VILLAGE OF MONTPELIER
WILLIAMS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006

Mary Taylor, CPA
Auditor of State

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

INDEPENDENT ACCOUNTANTS' REPORT

Village of Montpelier
Williams County
211 North Jonesville Street
P.O. Box 148
Montpelier, Ohio 43543-0148

To the Mayor and members of the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Montpelier, Williams County, Ohio (the Village), as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Montpelier, Williams County, Ohio, as of December 31, 2006, and the respective changes in modified cash financial position and the budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED

This discussion and analysis of the Village of Montpelier's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2006, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2006 are as follows:

- Net assets of governmental activities increased by $366,352 or 22 percent, a significant change from the prior year. Two funds were most affected by the increase. The General Fund net assets were increased due to investment and interest income and the Sewer Capital Improvement Fund net assets saw significant increase due to balance building for the Combined Sewer Overflow (CSO) project. This project is expected to last 20 years and will be completed in six different phases. Engineering for Phase 1 is to be started in 2007.

- The Village's general receipts are primarily income tax dollars. These receipts represent 40% of the total cash received for governmental activities during the year. Charges for services, Other Local Taxes and Grants and Entitlements not restricted to a specific purpose amounted to 13 percent, 8 percent and 8 percent respectively of the Village's receipts.

- The Business-type funds show a increase of $1,051,583 or 27 percent in net assets from the prior year. The funds most affected by this change are the Water and Light Funds. The change can be attributed to rate increases in the Water Fund along with recovering expenses from the Water Plant construction project through OWDA. The Light Fund is recovering Seams Elimination Cost Adjustment (SECA) charges through a rolling twelve month power cost factor.

- The Village implemented a High Deductible Health Insurance along with a Health Savings Account (H.S.A.) for Village Employees reducing the cost of health insurance to the Village by $163,339 or 34 percent. This savings was beneficial to both the Governmental Funds and the Business-type Funds.

- The Village of Montpelier was awarded $400,000 in Community Development Block Grants (CDBG) funds for the Downtown Revitalization program. This project was completed in 2006.

- In October, 2006 the Village purchased the High School and Grade School properties from the Montpelier Exempted Schools for $100,000. It is anticipated that these properties will be used for future expansion of the Village's park system.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's modified cash basis of accounting. The statements are organized so the reader can understand the Village as a financial whole, or as an entire operating entity.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity (Major Funds) in separate columns. All other non-major funds are presented in total in a single column.

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

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Village as a Whole

This annual report includes all activities for which the Village is fiscally responsible. These activities, defined as the Village's reporting entity, are operated within separate legal entities that make up the primary government. The primary government consists of Montpelier Village.

The statement of net assets and the statement of activities reflect how the Village did financially during 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other non-financial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

> Governmental activities. Most of the Village's basic services are reported here, including police, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

> Business-type activities. The Village has four business-type activities, the provision of electric, water, sanitary sewer and utility deposits. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money, that is restricted as to how it may be used, is being spent for the intended purpose. The funds of the Village are split into two categories: governmental and proprietary.

Governmental Funds

The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General Fund, Tax Capital Improvement Fund, and the Sewer Capital Improvement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds

When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has two major enterprise funds, the Light fund and the Water fund.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2006 compared to 2005 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Assets				
Cash and Cash Equivalents	$2,051,185	$1,684,833	$4,906,667	$3,855,084
Total Assets	$2,051,185	$1,684,833	$4,906,667	$3,855,084
Net Assets				
Restricted for:				
Debt Service			$296,764	$257,371
Capital Projects	$1,424,536	$1,290,961		
Other Purposes	230,489	239,285		
Unrestricted	396,160	154,587	4,609,903	3,597,713
Total Net Assets	$2,051,185	$1,684,833	$4,906,667	$3,855,084

As mentioned previously, net assets of governmental activities increased $366,352 or 22 percent during 2006. The primary reason contributing to the increase was that the General Fund saw significant increase in investment income and the Sewer Capital Improvement Fund is in a period of balance building for the CSO project.

Net assets of the business-type activities increased by $1,051,583 or 27 percent in 2006. The usage rate increase in the Water Fund, along with the submittal of expenses for reimbursement from OWDA for the Water Plant project account for the increase in the Water Fund. The increase in the Light Fund is due to a decrease in expenses, mainly power cost, and the recovery of the 12 month rolling Power Cost Adjustment (PCA). The Village is currently recovering SECA charges using a twelve month rolling PCA which keeps revenue relatively stable, while the actual cost of power has decreased. SECA charges were expended in 2005 and collected in 2006.

Table 2 reflects the changes in net assets in 2006 in comparison to changes in net assets for 2005:

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
Cash Receipts:						
Program cash receipts:						
Charges for services and sales	$486,233	$478,306	$7,762,540	$7,556,033	$8,248,773	$8,034,339
Operating grants and contributions	241,010	235,807			241,010	235,807
Capital grants and contributions	184,175	40,055	201,811	3,901	385,986	43,956
Total program cash receipts	$911,418	$754,168	$7,964,351	$7,559,934	$8,875,769	$8,314,102

