



**VILLAGE OF RAWSON
HANCOCK COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005



**Auditor of State
Betty Montgomery**

VILLAGE OF RAWSON
HANCOCK COUNTY

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**Auditor of State
Betty Montgomery**

Village of Rawson
Hancock County
5700 County Road 37
P.O. Box 525
Rawson, Ohio 45881-0525

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 black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

October 18, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Rawson
Hancock County
5700 County Road 37
P.O. Box 525
Rawson, Ohio 45881-0525

To the Village Council:

We have audited the accompanying financial statements of Village of Rawson, Hancock 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 processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

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 Village of Rawson, Hancock 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 18, 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 18, 2006

**VILLAGE OF RAWSON
HANCOCK 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	\$9,320			\$9,320
Special Assessments		\$13,835		13,835
Intergovernmental Receipts	47,106	43,052	\$18,600	108,758
Earnings on Investments	3,948	243		4,191
Miscellaneous	7,279	172		7,451
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	67,653	57,302	18,600	143,555
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	11,829	15,984		27,813
Public Health Services	1,449			1,449
Leisure Time Activities	5,536			5,536
Community Environment		1,956		1,956
Basic Utility Services		2,276		2,276
Transportation		11,296		11,296
General Government	54,437			54,437
Debt Service:				
Principal Payments		5,654		5,654
Interest Payments		1,687		1,687
Capital Outlay		14,087	8,058	22,145
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	73,251	52,940	8,058	134,249
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(5,598)	4,362	10,542	9,306
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Receipts:				
Sale of Fixed Assets	25,540			25,540
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	19,942	4,362	10,542	34,846
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	58,322	39,501	73,587	171,410
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$78,264</u>	<u>\$43,863</u>	<u>\$84,129</u>	<u>\$206,256</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Reserves for Encumbrances, December 31	<u>\$9,282</u>	<u>\$1,225</u>		<u>\$10,507</u>

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

**VILLAGE OF RAWSON
HANCOCK 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	\$119,271
Operating Cash Disbursements:	
Personal Services	20,265
Fringe Benefits	3,994
Contractual Services	7,651
Supplies and Materials	27,150
Other	21
Total Operating Cash Disbursements	59,081
Operating Income	60,190
Non-Operating Cash Receipts:	
Intergovernmental Receipts	130,171
Special Assessments	31,857
Earnings on Investments	2,787
Total Non-Operating Cash Receipts	164,815
Non-Operating Cash Disbursements:	
Debt Service	
Redemption of Principal	44,838
Interest and Other Fiscal Charges	61,047
Total Non-Operating Cash Disbursements	105,885
Net Receipts Over Disbursements	119,120
Fund Cash Balances, January 1	135,919
Fund Cash Balances, December 31	\$255,039
Reserve for Encumbrances, December 31	\$4,817

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

**VILLAGE OF RAWSON
HANCOCK 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	\$8,198			\$8,198
Special Assessments		\$12,117		12,117
Intergovernmental Receipts	47,067	19,190	\$96,418	162,675
Charges for Services	440			440
Earnings on Investments	2,322	144		2,466
Miscellaneous	4,817	100		4,917
	<u>62,844</u>	<u>31,551</u>	<u>96,418</u>	<u>190,813</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	14,944	5,517		20,461
Public Health Services	1,496			1,496
Leisure Time Activities	4,860			4,860
Community Environment	45			45
Basic Utility Services		895		895
Transportation		13,007		13,007
General Government	56,920			56,920
Debt Service:				
Principal Payments		8,854	1,267,000	1,275,854
Interest Payments		1,020	47,818	48,838
Capital Outlay		26,000	95,322	121,322
	<u>78,265</u>	<u>55,293</u>	<u>1,410,140</u>	<u>1,543,698</u>
Total Cash Disbursements Over Cash Receipts	<u>(15,421)</u>	<u>(23,742)</u>	<u>(1,313,722)</u>	<u>(1,352,885)</u>
Other Financing Receipts				
Sale of Bonds			1,267,000	1,267,000
Other Debt Proceeds		22,500		22,500
Sale of Fixed Assets		2,500		2,500
		<u>25,000</u>	<u>1,267,000</u>	<u>1,292,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(15,421)	1,258	(46,722)	(60,885)
Fund Cash Balances, January 1	<u>73,743</u>	<u>38,243</u>	<u>120,309</u>	<u>232,295</u>
Fund Cash Balances, December 31	<u>\$58,322</u>	<u>\$39,501</u>	<u>\$73,587</u>	<u>\$171,410</u>
Reserves for Encumbrances, December 31	<u>\$6,547</u>	<u>\$2,222</u>	<u>\$1,500</u>	<u>\$10,269</u>

