



**Mary Taylor, CPA**  
Auditor of State



VILLAGE OF AQUILLA  
GEAUGA COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Management's Discussion and Analysis – For the Year Ended December 31, 2006 .....	3
Basic Financial Statements – 2006	
Government-wide Financial Statements – December 31, 2006:	
Statement of Net Assets – Cash Basis – December 31, 2006 .....	9
Statement of Activities – Cash Basis – December 31, 2006 .....	10
Fund Financial Statements – December 31, 2006:	
Statement of Cash Basis Assets and Fund Balances - Governmental Funds – December 31, 2006.....	11
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds – December 31, 2006 .....	12
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual (Budget Basis) – General Fund – December 31, 2006.....	13
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual (Budget Basis) – Street Construction, Maintenance and Repair Fund – December 31, 2006.....	14
Notes to the Basic Financial Statements – December 31, 2006 .....	15
Management's Discussion and Analysis – For the Year Ended December 31, 2005 .....	25
Basic Financial Statements – 2005	
Government-wide Financial Statements – December 31, 2005:	
Statement of Net Assets – Cash Basis – December 31, 2005 .....	31
Statement of Activities – Cash Basis – December 31, 2005 .....	32
Fund Financial Statements – December 31, 2005:	
Statement of Cash Basis Assets and Fund Balances - Governmental Funds – December 31, 2005.....	33
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds – December 31, 2005 .....	34

VILLAGE OF AQUILLA  
GEAUGA COUNTY

TABLE OF CONTENTS  
(Continued)

TITLE	PAGE
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual (Budget Basis) – General Fund – December 31, 2005 .....	35
Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual (Budget Basis) – Street Construction, Maintenance and Repair Fund – December 31, 2005.....	36
Notes to the Basic Financial Statements – December 31, 2005 .....	37
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	47
Schedule of Findings.....	49
Schedule of Prior Audit Findings.....	53



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Aquilla  
Geauga County  
65 Turner Road  
Chardon, Ohio 44024

To the Mayor and Village Council:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Aquilla, Geauga County, Ohio, (the Village) as of and for the years ended December 31, 2006 and December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village'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.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

As described in Note 3 for the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Aquilla, Geauga County, Ohio, as of December 31, 2006 and December 31, 2005 and the respective changes in cash financial position and the respective budgetary comparison for the General and Street Construction, Maintenance and Repair funds thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2008, 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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

April 17, 2008

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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This discussion and analysis of the Village of Aquilla (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 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 \$8,158 or 8.13 percent, a slight increase from 2005 to 2006.
- The Village's general receipts are primarily property taxes and state levied taxes.

**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 cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole. Fund financial statements provide a greater level of detail.

Funds are created and maintained on the financial records of 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 in separate columns.

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

**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 cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the 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 cash basis of accounting.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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**Reporting the Village as a Whole**

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

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

In the statement of net assets and the statement of activities, the Village reports:

Governmental activities. All of the Village's programs and basic services are reported here including general public services, purchased and contracted services and collection development and processing. Village and local government support and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**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 all categorized as governmental.

Governmental Funds. All of the Village's activities are reported in governmental funds. The governmental funds 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 nonmajor 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 and Street Construction, Maintenance and Repair Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.



**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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**The Village as a Whole**

Table 1 provides a comparison of the Village's net assets for 2006 and 2005 on a cash basis:

**TABLE 1**  
**Statement of Net Assets**

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2006</u>	<u>2005</u>	
<b>Assets</b>			
Cash and Cash Equivalents	<u>\$108,473</u>	<u>\$100,315</u>	<u>\$8,158</u>
<b>Net Assets</b>			
Restricted			
Other Purposes	20,498	21,310	(812)
Unrestricted	<u>87,975</u>	<u>79,005</u>	<u>8,970</u>
	<u>\$108,473</u>	<u>\$100,315</u>	<u>\$8,158</u>

As mentioned previously, net assets of governmental activities increased \$8,158 or 8.13 percent during 2006.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

Table 2 reflects the changes in net assets in 2005 and 2006. A comparative analysis of government-wide data has been presented for the years 2005 and 2006.