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Government	
	2006	2005	2006	2005	2006	2005
General cash receipts:						
Property taxes	$156,137	$140,402			$156,137	$140,402
Income tax	1,441,861	1,630,160			1,441,861	1,630,160
Other Local Taxes	302,404	31,750	$15,176	$77,223	317,580	108,973
Grants and Entitlements Not						
Restricted to Specific Programs	287,893	357,944	33,771	33,554	321,664	391,498
Sale of Capital Assets	8,752	8,579			8,752	8,579
Note Proceeds	200,000	330,000	385,738	2,453,317	585,738	2,783,317
OWDA Debt Issued						
Investment earnings	274,191	148,391	7,622	6,256	281,813	154,647
Miscellaneous	49,291	36,590	115,673	125,065	164,964	161,655
Total General Cash Receipts	2,720,529	2,683,816	557,980	2,695,415	3,278,509	5,379,231
Total Cash Receipts	3,631,947	3,437,984	8,522,331	10,255,349	12,154,278	13,693,333
Disbursements:						
General Government	222,316	271,525			222,316	271,525
Security of Persons & Property	758,107	790,336			758,107	790,336
Public Health	33,152	28,755			33,152	28,755
Leisure Time	209,644	193,208			209,644	193,208
Community Environment	14,427	20,059			14,427	20,059
Basic Utilities	329,335	336,273			329,335	336,273
Transportation	387,362	414,114			387,362	414,114
Capital Oulay	716,422	747,550			716,422	747,550
Principal Retirement	350,000	594,000			350,000	594,000
Interest and Fiscal Charges	35,400	39,142			35,400	39,142
Water			1,048,040	3,163,042	1,048,040	3,163,042
Light			5,813,055	6,415,451	5,813,055	6,415,451
Other			819,083	758,020	819,083	758,020
Total Disbursements	3,056,165	3,434,962	7,680,178	10,336,513	10,736,343	13,771,475
Special Item - Sale of Electric System				200,000		200,000
Net Advances	(75,000)	(45,000)	75,000	45,000		
Net Transfers	(134,430)	(134,676)	134,430	134,676		
Change in Net Assets	366,352	(176,654)	1,051,583	298,512	1,417,935	321,858
Net Assets, January 1,	1,684,833	1,861,487	3,855,084	3,556,572	5,539,917	5,418,059
Net Assets, December 31	$2,051,185	$1,684,833	$4,906,667	$3,855,084	$6,957,852	$5,539,917

Governmental Activities Receipts

Program receipts in the Governmental activities represent only 25 percent of total receipts and are primarily comprised of charges for services, (i.e. garbage and recycling charges) and operating grants and contributions, (fire, gasoline, auto license, and permissive motor vehicle license taxes).

General receipts in the Governmental activities represent 75 percent of the Village's total governmental receipts, and of this amount, 70 percent is from property, income and other local taxes. Unrestricted Grants, investment earnings, and proceeds from sale of notes, make up 11 percent, 10 percent, and 7 percent respectively of the balance of the Village's governmental general receipts. Other receipts are very insignificant (2 percent) and somewhat unpredictable revenue sources.

Business Type Activities Receipts

In the Business-type activities program receipts account for 93 percent of the total receipts. These receipts are comprised of charges for services, i.e. water, light and sewer charges, and capital grants and contributions.

General receipts for the Business-type activities represent 7 percent of the Village's total business-type receipts, and of this amount 66 percent is from loan proceeds with the majority of those funds being from the new water treatment facility.

Governmental Activities Disbursements

Three of the five major funds for the Village are governmental funds. The disbursements of the General Fund are for purposes of paying for police and fire protection; garbage and recycling services; street maintenance; and paying wages for the legislative body and finance departments. The disbursements for the Tax Capital Improvement and the Sewer Capital Improvement are for the construction of new roads and buildings; sewer and water lines; and purchase of equipment for all departments within the Village. No wages are paid out of the Capital Improvement Funds. The remaining non-major governmental type funds are considered special revenue type funds. These funds expend monies to provide for parks and recreation for the Village residents; maintain roads and bridges; and provide support to law enforcement.

Business Type Activities Disbursements

The two remaining major funds for the Village are considered to be of a business-type nature. The disbursements of the Water Fund are for purposes of maintaining water lines; treatment of the water; and paying for wages of the department. The disbursements for the Light Fund are for purposes of building and maintaining electrical lines; purchasing of electrical power; purchasing of equipment; and paying for salaries and wages of the department. The disbursements of the other funds within the business type activities are similar in nature to the Water and Light Funds

Governmental Activities

If you look at the Statement of Activities (the Statement), you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for security of persons and property, capital outlay, transportation, debt service, and basic utility service, which account for 25, 23, 13, 13, and 11 percent of all governmental disbursements. On the Statement, column two under "Program Cash Receipts" identifies revenues collected by those departments that charge fees for their services they provide to Village residents. Columns three and four on the Statement identifies the dollar amounts of grants received by the Village that must be used to provide a specific service. The net Receipt

(Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

	Governmental Activities		**Governmental Activities**	
	Total Cost Of Services 2006	Net Cost of Services 2006	Total Cost Of Services 2005	Net Cost of Services 2005
General Government	$222,316	$217,812	$271,525	$268,777
Security of Persons and Property	758,107	652,455	790,336	667,720
Public Health Services	33,152	33,152	28,755	28,755
Leisure Time Activites	209,644	162,725	193,208	151,317
Community Environment	14,427	(11,016)	20,059	20,059
Basic Utilities	329,335	(7,343)	336,273	(23,978)
Transportation	387,362	180,387	414,114	213,250
Capital Outlay	716,422	531,175	747,550	721,752
Principal Retirement	350,000	350,000	594,000	594,000
Interest and Fiscal Charges	35,400	35,400	39,142	39,142
Total Expenses	$3,056,165	$2,144,747	$3,434,962	$2,680,794

The dependence upon tax receipts is apparent as approximately 71 percent of Governmental activities are supported through these general receipts.

The Village's Funds

Governmental Funds

Total governmental funds had receipts and other financing sources of $3,841,156 and disbursements and other financing uses of $3,474,804. The greatest changes within the Governmental type funds occurred in the General Fund. The General Fund shows an increase in fund balance of $241,573 or 156 percent. This increase is contributed to the increase in investment income and the decrease in the cost of health insurance. Of the $241,573 increase in fund balance, $124,243 or 51 percent was due to the increase in investment income.