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

**VILLAGE OF RAWSON
HANCOCK 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	\$117,243
Operating Cash Disbursements:	
Personal Services	20,002
Fringe Benefits	4,514
Contractual Services	4,822
Supplies and Materials	31,672
Other	25
Capital Outlay	22,500
Total Operating Cash Disbursements	83,535
Operating Income	33,708
Non-Operating Cash Receipts:	
Intergovernmental Receipts	9,083
Special Assessments	72,320
Earnings on Investments	222
Other Debt Proceeds	22,500
Total Non-Operating Cash Receipts	104,125
Non-Operating Cash Disbursements:	
Debt Service	
Redemption of Principal	42,352
Interest and Other Fiscal Charges	7,624
Total Non-Operating Cash Disbursements	49,976
Net Receipts Over Disbursements	87,857
Fund Cash Balances, January 1	48,062
Fund Cash Balances, December 31	\$135,919
Reserve for Encumbrances, December 31	\$5,921

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

**VILLAGE OF RAWSON
HANCOCK 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 Rawson, Hancock County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities and park operations. The Village contracts with the Hancock County Sheriff's department to provide security of persons and property. The Village appropriates general fund money and has a special assessment in the special revenue fund 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

The Village values certificates of deposit at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 Funds:

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

**VILLAGE OF RAWSON
HANCOCK COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Permissive Motor Vehicle License Fund -This fund receives tax money from Hancock County for roadwork.

3. Capital Project Funds

This fund accounts 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:

Sanitary Sewer Construction Fund - This fund receives grants and bond proceeds from the United States Department of Agriculture for the construction of a waste water system for the Village.

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 RAWSON
HANCOCK 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.

2. RECLASSIFICATION OF FUNDS

In the prior years, the Fire Hydrant Fund was reported as a Capital Projects Fund. The Fire Hydrant Fund receives special assessments to be used for repairs and maintenance on fire hydrants. The Special Revenue classification better reflects this activity. The effect changes the beginning January 1, 2004, Special Revenue Fund balance from \$33,353 to \$38,243 for a increase of \$4,890 and a change to the beginning Capital Projects Fund balance from \$125,199 to \$120,309 for a decrease of \$4,890.

3. EQUITY IN POOLED CASH

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

	2005	2004
Demand deposits	\$391,295	\$307,329
Certificates of deposit	70,000	
Total deposits	\$461,295	\$307,329

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

**VILLAGE OF RAWSON
HANCOCK COUNTY**

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

4. 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	\$88,565	\$93,193	\$4,628
Special Revenue	27,250	57,302	30,052
Capital Projects	50,000	18,600	(31,400)
Enterprise	243,700	284,086	40,386
Total	\$409,515	\$453,181	\$43,666

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$85,631	\$82,533	\$3,098
Special Revenue	62,026	54,165	7,861
Capital Projects	151,917	8,058	143,859
Enterprise	386,267	169,783	216,484
Total	\$685,841	\$314,539	\$371,302

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$61,508	\$62,844	\$1,336
Special Revenue	28,200	56,551	28,351
Capital Projects	1,367,000	1,363,418	(3,582)
Enterprise	115,200	221,368	106,168
Total	\$1,571,908	\$1,704,181	\$132,273

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$92,448	\$84,812	\$7,636
Special Revenue	61,106	57,515	3,591
Capital Projects	1,500,073	1,411,640	88,433
Enterprise	177,598	139,432	38,166
Total	\$1,831,225	\$1,693,399	\$137,826

**VILLAGE OF RAWSON
HANCOCK COUNTY**

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

5. 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.

