\$92,150

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$491,729	\$544,044	\$52,315
Special Revenue	162,083	181,125	19,042
Capital Projects	230,000	230,000	
Enterprise	263,800	267,094	3,294
Total	\$1,147,612	\$1,222,263	\$74,651

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,025,000	\$653,239	\$371,761
Special Revenue	214,500	164,238	50,262
Capital Projects	232,747	231,085	1,662
Enterprise	482,203	253,208	228,995
Total	\$1,954,450	\$1,301,770	\$652,680

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.

Public utilities are also taxed on personal and real property located within the Village.

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.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2005, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan #1	\$ 31,976	
Ohio Public Works Commission Loan #2	221,444	1.00%
Mortgage Revenue Bonds	263,237	5.00%
Total	<u>\$ 516,657</u>	

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

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

The Sewerage System First Mortgage Revenue Bond was entered into for the purpose of paying the cost of constructing a municipal sewage collection and treatment system in 1977. The debt has a 5 percent interest rate and is scheduled to be paid in full in 2017. The debt agreement contains a provision requiring the Village to have an annual audit. The Village did not have an annual audit in 2004. As of the date of these financial statements, it is unknown what action, if any, the debt holder intends to take with regard to noncompliance with this provision.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. DEBT – (Continued)

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

Year ending December 31:	OPWC Loans	Mortgage Revenue Bonds
2006	\$ 17,027	\$ 30,162
2007	17,027	30,312
2008	17,027	30,412
2009	17,027	29,462
2010	17,027	30,512
2011-2015	81,575	150,010
2016-2020	67,367	53,910
2021-2025	40,422	
Total	\$ 274,499	\$ 354,780

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. For 2005 and 2004, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

8. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT – (Continued)

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

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

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004.

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT – (Continued)

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately were \$17,802 in 2004 and \$18,472 in 2005.

9. COMPLIANCE

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Capital Projects Fund by \$498,017 for the year ended December 31, 2005. The Village also violated Ohio law by posting more appropriations to the Village's appropriation ledger than was authorized by Council in the Street Construction and Maintenance Fund by \$16,354, Permissive Motor Vehicle License Fund by \$24,300, Water Operating Fund by \$1,708, Sewer Operating Fund by \$33,983, and the Enterprise Improvement Fund by \$595,655 in 2005. Also, the Village did not properly certify disbursements as required by Ohio law

Contrary to the requirements of § 13 (c) of the Indenture Mortgage for the Sewerage System First Mortgage Revenue Bonds the Village did not have an annual audit in 2004.



**Auditor of State
Betty Montgomery**

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

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

To the Village Council:

We have audited the financial statements of the Village of Ottoville, Putnam County, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 10, 2006, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*".

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated October 10, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-005. In a separate letter to the Village's management dated October 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the finance committee, management, and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 10, 2006

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

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

Finding for Recovery Repaid under Audit

Village of Ottoville Resolution Number T-296 employed Joseph C. Schroeder as Village Solicitor for the calendar years 2004 and 2005 at the rate of seventy five dollars per hour, payable quarterly or semi-annually based on itemized statements furnished to the Clerk-Treasurer.

Below is a summary of the hourly charges made by Mr. Schroeder for the period 1/1/04 through 12/31/05:

Hours Worked	Hourly Rate	Amount Due	Amount Paid	Overpayment
78.75	\$75.00	\$5,906.25	\$6,013.75	\$107.50

In accordance with the facts and pursuant to Ohio Revised Code § 117.28, a finding for recovery for public monies illegally expended is hereby issued against Joseph Schroeder, Village Solicitor, Jeanne Wannemacher, Clerk-Treasurer, and her bonding company, Western Surety Insurance Company, jointly and severally, in favor of the General Fund in the total amount of one hundred and seven dollars and fifty cents (\$107.50).

The finding was reimbursed to the Village's General Fund on October 6, 2006, when Mr. Schroeder was paid for his 9/28/06 billing to the Village which was reduced by \$107.50.

Officials' Response

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

FINDING NUMBER 2005-002

Noncompliance Citation

The Indenture Mortgage for the Sewerage System First Mortgage Revenue Bonds § 13 (c) requires the Village to have an annual audit.

The Village did not have an annual audit in 2004. We recommend the Village obtain the required annual audit or request a waiver of the requirement from the bond holder.

Officials' Response

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

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code § 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying 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.

Village of Ottoville
Putnam County

**FINDING NUMBER 2005-003
(Continued)**

Every such contract made without such a certificate shall void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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 Council can authorize the drawing of a warrant for the payment of the amount due. The Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Council.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

None of the 60 expenditures tested were certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Certification is not only required by Ohio law, but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by the Council.

To improve controls over disbursements, we recommend all Village disbursements receive prior certification of the Fiscal Officer and the Council members periodically review the disbursements made to ensure they are within the appropriations adopted by the Council members, certified by the Fiscal Officer, and recorded against appropriations.

Officials' Response

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

**FINDING NUMBER 2005-004
(Continued)**

Noncompliance Citation

Ohio Rev. Code § 5705.41 (B) states in part that no subdivision is to expend money unless it has been appropriated as provided in this chapter. As of December 31, 2005, expenditures exceeded appropriations by \$498,017 in the Capital Projects Fund.

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Council members approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response

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

FINDING NUMBER 2005-005

Noncompliance Citation

Ohio Rev. Code §5705.40 provides that appropriation measures may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. The legally adopted appropriations were different than the posted appropriations in the following funds:

<u>Fund</u>	<u>Approved Appropriations</u>	<u>Posted Appropriations</u>	<u>Variance</u>
As of December 31, 2005:			
Street Construction and Maintenance	\$180,000	\$196,354	\$16,354
Pemissive Motor Vehicle License	500	24,800	24,300
Water Operating Fund	100,000	101,708	1,708
Sewer Operating Fund	250,000	283,983	33,983
Enterprise Improvement Fund		595,655	595,655

Posting more appropriations than authorized by Council could lead to deficit spending. We recommend only Council approved appropriation measures be posted to the accounting system.

Officials' Response

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

**VILLAGE OF OTTOVILLE
PUTNAM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECMEBER 31, 2005 and 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	ORC § 5705.10 Deficit fund balances	Yes	
2003-002	ORC § 5705.41(B) Expenditures in excess of appropriation	No	This finding has not been corrected and is repeated in this report as finding 2005-004.
2003-003	ORC § 5705.41(D) Certification of funds	No	This finding has not been corrected and is repeated in this report as finding 2005-003.
2003-004	Mortgage Revenue Bonds 13(c) annual audit	No	This finding has not been corrected and is repeated in this report as finding 2005-002.



**Auditor of State
Betty Montgomery**

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800-282-0370

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VILLAGE OF OTTOVILLE

PUTNAM COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 23, 2006**