



Mary Taylor, CPA
Auditor of State

VILLAGE OF KALIDA
PUTNAM COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Kalida
Putnam County
110 S. Broad Street
P.O. Box 495
Kalida, Ohio 45853-0495

To the 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 an 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 adverse 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 12, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Kalida
Putnam County
110 S. Broad Street
P.O. Box 495
Kalida, Ohio 45853-0495

To the Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to 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.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require village's to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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

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

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 June 12, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.



Mary Taylor, CPA
Auditor of State

June 12, 2007

**VILLAGE OF KALIDA
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, 2006**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$61,755	\$17,369	\$79,124
Municipal Income Tax	165,873		165,873
Donations	11,758		11,758
Intergovernmental Receipts	88,769	145,764	234,533
Charges for Services	62,148	194	62,342
Fines, Licenses, and Permits	3,811		3,811
Earnings on Investments	19,633	1,179	20,812
Miscellaneous	14,406	1,450	15,856
	<u>428,153</u>	<u>165,956</u>	<u>594,109</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	63,165	76,525	139,690
Public Health Services	38		38
Leisure Time Activities	1,767		1,767
Basic Utility Services	2,846		2,846
Transportation		50,650	50,650
General Government	301,452		301,452
Capital Outlay	284,510	131,598	416,108
	<u>653,778</u>	<u>258,773</u>	<u>912,551</u>
Total Cash Disbursements			
Total Cash Disbursements Over Cash Receipts	<u>(225,625)</u>	<u>(92,817)</u>	<u>(318,442)</u>
Other Financing Receipts and (Disbursements):			
Transfers-In		73,405	73,405
Advances-In	75,096	75,096	150,192
Transfers-Out	(73,405)		(73,405)
Advances-Out	(141,096)	(75,096)	(216,192)
	<u>(139,405)</u>	<u>73,405</u>	<u>(66,000)</u>
Total Other Financing Receipts and (Disbursements)			
Excess of Cash Disbursements and Other Financing Disbursements Over Cash Receipts and Other Financing Receipts	(365,030)	(19,412)	(384,442)
Fund Cash Balances, January 1	<u>357,229</u>	<u>87,772</u>	<u>445,001</u>
Fund Cash Balances, December 31	<u>(\$7,801)</u>	<u>\$68,360</u>	<u>\$60,559</u>
Reserves for Encumbrances, December 31	<u>\$1,960</u>		<u>\$1,960</u>

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

**VILLAGE OF KALIDA
PUTNAM COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$250,395
Operating Cash Disbursements:	
Personal Services	65,400
Fringe Benefits	24,369
Contractual Services	46,996
Supplies and Materials	236,822
Total Operating Cash Disbursements	373,587
Operating Loss	(123,192)
Non-Operating Cash Receipts:	
Municipal Income Tax	165,873
Other Non-Operating Receipts	41,486
Total Non-Operating Cash Receipts	207,359
Non-Operating Cash Disbursements:	
Capital Outlay	10,175
Redemption of Principal	131,502
Interst and Other Fiscal Charges	28,568
Total Non-Operating Cash Disbursements	170,245
Excess of Disbursements Over Receipts Before Advances and Sale of Fixed Assets	(86,078)
Sale of Fixed Assets	8,626
Advances-In	66,000
Net Disbursements Over Receipts	(11,452)
Fund Cash Balances, January 1	423,607
Fund Cash Balances, December 31	\$412,155
Reserve for Encumbrances, December 31	\$45,709