The Sewer Capital Improvement Fund saw an increase of $288,373 or 53 percent due to balance building for the Combined Sewer Overflow (CSO) project.

Business-Type Funds

Total business-type funds had receipts of $8,522,331 and disbursements of $7,680,178. The greatest change within Business-type funds occurred within the Water and Light Funds. The change can be attributed to a rate increase in the Water Fund and cost recovery of SECA charges that were incurred in 2005 and collected in 2006 for the Light Fund.

Governmental Fund Budgeting Highlights

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

During 2006, the Village did amend the budget of the General Fund. The most significant amendment occurred as a result of increase interest earnings on investments and property and other local taxes. Actual receipts did not vary significantly from the final budget. The Village appropriates all its estimated receipts and available fund balances. Additional appropriations were made for security of persons and property and general government. Actual expenditures did vary significantly from the final budget. The Village takes due diligence in keeping spending to a respectable level in order to assure funds for future projects.

Capital Assets and Debt Administration

Capital Assets

The Village does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements.

Debt

At December 31, 2006, the Village's outstanding debt totaled $12,374,377 which included $7,434,041 from the Ohio Water development Authority (OWDA) for the construction of a water treatment facility; $2,050,000 from American Municipal Power of Ohio for electric line extensions and various other OWDA notes. For further information regarding the Village's debt, refer to Note 7 and 8 to the basic financial statements.

Current Issues

The challenge for all Villages is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. The Village relies heavily on local taxes and intergovernmental revenues to provide safe and secure neighborhoods through the Police Department and trained and qualified firefighters for the Fire Department.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Kelly Hephner, Director of Finance, Montpelier Village, 211 N Jonesville St. P O Box 148, Montpelier, Ohio 43543-0148.

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

Statement of Net Assets - Modified Cash Basis
December 31, 2006

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	$2,051,185	$4,906,667	$6,957,852
Total Assets	$2,051,185	$4,906,667	$6,957,852
Net Assets			
Restricted for:			
Capital Projects	$1,424,536		$1,424,536
Debt Service		296,764	296,764
Other Purposes	230,489		230,489
Unrestricted	396,160	4,609,903	5,006,063
Total Net Assets	$2,051,185	$4,906,667	$6,957,852

See accompanying notes to the basic financial statements

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2006

		Program Cash Receipts		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
General Government	$222,316	$4,504		
Security of Persons and Property	758,107	79,385	$26,267	
Public Health Services	33,152			
Leisure Time Activities	209,644	28,306	18,613	
Community Environment	14,427			$25,443
Basic Utility Services	329,335	336,678		
Transportation	387,362	10,845	196,130	
Capital Outlay	716,422	26,515		158,732
Debt Service:				
Principal Retirement	350,000			
Interest and Fiscal Charges	35,400			
Total Governmental Activities	3,056,165	486,233	241,010	184,175
Business Type Activity				
Water	1,048,040	873,344		201,811
Light	5,813,055	5,944,344		
Other Enterprise Funds	819,083	944,852		
Total Business Activities	7,680,178	7,762,540		201,811
Total	$10,736,343	$8,248,773	$241,010	$385,986

General Receipts
Property Taxes Levied for:
General Purposes
Police Pension
Municipal Income Taxes
Other Local Taxes
Grants and Entitlements not Restricted to Specific Programs
Notes Issued
OWDA Debt Issued
Sale of Capital Assets
Interest
Miscellaneous

Total General Receipts

Transfers
Advances

Total General Receipts, Transfers and Advances

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
($217,812)		($217,812)
(652,455)		(652,455)
(33,152)		(33,152)
(162,725)		(162,725)
11,016		11,016
7,343		7,343
(180,387)		(180,387)
(531,175)		(531,175)
(350,000)		(350,000)
(35,400)		(35,400)
(2,144,747)		(2,144,747)
	$27,115	27,115
	131,289	131,289
	125,769	125,769
	284,173	284,173
(2,144,747)	284,173	(1,860,574)
140,033		140,033
16,104		16,104
1,441,861		1,441,861
302,404	15,176	317,580
287,893	33,771	321,664
200,000		200,000
	385,738	385,738
8,752		8,752
274,191	7,622	281,813
49,291	115,673	164,964
2,720,529	557,980	3,278,509
(75,000)	75,000	
(134,430)	134,430	
2,511,099	767,410	3,278,509
366,352	1,051,583	1,417,935
1,684,833	3,855,084	5,539,917
$2,051,185	$4,906,667	$6,957,852

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2006

	General	Tax Capital Improvements Fund	Sewer Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	$396,160	$592,916	$831,620	$230,489	$2,051,185
Total Assets	$396,160	$592,916	$831,620	$230,489	$2,051,185
Fund Balances					
Unreserved:					
Undesignated, Reported in:					
General Fund	396,160				396,160
Special Revenue Funds				230,489	230,489
Capital Projects Funds		592,916	831,620		1,424,536
Total Fund Balances	$396,160	$592,916	$831,620	$230,489	$2,051,185