**TABLE 2**  
**Changes in Net Assets**

	Governmental Activities		
	2006	2005	Difference
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$5,237	\$4,731	\$506
Operating Grants and Contributions	15,054	11,435	3,619
<i>Total Program Receipts</i>	<u>20,291</u>	<u>16,166</u>	<u>4,125</u>
General Receipts:			
Property Taxes	22,529	20,683	1,846
Grants and Entitlements	23,937	29,220	(5,283)
Interest	0	10	(10)
Cable Franchise Fees	1,522	1,504	18
Miscellaneous	12,641	2,226	10,415
<i>Total General Receipts</i>	<u>60,629</u>	<u>53,643</u>	<u>6,986</u>
<i>Total Receipts</i>	<u>80,920</u>	<u>69,809</u>	<u>11,111</u>
<b>Program Expenses</b>			
General Government	39,282	29,496	9,786
Security of Persons and Property	4,031	3,174	857
Leisure Time	4,602	0	4,602
Transportation	24,847	16,964	7,883
Total Program Expenses	<u>72,762</u>	<u>49,634</u>	<u>23,128</u>
Increase in Net Assets	8,158	20,175	(12,017)
Net Assets Beginning of Year	<u>100,315</u>	<u>80,140</u>	<u>20,175</u>
Net Assets End of Year	<u>\$108,473</u>	<u>\$100,315</u>	<u>\$8,158</u>

Program receipts of \$20,291 in 2006 are primarily comprised of state levied taxes and fines and forfeitures. The increase of \$4,125 in program receipts is primarily due to increases in state levied taxes.

General receipts represent 74.92 percent of total receipts in 2006. Grants and entitlements make up 39.48 percent of general receipts in 2006.

Property taxes increased \$1,846 from 2005 to 2006 due to increased collection of delinquencies. Grants and entitlements decreased \$5,283 due to the Village receiving an unclaimed fund reimbursement in 2005 of \$6,412 which was not received in 2006. Miscellaneous receipts increased \$10,415 from 2005 to 2006 due mainly to the Village receiving payment for a surety bond of \$10,000 and \$2,500 for the sale of a leaf vacuum.

The majority of disbursements come from general government and transportation expenses. These two make up 88.14 percent of expenses in 2006.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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General government expenses increased in 2006 by \$9,786 due to increased costs and additional spending. In 2006, the Village implemented a new leisure time activity program. This program accounts for park expenditures which were \$4,602 in 2006. Transportation expenditures increased \$7,883 from 2005 to 2006 due to additional road projects.

**Governmental Activities**

If you look at the Statements of Activities on pages 10, 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 Village public services and programs. The next two columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and 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.

**The Village's Funds**

Total governmental funds had receipts of \$80,920 and disbursements of \$72,762, for 2006. From 2005 to 2006, the fund balance of the General Fund increased \$8,970, as a result of less expenditures. The Street Construction, Maintenance and Repair fund decreased \$978 as a result of increased costs for road repairs.

**General 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.

Original receipts were budgeted at \$37,117, and final receipts were budgeted at \$38,691, while actual receipts were \$52,854, for 2006.

Original disbursements were budgeted at \$50,075, and final disbursements were budgeted at \$68,075, while actual disbursements were \$43,884, for 2006.

**Debt and Capital Assets**

The Village currently has no outstanding debt. The Village has chosen not to present capital assets as part of its financial statements. The Village does however, track their capital assets even though they are not presented.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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**Current Issues**

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding.

**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 Erin Knife, Village Clerk, Village of Aquilla, 65 Turner Road, Chardon, OH 44024.