6. DEBT

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

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #2852	\$289,134	2.00%
Ohio Water Development Authority Loan #2853	15,178	2.00%
Ohio Public Work Commission Loan #CM02C	85,000	
Ohio Public Work Commission Loan #CT31B	242,681	
Mortgage Revenue Bonds	1,267,000	4.50%
Loan	41,415	4.45%
Total	<u>\$1,940,408</u>	

The Ohio Water Development Authority (OWDA) loans were issued to finance utility construction and improvements within the Village. Water receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Ohio Public Works Commission Loan CM02C was approved for \$100,000 for improvements due to sewer line installation. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Ohio Public Works Commission Loan CT31B was approved for \$277,350 for improvements due to sewer line installation. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Mortgage Revenue Bonds were issued to finance construction of a wastewater treatment plant. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to meet the debt covenant requirements of the bonds. The mortgage revenue bond covenant requires the Village to establish and fund a debt service reserve fund, included as a debt service fund. The balance in the fund at December 31, 2005 is \$70,000.

The Village obtained a \$45,000 loan for the purchase of a garage to store Village equipment. The garage collateralizes the loan.

**VILLAGE OF RAWSON
HANCOCK COUNTY**

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

6. DEBT – (Continued)

Amortization of the above debt, including interest, follows:

Year Ending December 31:	OWDA Loan #2852	OWDA Loan #2853	OPWC Loan #CM02C	OPWC Loan #CT31B	Mortgage Revenue Bonds	Loan
2006	\$25,478	\$1,090	\$5,000	\$6,934	\$57,015	\$5,600
2007	25,478	1,090	5,000	13,867	70,015	5,600
2008	25,478	1,090	5,000	13,867	70,430	5,600
2009	25,477	1,090	5,000	13,867	69,800	5,600
2010	25,477	1,090	5,000	13,867	70,170	5,600
2011-2015	127,386	5,449	25,000	69,338	351,095	22,400
2016-2020	76,440	5,449	25,000	69,338	350,810	
2021-2025		1,634	10,000	41,603	352,350	
2026-2030					350,410	
2031-2035					350,460	
2036-2040					350,565	
2041-2044					280,935	
Total	<u>\$331,214</u>	<u>\$17,982</u>	<u>\$85,000</u>	<u>\$242,681</u>	<u>\$2,724,055</u>	<u>\$50,400</u>

The Village also had an outstanding lease at December 31, 2005 in the amount of \$15,019 for a truck. The truck is used for sanitary sewer operations and street maintenance and the lease is paid from the Sewer Fund and Street Maintenance, Construction, and Repair Fund.

7. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. 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 Government is exposed to various risks of property and casualty losses, and injuries to employees.

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

**VILLAGE OF RAWSON
HANCOCK COUNTY**

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

8. RISK MANAGEMENT – (Continued)

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per 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.

**VILLAGE OF RAWSON
HANCOCK COUNTY**

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

8. RISK MANAGEMENT – (Continued)

Financial Position

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

<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 Government's share of these unpaid claims is approximately \$15,780.

9. CONTINGENT LIABILITIES

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



**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 Rawson
Hancock County
5700 County Road 37
P.O. Box 525
Rawson, Ohio 45881-0525

To the Village Council:

We have audited the financial statements of Village of Rawson, Hancock County (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated October 18, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted 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 18, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated October 18, 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 the Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 18, 2006

VILLAGE OF RAWSON
HANCOCK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 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 5705.41 (D) Clerk/Treasurer's certification	No	Partially corrected. We will repeat in the management letter.



**Auditor of State
Betty Montgomery**

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800-282-0370

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VILLAGE OF RAWSON

HANCOCK 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
NOVEMBER 9, 2006**