See accompanying notes to the basic financial statements

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Tax Capital Improvements Fund	Sewer Capital Improvements Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes	$336,434	$624,806	$288,373	$192,248	$1,441,861
Property and Other Local Taxes	442,437			16,104	458,541
Charges for Services	395,331			37,668	432,999
Fines, Licenses and Permits	23,656			846	24,502
Intergovernmental	290,791			336,641	627,432
Special Assessments		26,515			26,515
Interest	268,914			5,277	274,191
Miscellaneous	64,909	6,541		20,704	92,154
Total Receipts	1,822,472	657,862	288,373	609,488	3,378,195
Disbursements					
Current:					
General Government	211,738	10,114		464	222,316
Security of Persons and Property	715,402			42,705	758,107
Public Health Services	33,152				33,152
Leisure Time Activities				209,644	209,644
Community Environment				14,427	14,427
Basic Utility Services	304,486	24,849			329,335
Transportation	146,764	2,184		238,414	387,362
Capital Outlay		577,123		139,299	716,422
Debt Service:					
Principal Retirement		350,000			350,000
Interest and Fiscal Charges		35,400			35,400
Total Disbursements	1,411,542	999,670		644,953	3,056,165
Excess of Receipts Over (Under) Disbursements	410,930	(341,808)	288,373	(35,465)	322,030
Other Financing Sources (Uses)					
Notes Issued		200,000			200,000
Sale of Capital Assets	8,752				8,752
Transfers In				43,739	43,739
Advances In	60	91,210		74,200	165,470
Transfers Out	(178,169)				(178,169)
Advances Out		(149,200)		(91,270)	(240,470)
Other Financing Sources		45,000			45,000
Total Other Financing Sources (Uses)	(169,357)	187,010		26,669	44,322
Net Change in Fund Balances	241,573	(154,798)	288,373	(8,796)	366,352
Fund Balances Beginning of Year	154,587	747,714	543,247	239,285	1,684,833
Fund Balances End of Year	$396,160	$592,916	$831,620	$230,489	$2,051,185

See accompanying notes to the basic financial statements

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Municipal Income Taxes	$300,600	$269,000	$336,434	$67,434
Property and Other Local Taxes	399,300	503,610	442,437	(61,173)
Charges for Services	368,115	390,075	395,331	5,256
Fines, Licenses and Permits	17,070	19,460	23,656	4,196
Intergovernmental	274,392	294,507	290,791	(3,716)
Interest	141,900	261,400	268,914	7,514
Miscellaneous	28,890	63,740	64,909	1,169
Total receipts	1,530,267	1,801,792	1,822,472	20,680
Disbursements				
Current:				
General Government	235,653	258,033	211,738	46,295
Security of Persons and Property	755,010	838,374	715,402	122,972
Public Health Services	26,800	33,300	33,152	148
Basic Utility Services	327,700	346,000	304,486	41,514
Transportation	154,950	179,950	146,764	33,186
Total Disbursements	1,500,113	1,655,657	1,411,542	244,115
Excess of Receipts Over Disbursements	30,154	146,135	410,930	264,795
Other Financing Sources (Uses)				
Sale of Capital Assets	8,500	8,750	8,752	2
Transfers Out	(167,800)	(197,300)	(178,169)	19,131
Advances In		60	60	
Total Other Financing Sources (Uses)	(159,300)	(188,490)	(169,357)	19,133
Net Change in Fund Balance	(129,146)	(42,355)	241,573	283,928
Fund Balance Beginning of Year	154,587	154,587	154,587	
Fund Balance End of Year	$25,441	$112,232	$396,160	$283,928

See accompanying notes to the basic financial statements

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2006

	Business-Type Activities			
	Water Fund	Light Fund	Other Enterprise Funds	Total Enterprise Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$724,191	$3,354,916	$827,560	$4,906,667
Total Assets	724,191	3,354,916	827,560	4,906,667
Net Assets				
Restricted			296,764	296,764
Unrestricted	724,191	3,354,916	530,796	4,609,903
Total Net Assets	$724,191	$3,354,916	$827,560	$4,906,667

See accompanying notes to the basic financial statements

VILLAGE OF MONTPELIER
WILLIAMS COUNTY

Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities			
	Water Fund	Light Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Receipts				
Charges for Services	$873,344	$5,944,344	$944,852	$7,762,540
Other Operating Receipts	8,953	100,368	6,352	115,673
Total Operating Receipts	882,297	6,044,712	951,204	7,878,213
Operating Disbursements				
Personal Services	387,488	652,107	421,998	1,461,593
Travel & Transportation	5,210	19,596	3,583	28,389
Contractual Services	85,060	4,122,682	88,240	4,295,982
Materials and Supplies	94,166	157,569	69,369	321,104
Total Operating Disbursements	571,924	4,951,954	583,190	6,107,068
Operating Income	310,373	1,092,758	368,014	1,771,145
Non-Operating Receipts (Disbursements)				
OWDA Debt Issued	385,738			385,738
Other Local Taxes		15,176		15,176
Intergovernmental	201,811	2,000	31,771	235,582
Interest			7,622	7,622
Capital Outlay	(98,845)	(475,621)	(7,165)	(581,631)
Principal Retirement	(301,759)	(300,000)	(94,743)	(696,502)
Interest and Fiscal Charges	(75,512)	(70,304)	(133,985)	(279,801)
Other Financing Uses		(15,176)		(15,176)
Income before Transfers and Advances	421,806	248,833	171,514	842,153
Transfers In		134,430		134,430
Advances In		90,000		90,000
Advances Out	(15,000)			(15,000)
Change in Net Assets	406,806	473,263	171,514	1,051,583
Net Assets Beginning of Year	317,385	2,881,653	656,046	3,855,084
Net Assets End of Year	$724,191	$3,354,916	$827,560	$4,906,667

See accompanying notes to the basic financial statements

1. REPORTING ENTITY

The Village of Montpelier, Williams County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a six-member Council elected at large for four year terms. The Mayor is elected to a four-year term and votes only to break a tie.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, electric, water and sewer utilities, maintenance of Village streets and bridges, park operations, fire protection, and police services.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. The Village has no component units.

C. Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Under the modified cash basis of accounting, the Village does not report assets for equity interests in joint ventures.