**Village of Aquilla**  
**Geauga County**  
*Statement of Net Assets - Cash Basis*  
*December 31, 2006*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$108,473</u>
<b>Net Assets</b>	
Restricted for:	
Other Purposes	20,498
Unrestricted	<u>87,975</u>
<i>Total Net Assets</i>	<u>\$108,473</u>

See accompanying notes to the basic financial statements

**Village of Aquilla**  
**Geauga County**  
*Statement of Activities - Cash Basis*  
*For the Year Ended December 31, 2006*

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
General Government	\$39,282	\$1,040	\$0	(\$38,242)
Security of Persons and Property	4,031	4,197	0	166
Leisure Time Activities	4,602	0	0	(4,602)
Transportation	24,847	0	15,054	(9,793)
<b>Total</b>	<b>\$72,762</b>	<b>\$5,237</b>	<b>\$15,054</b>	<b>(52,471)</b>
		<b>General Receipts</b>		
		Property Taxes Levied for:		
		General Purposes		13,714
		Road Improvement		8,815
		Grants and Entitlements not Restricted to		
		Specific Programs		23,937
		Cable Franchise Fees		1,522
		Miscellaneous		12,641
		<i>Total General Receipts</i>		60,629
		Change in Net Assets		8,158
		<i>Net Assets Beginning of Year</i>		100,315
		<i>Net Assets End of Year</i>		<b>\$108,473</b>

See accompanying notes to the basic financial statements

**Village of Aquilla**  
**Geauga County**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*December 31, 2006*

	General	Street Construction, Maintenance and Repair	Other Governmental Fund	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$87,975	\$20,142	\$356	\$108,473
<b>Fund Balances</b>				
Unreserved:				
Undesignated, Reported in:				
General Fund	\$87,975	\$0	\$0	\$87,975
Special Revenue Funds	0	20,142	356	20,498
<i>Total Fund Balances</i>	<u>\$87,975</u>	<u>\$20,142</u>	<u>\$356</u>	<u>\$108,473</u>

See accompanying notes to the basic financial statements

**Village of Aquilla**  
**Geauga County**

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

	General	Street Construction, Maintenance and Repair	Other Governmental Fund	Total Governmental Funds
<b>Receipts</b>				
Property Taxes	\$13,714	\$8,815	\$0	\$22,529
Fines, Licenses and Permits	1,040	0	0	1,040
Intergovernmental	23,937	15,054	0	38,991
Special Assessments	0	0	4,197	4,197
Cable Franchise Fees	1,522	0	0	1,522
Miscellaneous	12,641	0	0	12,641
<i>Total Receipts</i>	<u>52,854</u>	<u>23,869</u>	<u>4,197</u>	<u>80,920</u>
<b>Disbursements</b>				
Current:				
General Government	39,282	0	0	39,282
Security of Persons and Property	0	0	4,031	4,031
Leisure Time Activities	4,602	0	0	4,602
Transportation	0	24,847	0	24,847
<i>Total Disbursements</i>	<u>43,884</u>	<u>24,847</u>	<u>4,031</u>	<u>72,762</u>
<i>Net Change in Fund Balances</i>	8,970	(978)	166	8,158
<i>Fund Balances Beginning of Year</i>	<u>79,005</u>	<u>21,120</u>	<u>190</u>	<u>100,315</u>
<i>Fund Balances End of Year</i>	<u><u>\$87,975</u></u>	<u><u>\$20,142</u></u>	<u><u>\$356</u></u>	<u><u>\$108,473</u></u>