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

**VILLAGE OF KALIDA
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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$56,699	\$40,314	\$97,013
Municipal Income Tax	157,760		157,760
Special Assessments	30,861		30,861
Intergovernmental Receipts	79,305	106,294	185,599
Charges for Services	73,403	3	73,406
Fines, Licenses, and Permits	10,545		10,545
Earnings on Investments	21,630	262	21,892
Miscellaneous	4,676		4,676
	<u>434,879</u>	<u>146,873</u>	<u>581,752</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	46,142	78,337	124,479
Public Health Services	50		50
Leisure Time Activities	11,408		11,408
Basic Utility Services	2,731		2,731
Transportation	5,280	20,778	26,058
General Government	174,691		174,691
Capital Outlay	154,378	87,275	241,653
	<u>394,680</u>	<u>186,390</u>	<u>581,070</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>40,199</u>	<u>(39,517)</u>	<u>682</u>
Other Financing Receipts and (Disbursements):			
Transfers-In		10,000	10,000
Advances-In	7,000	3,116	10,116
Transfers-Out	(10,000)		(10,000)
Advances-Out	(58,116)		(58,116)
	<u>(61,116)</u>	<u>13,116</u>	<u>(48,000)</u>
Excess of Cash Disbursements and Other Financing Cash Disbursements Over Cash Receipts and Other Financing Receipts	(20,917)	(26,401)	(47,318)
Fund Cash Balances, January 1	<u>378,146</u>	<u>114,173</u>	<u>492,319</u>
Fund Cash Balances, December 31	<u>\$357,229</u>	<u>\$87,772</u>	<u>\$445,001</u>
Reserves for Encumbrances, December 31	<u>\$10,750</u>	<u>\$3,500</u>	<u>\$14,250</u>

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

**VILLAGE OF KALIDA
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	\$259,733
Operating Cash Disbursements:	
Personal Services	59,181
Fringe Benefits	23,800
Contractual Services	40,881
Supplies and Materials	108,304
Total Operating Cash Disbursements	232,166
Operating Income	27,567
Non-Operating Cash Receipts:	
Municipal Income Tax	157,760
Earnings on Investments	124
Other Non-Operating Receipts	22,000
Total Non-Operating Cash Receipts	179,884
Non-Operating Cash Disbursements:	
Capital Outlay	65,511
Redemption of Principal	104,946
Interest and Other Fiscal Charges	33,914
Total Non-Operating Cash Disbursements	204,371
Excess of Receipts Over Disbursements Before Interfund Advances	3,080
Advances-In	55,000
Advances-Out	(7,000)
Net Receipts Over Disbursements	51,080
Fund Cash Balances, January 1	372,527
Fund Cash Balances, December 31	\$423,607
Reserve for Encumbrances, December 31	\$10,400

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

**VILLAGE OF KALIDA
PUTNAM COUNTY**

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

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 Kalida, Putnam, 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, park operations, 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. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

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 private-purpose 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.

Police Fund – This fund receives tax levy money for police protection services.

**VILLAGE OF KALIDA
PUTNAM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Volunteer Fire Department Fund – This fund receives grant funds for the volunteer fire department.

3. 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.

Capital Improvement Fund – This fund receives municipal income taxes to finance water and sewer line expansion/reconstruction.

Water Tower Debt Fund - This fund receives municipal income taxes to repay a loan from the Enterprise Reserve Fund.

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. The 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.

3. Encumbrances

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

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

**VILLAGE OF KALIDA
PUTNAM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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. The carrying amount of cash at December 31 was as follows:

	2006	2005
Demand deposits	\$38,797	\$166,526
Certificates of deposit	433,917	702,082
Total deposits	472,714	868,608

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

3. BUDGETARY ACTIVITY

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

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$370,780	\$428,153	\$57,373
Special Revenue	23,194	239,361	216,167
Enterprise	427,283	466,380	39,097
Total	\$821,257	\$1,133,894	\$312,637

**VILLAGE OF KALIDA
PUTNAM COUNTY**

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

3. BUDGETARY ACTIVITY – (Continued)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$737,483	\$729,143	\$8,340
Special Revenue	139,841	258,773	(118,932)
Enterprise	794,512	589,541	204,971
Total	\$1,671,836	\$1,577,457	\$94,379

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$338,917	\$434,879	\$95,962
Special Revenue	83,678	156,873	73,195
Enterprise	363,591	439,617	76,026
Total	\$786,186	\$1,031,369	\$245,183

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$722,046	\$415,430	\$306,616
Special Revenue	204,868	189,890	14,978
Enterprise	724,117	446,937	277,180
Total	\$1,651,031	\$1,052,257	\$598,774

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the 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 financial statements include homestead and rollback amounts the state pays as 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.

Tangible personal property tax is assessed by the property owners, who must file a list of such 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 behalf of the Village.

**VILLAGE OF KALIDA
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(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 50 percent to the general fund, 41 percent to the enterprise capital improvement fund, and 9 percent to the enterprise water tower debt service fund.