The Village participates in three joint venture organizations. Notes 13, 14 & 15 to the financial statements provide additional information for these entities. The organizations are:

Joint Venture Organizations:

Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2)
Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5)
Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV6)

The Village participates in the Ohio Government Risk Management Plan, a public entity risk pool. Note 11 to the financial statements provides additional information for this entity.

1. REPORTING ENTITY – (CONTINUED)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from non-operating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as non-operating.

B. Fund Accounting

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Village are grouped into two categories, governmental and proprietary.

<u>Governmental Funds</u>

The Village classifies funds financed primarily from taxes, income taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The following are the Village's major governmental funds:

<u>General Fund</u> – The General fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

<u>Tax Capital Improvement Fund</u> - This fund receives a portion of the 1.5% Village income tax. These funds are to be used for capital improvements within the Village.

<u>Sewer Capital Improvement Fund</u> - This fund receives a portion of the 1.5% Village income tax. These funds are to be used to improve the sewer system within the Village.

<u>Proprietary Funds</u>

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise.

<u>Enterprise Funds</u> - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Village's major Enterprise funds:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

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

C. Basis of Accounting

The Village's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

E. Cash, Cash Equivalents, and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

During 2006, the Village invested in U.S. government securities, a money market mutual fund and Star Ohio. The U.S. government securities are reported at cost. The Village's money market mutual fund is recorded at the amount reported by Fifth Third Securities, Inc. at December 31, 2006.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

During fiscal year 2006, interest receipts were credited to the General fund for $268,914 which includes $253,017 assigned to other funds. Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt-related restrictions.

F. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supply items are reported as disbursements when purchased.

G. Capital Assets

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

H. Interfund Receivables/Payables

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's modified cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

K. Long Term Obligations

These modified-cash basis financial statements do not report liabilities for bonds and other long-term obligations. These financial statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

L. Net Assets

These statements report restricted net assets when enabling legislation or creditors, grantors, or laws or regulations of other governments have imposed limitations on their use. Net assets restricted for other purposes include resources restricted for police protection, economic development, streets and parks. The Village first applies restricted sources when incurring a disbursement for which it may use either restricted or unrestricted resources.

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as revenues in the seller funds and as disbursements in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

3. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). There were no encumbrances outstanding at year end.

4. DEPOSITS AND INVESTMENTS

Monies held by the District are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the District treasury. Active monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

4. DEPOSITS AND INVESTMENTS – (Continued)

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio or Ohio local governments;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

4. DEPOSITS AND INVESTMENTS – (Continued)

At year end, the Village had $1,850 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

Custodial credit risk for deposits is the risk that, in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year-end, $979,289 of the Village's bank balance of $3,624,591 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of December 31, 2006, the Village had the following investments:

		Investment Maturities			
	Cost Value	6 months or less	7 to 12 months	13 to 18 months	19 to 24 months
Federal Home Loan Mortgage Corporation (FHLMC) Notes	$ 724,021	$ 200,000	$ 425,000		$ 99,021
Federal National Mortgage Association (FNMA) Loans	1,403,308	423,653	229,655	$ 525,000	225,000
Federal Home Loan Bank (FHLB) Bonds	1,062,956	199,180	299,888	490,156	73,733
STAR Ohio	181,100	181,100			
	$ 3,371,385	$ 1,003,933	$ 954,543	$ 1,015,156	$397,754

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rate rates subsequently increase. The Village's investment policy addresses interest rate risk by requiring that the Village's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and investing operating funds primarily in short-term investments.

4. DEPOSITS AND INVESTMENTS – (Continued)

STAR Ohio carries a rating of AAA by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The Federal Home Loan Mortgage Corporation (FHLMC) notes, Federal National Mortgage Association (FNMA) notes and Federal Home Loan Bank (FHLB) bonds carry the highest ratings by Moody's and Standard and Poor's (Aaa/AAA).

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Treasury Bills are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Village's name. The Village's investment policy states that all security transactions entered into by the Village shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian designated by the Director of Finance and evidenced by safekeeping receipts.

The Village places no limit on the amount it invests in any one issuer. However, state statute limits investments in commercial paper and banker's acceptances to 25% of the interim monies available for investment at any one time. Of the Village's total investments, FHLMC notes represent 23%, FNMA notes represent 44%, and FHLB bonds represent 33%.

5. PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the Village. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005, and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

5. PROPERTY TAX – (Continued)

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The Village annexed property in 2005. The annexation agreement with the Jefferson Township Trustees created a new taxing district beginning with tax year 2006.

The Village receives property taxes from Williams County. The County Auditor periodically remits to the Village its portion of the taxes collected.

The assessed values upon which the fiscal year 2006 taxes were collected are:

MONTPELIER EXEMPTED VILLAGE

	Amount	Percent
Agriculture/Residential & Other Real Estate Property	$ 44,576,630	75%
Public Utility Personal Property	767,740	1%
Tangible Personal Property	14,109,230	24%
Total	$ 59,453,600	100%
Tax rate per $1,000 of Assessed Valuation	2.70	

6. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5 percent (Proceeds are placed into the General Fund, Parks and Recreation Fund, the Downtown Revitalization Fund, and the Tax Capital Improvement Fund). The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a credit of the lesser of actual taxes paid to another municipality or 1.5 percent tax rate on taxable income. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village at least quarterly. Corporations and other individual taxpayers are also required to pay estimated taxes at least quarterly and file a final return annually.