See accompanying notes to the basic financial statements



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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Receipts</b>				
Property and Other Local Taxes	\$12,057	\$13,571	\$13,714	\$143
Fines, Licenses and Permits	0	0	1,040	1,040
Intergovernmental	25,060	25,120	23,937	(1,183)
Cable Franchise Fees	0	0	1,522	1,522
Miscellaneous	0	0	12,641	12,641
<i>Total receipts</i>	<u>37,117</u>	<u>38,691</u>	<u>52,854</u>	<u>14,163</u>
<b>Disbursements</b>				
Current:				
General Government	45,075	63,075	39,282	23,793
Leisure Time Activities	5,000	5,000	4,602	398
<i>Total Disbursements</i>	<u>50,075</u>	<u>68,075</u>	<u>43,884</u>	<u>24,191</u>
<i>Net Change in Fund Balance</i>	(12,958)	(29,384)	8,970	38,354
<i>Fund Balance Beginning of Year</i>	<u>73,240</u>	<u>73,240</u>	<u>79,005</u>	<u>(5,765)</u>
<i>Fund Balance End of Year</i>	<u><u>\$60,282</u></u>	<u><u>\$43,856</u></u>	<u><u>\$87,975</u></u>	<u><u>\$32,589</u></u>

See accompanying notes to the basic financial statements

**Village of Aquilla**

**Geauga County**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budget Basis  
Street Construction, Maintenance and Repair  
For the Year Ended December 31, 2006*

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	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property and Other Local Taxes	\$8,524	\$8,730	\$8,815	\$85
Intergovernmental	1,091	1,002	15,054	14,052
<i>Total receipts</i>	9,615	9,732	23,869	14,137
<b>Disbursements</b>				
Current:				
Transportation	28,000	28,000	24,847	3,153
<i>Net Change in Fund Balance</i>	(18,385)	(18,268)	(978)	17,290
<i>Fund Balance Beginning of Year</i>	22,619	22,619	21,120	1,499
<i>Fund Balance End of Year</i>	<u>\$4,234</u>	<u>\$4,351</u>	<u>\$20,142</u>	<u>\$18,789</u>

See accompanying notes to the basic financial statements

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Note 1 – Description of the Village and Reporting Entity**

The Village of Aquilla, Geauga 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 Village provides general government services, including street maintenance and building inspections.

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the 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 financial support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations for which the Village approves the budget, the issuance of debt or the levying of 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.

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

**Note 2 – Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This 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 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 cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Village's accounting policies.

**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, except for fiduciary funds. 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 nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions. Monies are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Village's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

The other governmental fund of the Village accounts for special assessments and other resources whose use is restricted to a particular purpose.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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C. Basis of Accounting

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

As a result of the use of this 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 liabilities and the related expenses) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund level for all funds.

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

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

E. Cash and Investments

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

F. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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G. Capital Assets

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

H. 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 cash basis of accounting.

I. 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 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports \$20,498 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for special Village programs.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

M. Interfund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**Note 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 and street construction, maintenance and repair special revenue fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. There are no differences between the budgetary basis and the cash basis.

**Note 4 – Deposits and Investments**

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

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

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

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

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;

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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 Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

#### Deposits

Custodial credit risk 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, \$8,553 of the Village's bank balance of \$108,553 was exposed to custodial credit risk because those deposits were 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.

#### **Note 5 – Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in Geauga County. Property tax receipt received during fiscal year for real and public utility property taxes represents collections of the prior years taxes. Property tax payments received during fiscal year for tangible personal property (other than public utility property) are for current year taxes.

Current year real property taxes are levied after October 1, on the assessed value as of January 1, the lien date. Assessed values are established by State law at 35 percent of appraised market value. Current year real property taxes are collected in and intended to finance the following fiscal year.

Real property taxes are payable annually or semi-annually. If paid annually, the 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 later payment dates to be established. Tangible personal property taxes paid 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.



**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. Current year public utility property taxes became a lien December 31, are levied after October 1, and are collected in the following fiscal year with real property taxes.