6. DEBT

Debt outstanding at December 31, 2006, was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$289,723	7.00%
Ohio Public Works Commission Loans	46,408	
Total	\$336,131	

The Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) loans relates to a water and sewer plant expansion project that were mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semiannual installments over 20 years.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA - Principal	OWDA - Interest	OPWC Loans
2007	\$20,480	\$21,729	\$7,233
2008	22,016	20,193	7,232
2009	23,667	18,542	7,232
2010	25,442	16,766	7,232
2011	27,350	14,858	7,232
2012-2016	170,768	40,280	10,247
Total	\$289,723	\$132,368	\$46,408

In addition to the debt described above, the Village has made a loan from its Enterprise Reserve Fund to its Enterprise Water Tower Debt Fund. This loan was issued in 2002 for \$146,000 at 4.5% to be repaid quarterly over nine years starting in 2004. The loan was used, to help finance the local portion of a water tower construction project. The Village will repay the principal and interest with municipal income tax monies. At December 31, 2006 the balance remaining outstanding for this loan was \$44,629.

**VILLAGE OF KALIDA
PUTNAM COUNTY**

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

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 2006 and 2005, OP&F participants contributed 10% of their wages. For 2006 and 2005, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

8. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

**VILLAGE OF KALIDA
PUTNAM COUNTY**

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

8. RISK MANAGEMENT – (Continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2005 and 2004 (the latest information available)

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

9. RELATED PARTY

On October 17, 2005, a motion was made to approve payment of \$120,000, for an incentive package to encourage Trilogy Health Care to open a facility within the Village limits. Councilman Richard Bockrath abstained from this vote. On August 17, 2006 a Village check in the amount of \$120,000 was issued to Union Bank for a certified check to the Putnam County Community Improvement Corporation (CIC). On August 21, 2006, the CIC, in conjunction with Trilogy Health Care, purchased 3 acres of land valued at \$139,997 from Mr. Bockrath.

10. COMPLIANCE

- Contrary to Ohio law certain Village expenditures were not certified as required by Ohio Revised Code § 5705.41(D)(1).
- Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the following funds at December 31, 2006, State Highway Fund, Police Levy Fund, Volunteer Fire Department Grant Fund, Water Fund, Sewer Fund, and Water Enterprise Tower Fund and at December 31, 2005 the Police Levy Fund, Permissive Tax Fund, Water Fund, Sewer Fund and Water Enterprise Tower Fund.
- During 2006, the Village Council approved advancing \$200,000 from the Water Debt Reserve Fund to the General Fund. The monies advanced to the General Fund were used to pay for purchase of land. There is no statutory authority for the Water Debt Reserve Fund to expend monies for land purchase for the Village. Therefore, the financial statements have been adjusted to remove this advance, causing a deficit cash balance in the General Fund of \$7,801 at year end. As of June 12, 2007, management has not developed a formalized plan to address this condition.

11. SUBSEQUENT EVENT

In 2007, the Council and Board of Public Affairs awarded the West Side/ UM Project to Underground Utilities of Monroeville in the amount of \$752,562.

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Mary Taylor, CPA

Auditor of State

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

Village of Kalida
Putnam County
110 S. Broad Street
P.O. Box 495
Kalida, Ohio 45853-0495

To the Village Council:

We have audited the financial statements of the Village of Kalida, Putnam County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 12, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. 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 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

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A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting; 2006-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe the significant deficiency described above is a material weakness.

We noted certain matters that we reported to the Village's management in a separate letter dated June 12, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-003.

We also noted certain noncompliance or other matters not requiring inclusion in the report that we reported to the Village's management in a separate letter dated June 12, 2007.

We intend this report solely for the information and use of the audit committee, management, and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

June 12, 2007

VILLAGE OF KALIDA
PUTNAM COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Revised 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 of the subdivision. The fiscal officer must certify 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. Further, contracts and order for expenditures lacking prior certification shall be null and void.

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.

Forty-nine percent of the transactions tested, were not certified by the Fiscal Officer at the time the commitment was incurred. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2006-001
 (Continued)**

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 disbursements receive prior certification of the Fiscal Officer and the Council members periodically review the expenditures made to ensure they are within the appropriations adopted by the Council members, certified by the Fiscal Officer, and recorded against appropriations.