7. LONG TERM DEBT

The Village's long term debt obligations at year end consist of the following:

	Balance at 12/31/05	Increase	Decrease	Balance at 12/31/06	Amounts Due in One Year
Governmental Activities:					
Ohio Waterworks System Revenue Bonds	$477,000		$20,000	$457,000	$21,000
Business-Type Activities:					
Ohio Public Works Commission Loan	115,320		5,766	109,554	2,833
Ohio Water Development Authority Loans	9,562,824	$385,738	390,739	9,557,823	338,376
American Municipal Power of Ohio Loans	2,350,000		300,000	2,050,000	300,000
Total Business-Type Activities	12,028,144	385,738	696,505	11,717,377	641,209
Total Long-Term Obligations	$ 12,505,144	$ 385,738	$ 716,505	$ 12,174,377	$ 662,209

The Ohio Waterworks System Revenue Bonds in the amount of $750,000 were issued in 1982 to finance improvements to the Village's waterworks system. The bonds are repaid annually with 5% interest over 39 years with the final payment due in 2021. Property and revenue of the Village's waterworks utility have been pledged to retire the debt.

As required by the mortgage revenue bond covenant, the Village has established and funded a reserve fund, included as an enterprise fund. The balance at December 31, 2006 was $49,122.

The Ohio Public Works Commission Loan was entered into in 2005 to finance to improvements to the Village's waterworks system. The interest free loan will be paid back over 20 years beginning in 2006 with the final payment due in 2026. Property and revenue of the Village's waterworks utility have been pledged to retire the debt.

There are the following Ohio Water Development Authority loans:

Loans 2160 and 2161 in the amounts of $539,877 and $455,644 were approved in 1998 to finance a sewer and a water line project for the Village of Holiday City. These loans will be paid back annually at an interest rate of 5.56% over 20 years with revenues from user fees charged to the residents and businesses of the Village of Holiday City. Currently, the Village of Holiday City is paying these charges.

Loan 3261 in the amount of $1,628,662 was approved in 2000 to finance the improvement of the wastewater treatment plant. The loan will be paid back annually with interest of 6.41% over 20 years with revenues from user fees charged.

7. LONG TERM DEBT – (Continued)

Loan 3959 in the amount of $7,551,180 was approved in 2003 to fund the construction, maintenance, and operation of a water treatment plant. This project was completed in 2006. Loan principal and interest payments at rate of 2% are due semi-annually on January 1 and July 1 commencing in July 2006 for 25 years.

The Village entered into a loan agreement with American Municipal Power – Ohio, Inc. (AMP-Ohio) for the purpose of providing financing for the acquisition and installation of electric system improvements. The Electric Operating Fund is to pay the loan made by AMP-Ohio together with interest thereon equal to the rate(s) of interest on the Electric System Improvement Bond Anticipation Notes (the Notes) to be issued by AMP-Ohio in one or more series, or on notes issued to refund the Notes, or on the Electric System Improvement Bonds to be issued by AMP-Ohio in anticipation of which Bonds the Notes are issued.

On the maturity date of each series of the Notes the Village will pay to AMP-Ohio all interest due on the Notes plus any amount of principal up to the original principal amount of such series, and on the maturity date of such series of the Notes plus an amount of principal equal to the amount of principal amount which would be due in the corresponding year on a loan in the original amount of such series, for a term of 20 years, at the interest rate borne by such series of the Notes.

AMP-Ohio will use its best efforts to refinance any remaining principal of any series of the Notes; provided, however, that if AMP-Ohio is unable to refinance any series of the Notes, it shall give the Village and the original purchaser of the Notes 60 days notice of such inability, and the Village shall pay to AMP Ohio all amounts necessary to retire such series of the Notes at maturity.

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

Year Ending December 31:	Ohio Waterworks System Bonds	OWDA Loans	OPWC Loans
2007	$43,850	$614,031	$ 2,833
2008	43,800	614,031	5,766
2009	43,700	614,031	5,766
2010	44,550	614,031	5,766
2011	44,300	614,031	5,766
2012 - 2016	219,850	3,070,152	28,830
2017 - 2021	220,550	2,831,137	28,830
2022 - 2026		1,926,512	25,997
2027 - 2030		1,733,861	
Total	$ 660,600	$ 12,631,817	$ 109,554

8. SHORT TERM DEBT

The Village's short-term debt obligations at year end consist of the following:

	Balance at 12/31/05	Increase	Decrease	Balance at 12/31/06
Governmental Activities:				
Various Purpose Improvements Note, Series 2005	$330,000		$330,000	
Various Purpose Improvements Note, Series 2006		$200,000		$200,000
Total Governmental Activities	$330,000	$200,000	$330,000	$200,000

The Various Purpose Improvement Note, Series 2006 was issued in anticipation of the issuance of bonds for the purpose of improving the municipal sewage system, improving the municipal park, improving the municipal sewage system by acquiring real estate for the construction of additional wastewater facilities, for acquiring a backhoe for the water sewer department, for acquiring self-contained breathing apparatus' for the fire department, and for streetscaping in the downtown business district. The note matures one year after issuance.

9. DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

9. DEFINED BENEFIT PENSION PLANS – (Continued)

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement participating in the traditional plan, were required to contribute 9.0 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary. The Village's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the Village's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004, were $167,469, $178,500, and $255,949 respectively; 100 percent has been contributed for 2006, 2005, and 2004.

B. Ohio Police and Fire Pension Fund

The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension benefits while the Village is required to contribute 19.5 percent for police officers and 24.0 percent for firefighters. Contributions are authorized by State statute. The Village's contributions to OP&F for police and firefighters for pension obligations for the years ended December 31, 2006, 2005, and 2004, were $39,018, $36,063, and $8,885, and $61,182 and $12,744, respectively. The full amount has been contributed for 2006, 2005, and 2004.

10. POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll (16.93 percent for public safety and law enforcement and 13.54 percent for state employers); 4.5 percent of covered payroll was the portion that was used to fund health care.