Current year tangible personal property taxes are levied after October 1, of the prior year, on the value as of December 31, of the prior year. Collections are made in the current year. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent in 2007, 6.25 percent for 2008 and zero for 2009. 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 full tax rate for all Village operations for the years ended December 31, 2006 was \$97.48 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

	2006
Real Property	\$4,443,180
Tangible Personal Property	23,810
Public Utility	129,320
Total Valuation	\$4,596,310

**Note 6 – Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the Village contracted with several companies for various types of insurance coverage as follows:

Company	Type of coverage	Coverage
Ohio Casualty Group	General Liability	\$300,000
	Buildings and Personal Property	100,000
	Errors and Omissions	2,200

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

**Note 7 – Defined Benefit Pension Plans**

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

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 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; members in public safety contributed 9.00 percent. 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 \$950, \$1,205, and \$1,146 respectively; the full amount has been contributed for 2006, 2005, and 2004. No contributions to the member-directed plan were made in either 2006 or 2005.

**Note 8 - Postemployment Benefits**

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 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 13.7 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age 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 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 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.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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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 employer contributions for 2006 which were used to fund postemployment benefits were \$465. 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 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.

Note 9 - Compliance

The Village was in violation of Ohio Revised Code section 5705.41(D).

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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This discussion and analysis of the Village of Aquilla (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Village's 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 2005 are as follows:

- Net assets of governmental activities increased \$20,175 or 25.17 percent increase from 2004 to 2005.
- The Village's general receipts are primarily property taxes and state levied taxes.

**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 cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole. Fund financial statements provide a greater level of detail.

Funds are created and maintained on the financial records of 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 in separate columns.

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

**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 cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the 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 cash basis of accounting.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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**Reporting the Village as a Whole**

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

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

In the statement of net assets and the statement of activities, the Village reports:

Governmental activities. All of the Village's programs and basic services are reported here including general public services, purchased and contracted services and collection development and processing. Village and local government support and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**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 all categorized as governmental.

Governmental Funds. All of the Village's activities are reported in governmental funds. The governmental funds 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 nonmajor 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 and Street Construction, Maintenance and Repair Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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**The Village as a Whole**

Table 1 provides a comparison of the Village's net assets for 2005 and 2004 on a cash basis:

**TABLE 1**  
**Statement of Net Assets**

	Governmental Activities		Change
	2005	2004	
<b>Assets</b>			
Cash and Cash Equivalents	\$100,315	\$80,140	\$20,175
<b>Net Assets</b>			
Restricted			
Other Purposes	21,310	17,538	3,772
Unrestricted	79,005	62,602	16,403
	\$100,315	\$80,140	\$20,175

As mentioned previously, net assets of governmental activities increased \$20,175 or 25.17 percent during 2005.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

Table 2 reflects 2005 activity in detail. A comparative analysis of government-wide data cannot be presented for the first year.

**TABLE 2**  
**Changes in Net Assets**

	<u>Governmental Activities</u>
	<u>2005</u>
<b>Receipts</b>	
Program Receipts:	
Charges for Services	\$4,731
Operating Grants and Contributions	11,435
<i>Total Program Receipts</i>	<i>16,166</i>
General Receipts:	
Property Taxes	20,683
Grants and Entitlements	29,220
Interest	10
Cable Franchise Fees	1,504
Miscellaneous	2,226
<i>Total General Receipts</i>	<i>53,643</i>
<i>Total Receipts</i>	<i>69,809</i>
<b>Program Expenses</b>	
General Government	29,496
Security of Persons and Property	3,174
Transportation	16,964
<i>Total Program Expenses</i>	<i>49,634</i>
Increase in Net Assets	20,175
Net Assets Beginning of Year	80,140
Net Assets End of Year	<i>\$100,315</i>

Program receipts of \$16,166 in 2005 are primarily comprised of state levied taxes and fines and forfeitures.

General receipts represent 76.84 percent of total receipts in 2005. Grants and entitlements make up 54.47 percent of general receipts in 2005. Property taxes account for 38.56 percent of general receipts. Property taxes and grants and entitlements account for 71.46 percent of the total receipts.

The majority of disbursements come from general government and transportation expenses. These two make up 93.61 percent of expenses in 2005.



**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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**Governmental Activities**

If you look at the Statements of Activities on page 32, 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 Village public services and programs. The next two columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and 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.