We also reported this matter in the management letter of our audit of the 2004 and 2003 financial statements.

Management's Response

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

FINDING NUMBER 2006-002

Noncompliance Citation

Ohio Revised Code § 5705.40, states that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation. Transfers may be made by resolution or ordinance. Additionally, the Ohio Revised Code § 5705.41(B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated.

The Village failed to approve amended appropriations by a resolution.

The following funds were found to have expenditures in excess of appropriations at year end:

December 31, 2006	Appropriation Authority	Budgetary Expenditures	Variance
State Highway Fund	\$11,271	\$12,125	(\$854)
Police Levy Fund	23,323	76,524	(53,201)
Volunteer Fire Department Grant Fund	43,092	122,273	(79,181)
Water Fund	101,853	141,943	(40,090)
Sewer Fund	107,222	162,336	(55,114)
Water Enterprise Tower Fund	35,583	41,485	(5,902)
December 31, 2005			
Police Levy Fund	76,141	78,337	(2,196)
Permissive Tax Fund	22,000	24,963	(2,963)
Water Fund	125,166	155,550	(30,384)
Sewer Fund	121,374	159,831	(38,457)
Water Enterprise Tower Fund	17,599	22,000	(4,401)

**FINDING NUMBER 2006-002
(Continued)**

We recommend the Council approve all amended appropriations by a resolution and the Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Council approve increased expenditure levels by increasing appropriations and amending resources, if necessary.

We also reported this matter in the management letter of our audit of the 2004 and 2003 financial statements.

Management's Response

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

FINDING NUMBER 2006-003

Noncompliance Citation

Ohio Revised Code § 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year and cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Village Council) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

Furthermore, the aforementioned section requires that all revenue derived from a source other than general property tax which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. This section also provides that money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates money from one fund was used to cover the expenses of another fund.

In 2006, the Village advanced \$200,000 from the Water Debt Reserve Fund to the General Fund. The monies advanced to the General Fund were used to pay for purchase of land. There is no statutory authority for the Water Debt Reserve Fund to expend monies for land purchase for the Village. This advance was approved by Council.

**FINDING NUMBER 2006-003
(Continued)**

As a result of the lack of statutory authority for making this advance, an adjustment was necessary to reduce the General Fund by \$200,000 and to increase the Water Debt Reserve Fund by \$200,000 for 2006. In addition, these adjustments, (with which management agrees) are reflected in the accompanying financial statements. This, in conjunction with an adjustment for an incorrect distribution of income tax resulted in a deficit fund balance in the General Fund \$9,364 as of December 31, 2006. In addition, in 2005, the Village incorrectly posted a water tap fee to the Sewer Fund which had to be adjusted, which resulted in a deficit fund balance in the Sewer Fund of \$670 in the Sewer Fund as of December 31, 2005.

To resolve the cash flow dilemma and insufficiency of resources in certain funds we suggest, among other things, that Council consider enhancing revenues and/or reducing expenditures in the affected funds. Council could also seek a fund transfer from fund(s) with more abundant resources provided officials comply with the provisions of Ohio Revised Code §§ 5705.14, 5705.15, and 5705.16. Other potential remedies include obtaining a tax advance from the County Auditor, securing short term tax anticipation notes.

If advances are deemed necessary management should refer to Auditor of State Bulletin 97-003 for further guidance. In addition, if advances are made, they should be made only under the express authority of the Village Council.

As part of the monitoring process, Village Council should review financial records to make sure the amounts are reflected in the appropriate funds and that there are sufficient funds to pay obligations.

Management's Response

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

FINDING NUMBER 2006-004

Significant Deficiency

Adjustments and Reclassifications

Nineteen adjustments and reclassifications were necessary to the financial statements during the audit. This was caused by improper postings of revenues and disbursements on the financial statements. We recommend the Audit Committee and Council review the Fiscal Officer's postings to the revenue and appropriation ledger for completeness and accuracy.

We also reported this matter in the management letter of our audit of the 2004 and 2003 financial statements.

Management's Response

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



Mary Taylor, CPA
Auditor of State

VILLAGE OF KALIDA

PUTNAM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 5, 2007