10. POSTEMPLOYMENT BENEFITS – (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between 0.5 and 6.0 percent annually for the next nine years and 4 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual Village contributions for 2006 which were used to fund postemployment health care benefits were $81,914. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $31.3 billion and $20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for the health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

10. POSTEMPLOYMENT BENEFITS – (Continued)

The Village's actual contributions for 2006 that were used to fund postemployment health care benefits were $25,735 for police and $4,097 for fire. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was $108,039,449, which was net of member contributions of $55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,992 for police and 10,537 for firefighters.

11. RISK POOL MANAGEMENT

Risk Pool Membership

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.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	2006	2005
Assets	$9,620,148	$8,219,430
Liabilities	(3,329,620)	(2,748,639)
Members' Equity	$6,290,528	$5,470,791

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

12. SELF INSURANCE

The Village is self insured for employee health and dental insurance. The General, Street Construction, Park, Water, Electric, and Sewer funds pay their respective covered claims to service providers based on actual costs per employee with a maximum cost of $35,000 per employee. Estimated actuarial liabilities were $19,996 and $ 15,885 for the years ended December 31, 2006 and 2005, respectively.

13. JV2 JOINT VENTURE

The Village is a Non-Financing Participant and an Owner Participant with an ownership percentage of 2.98% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the JV2 Agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued $50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of $45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV2 was $1,249,865 at December 31, 2006. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

13. JV2 JOINT VENTURE – (Continued)

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2006 are:

Municipality	Percent Ownership	KW Entitlement	Municipality	Percent Ownership	KW Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	95.20%	127,640		4.80%	6,441
			Grand Total	100.00%	134,081

14. JV5 JOINT VENTURE

The Village is a Financing Participant with an ownership percentage of 2.02 %, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA JV5 Agreement, the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

14. JV5 JOINT VENTURE – (Continued)

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2006, the Village has met their debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued $153,415,000 and $13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of $56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of $116,910,000, which resulted in a savings to the membership of $34,951,833 from the periods 2005 through 2024.

The Village's net investment and its share of operating results of OMEGA JV5 are reported in the Village's electric fund (an enterprise fund). The Village's net investment to date in OMEGA JV5 was $218,224 at December 31, 2006. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

15. JV6 JOINT VENTURE

The Village is a Financing Participant with an ownership percentage of 1.39%, and shares participation with nine other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV6). Financing Participants, after consideration of the potential risks and benefits can choose to be Owner Participants or Purchaser Participants. Owner Participants own undivided interests, as tenants in common in the Project in the amount of its Project Share. Purchaser Participants purchase the Project Power associated with its Project Share.

Pursuant to the OMEGA JV6 Agreement, the participants agree jointly to plan, acquire, construct, operate and maintain the Project, and hereby agree, to pay jointly for the electric power, energy and other services associated with the Project.

15. JV6 JOINT VENTURE – (Continued)

OMEGA JV6 was created to construct four (4) wind turbines near Bowling Green Ohio. Each turbine has a nominal capacity of 1.8 MW and sells electricity from its operations to OMEGA JV6 Participants.

Pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Adjustable Rate Revenue Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV6, any excess funds shall be refunded to the Non-Financing Participants in proportion to each Participant's Project Share and to Financing Participant's respective obligations first by credit against the Financing Participant's respective obligations. Any other excess funds shall be paid to the Participants in proportion to their respective Project Shares. Under the terms of the Agreement each financing participant is to fix, charge and collect rates, fees, charges, including other available funds, at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV6 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2006, the Village has met their debt coverage obligation.

The Agreement provides that the failure of any JV6 participant to make any payment due by the due date constitutes a default. In the event of a default and one in which the defaulting Participant failed to cure its default as provided for in the Agreement, the remaining participants would acquire the defaulting Participant's interest in the project and assume responsibility for the associated payments on a pro rata basis up to a maximum amount equal to 25% of such non-defaulting Participant's Project share ("Step Up Power").

OMEGA JV6 is managed by American Municipal Power-Ohio, Inc., which acts as the joint venture's agent. On July 30, 2004 AMP-Ohio issued $9,861,000 adjustable rate bonds that mature on August 15, 2019. The net proceeds of the bond issues were used to construct the OMEGA JV6 Project.

The Village's net investment to date in OMEGA JV6 was $122,179 at December 31, 2006. Complete financial statements for OMEGA JV6 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

15. JV6 JOINT VENTURE – (Continued)

The ten participating subdivisions and their respective ownership shares at December 31, 2006 are:

Participant	KW Amount	% of Financing
Bowling Green	4,100	56.94%
Cuyahoga Falls	1,800	25.00%
Napoleon	300	4.17%
Oberlin	250	3.47%
Wadsworth	250	3.47%
Edgerton	100	1.39%
Elmore	100	1.39%
Montpelier	100	1.39%
Pioneer	100	1.39%
Monroeville	100	1.39%
	7,200	100.00%

16. INTERFUND TRANSFERS AND ADVANCES

Interfund cash transfers for the year ended December 31, 2006 were as follows:

	Transfers In	Transfers Out
Governmental Activities:		
General		$ 178,169
Other Governmental Funds:		
Downtown Revitalization Fund	$ 4,839	
State Highway Fund	13,500	
Police Pension Fund	25,400	
Total Other Governmental Funds	43,739	
Business-Type Activities:		
Light Fund	134,430	
	$ 178,169	$ 178,169

The Village transferred cash from the General fund to the Downtown Revitalization Fund in order to pay remaining expenditures which exceeded grant funding, to the State Highway Fund in order to pay for additional road work and to the Police Pension fund in order compensate the fund for future retirement payouts. In addition, monies were transferred from the General Fund to the Light Fund to return applicable inside kilowatt tax monies.

16. INTERFUND TRANSFERS AND ADVANCES – (Continued)

Interfund cash advances for the year ended December 31, 2006 were as follows:

	Advances In	Advances Out
Governmental Activities:		
General Fund	$ 60	
Tax Capital Improvement Fund	91,210	$ 149,200
Other Governmental Funds:		
Downtown Revitalization Fund	74,200	91,270
Business-Type Activities:		
Light Fund	90,000	
Water Fund		15,000
	$ 255,470	$ 255,470

The Tax Capital Improvement Fund provided short-term temporary loans to the Downtown Revitalization Fund. All other interfund transactions were repaid short-term temporary loans made in prior years.

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 Montpelier
Williams County
211 North Jonesville Street
P.O. Box 148
Montpelier, Ohio 43543-0148

To the Mayor and members of the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Montpelier, Williams County, (the Village) as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated September 21, 2007. 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 the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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.

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

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 believe that the significant deficiency described above is not a material weakness.

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*.

We did note certain noncompliance that we reported to the Village's management in a separate letter dated September 21, 2007.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 21, 2007

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

<u>Significant Deficiency</u>

Financial Reporting

The Village has elected to present its financial statements according to the American Institute of Certified Public Accountant's interpretation; it must adjust its financial statements to substantially conform to the display and now applicable disclosure requirements of Generally Accepted Accounting Principles (GAAP). According to the interpretation, the cash basis financial statement presentation must "look like" a GAAP presentation (i.e., GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, once it became effective).

The presentation requires that a statement of activities is presented in a format that reports the net (disbursements) receipts of the Village's individual functions (General Government, Security of Persons & Property, etc) with the objective to report the relative financial burden of the Village's functions to its taxpayers.

In order to achieve this, certain revenues that derive directly from the function itself or from parties outside the Village's taxpayers or citizenry and help to reduce the net cost of the function are presented as program revenues.

Community Development Block Grant monies received for downtown revitalization ($113,732) and donations received for the purchase of land ($45,000) were presented as Capital Grants & Contributions, program revenues, and netted against the community environment function on the statement of activities. These program revenues should have been reported in the capital outlay function. An audit adjustment was made to correct this error.

In addition, as a result of other audit procedures performed, the following errors were noted in the financial statements that required audit adjustments.

1. Kilowatt hour tax receipts of $268,860 were classified as Municipal Income Tax revenues in the General Fund. These should be Other Local Taxes.

2. An Ohio Public Works Commission (OPWC) grant of $201,811 directly paid to the Ohio Water Development Authority (OWDA) towards the Village's loan of the new water treatment plant was classified as Other Financing Sources in the Water Fund in the amount of $178, 854 which was the amount of principal paid on the loan. The remaining $22,957, which was not recorded, was interest paid on the OWDA loan. The grant revenue should be reported as Intergovernmental Revenue in the amount of $201,811. An additional expenditure of $22,957 should be reported as Debt Service: Interest and Fiscal Charges.

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

FINDING NUMBER 2006-001
(Continued)

To ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Director of Finance and Council, to identify and correct errors and omissions. The Director of Finance should also review the Village Officer's Handbook's chart of accounts to ensure that all accounts are being properly posted to the financial statements and reconsider how certain program revenues are mapped to its governmental functions on the statement of net assets.

Official's Response:

It is the opinion of the Administration of the Village of Montpelier that the adjustments to the Financial Report do not reflect a "significant deficiency" in the reporting of the Village of Montpelier 2006 Financial Reports. We feel that the Report fairly represents the financial condition of the Village of Montpelier

All monies were posted and accounted for in the proper funds. Although the CDBG monies and donations did go toward capital improvements to the Community, they also were used for the Community Environment and were Capital Grants and were posted as such. After discussion with the AOS office, from this point forward, these revenues will be posted in accordance with the direction given by the Office of the Auditor of State.

The treatment of the Kilowatt hour tax receipts has been debated since the inception of the Kilowatt hour tax, May 1, 2001. It has been the opinion of the Director of Finance that the Kilowatt hour tax be classified as local tax; however, it was posted in 2006 where this office understood that it was to be posted.

Although this office does understand that this "finding" is an AICPA issue, we find it quite harsh in its wording. This office reviews the financial documents for soundness on an ongoing basis and to suggest otherwise is truly offensive.

Auditor's Response:

Statement of Auditing Standards (SAS) Number 112, includes the following guidance for determining a *significant deficiency*:

> A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.
>
> In determining whether a potential misstatement would be more than inconsequential, the auditor should consider qualitative and quantitative factors. Inconsequential in this context is not the same concept as the threshold amount the auditor establishes in an audit of financial statements below which known and likely misstatements need not be accumulated. For example, for the purposes of evaluating control deficiencies, a potential misstatement that is less than 20 percent of overall financial statement materiality may be considered inconsequential, before considering qualitative factors. However, a potential misstatement that is less than 20 percent of overall financial statement materiality may be considered more than inconsequential as a result of qualitative factors.

FINDING NUMBER 2006-001
(Continued)

Therefore, the Auditor of State must evaluate whether the misstatements above would affect the judgments of reasonably-knowledgeable financial statement users. In evaluating the affect on readers' judgments, the auditor might consider, among other things, whether the misstatement affects the following:

- Total receipts
- The change in fund cash balance for the audit period
- Beginning and ending fund cash balances

Additionally, the Auditor of State might consider whether the misstatements result in material noncompliance or possible material violations of debt covenants.

The Auditor of State believes the aforementioned audit adjustments were more than inconsequential. In addition, total receipts and expenditures were understated within the Water Fund For these reasons, taken together with the criteria above, it is the opinion of the Auditor of State that the deficiencies included in the finding represent a significant deficiency in accordance with the requirements of SAS 112.

VILLAGE OF MONTPELIER

WILLIAMS 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 18, 2007