**The Village's Funds**

Total governmental funds had receipts of \$69,809, and disbursements of \$49,634, for 2005. From 2004 to 2005, the fund balance of the General Fund increased \$15,211 as the result of less expenditures. The Street Construction, Maintenance and Repair fund increased \$3,582 from 2004 to 2005 and the Street Lighting fund increased \$1,382 from 2004 to 2005. These increases were due to slight increases in receipts.

**General 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.

For 2005, original receipts were budgeted at \$37,290, and final receipts were budgeted at \$37,290, while actual receipts were 44,707, for 2005.

For 2005, original disbursements were budgeted at \$0 and final disbursements were budgeted at \$0, while actual disbursements were \$29,496, for 2005.

**Debt and Capital Assets**

The Village currently has no outstanding debt. The Village has chosen not to present capital assets as part of its financial statements. The Village does however, track their capital assets even though they are not presented.

**Village of Aquilla**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2005*  
*Unaudited*

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**Current Issues**

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding.

**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 Erin Knife, Village Clerk, Village of Aquilla, 65 Turner Road, Chardon, OH 44024.

**Village of Aquilla**  
**Geauga County**  
*Statement of Net Assets - Cash Basis*  
*December 31, 2005*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$100,315</u>
<b>Net Assets</b>	
Restricted for:	
Other Purposes	21,310
Unrestricted	<u>79,005</u>
<i>Total Net Assets</i>	<u>\$100,315</u>

See accompanying notes to the basic financial statements.

**Village of Aquilla**  
**Geauga County**  
*Statement of Activities - Cash Basis*  
*For the Year Ended December 31, 2005*

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
General Government	\$29,496	\$175	\$0	(\$29,321)
Security of Persons and Property	3,174	4,556	0	1,382
Transportation	16,964	0	11,435	(5,529)
<b>Total</b>	<u>\$49,634</u>	<u>\$4,731</u>	<u>\$11,435</u>	<u>(33,468)</u>
		<b>General Receipts</b>		
		Property Taxes Levied for:		
				12,086
				8,597
		Grants and Entitlements not Restricted to		
				29,220
				10
				1,504
				2,226
		<i>Total General Receipts</i>		
				53,643
		Change in Net Assets		
				20,175
		<i>Net Assets Beginning of Year</i>		
				80,140
		<i>Net Assets End of Year</i>		
				<u>\$100,315</u>

See accompanying notes to the basic financial statements

**Village of Aquilla**  
**Geauga County**  
*Statement of Assets and Fund Balances- Cash Basis*  
*Governmental Funds*  
*December 31, 2005*

	General	Street Construction, Maintenance and Repair	Other Governmental Fund	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$79,005	\$21,120	\$190	\$100,315
<b>Fund Balances</b>				
Unreserved:				
Undesignated, Reported in:				
General Fund	\$79,005	\$0	\$0	\$79,005
Special Revenue Funds	0	21,120	190	21,310
<i>Total Fund Balances</i>	<u>\$79,005</u>	<u>\$21,120</u>	<u>\$190</u>	<u>\$100,315</u>

See accompanying notes to the basic financial statements

**Village of Aquilla**  
**Geauga County**

*Statement of Receipts, Disbursements and Changes in Fund Balances - Cash Basis*  
*Governmental Funds*  
*For the Year Ended December 31, 2005*

	General	Street Construction, Maintenance and Repair	Other Governmental Fund	Total Governmental Funds
<b>Receipts</b>				
Property and Other Local Taxes	\$12,086	\$8,597	\$0	\$20,683
Fines, Licenses and Permits	175	0	0	175
Intergovernmental	29,220	11,435	0	40,655
Special Assessments	0	0	4,556	4,556
Interest	10	0	0	10
Cable Franchise Fees	1,504	0	0	1,504
Miscellaneous	1,712	514	0	2,226
<i>Total Receipts</i>	<u>44,707</u>	<u>20,546</u>	<u>4,556</u>	<u>69,809</u>
<b>Disbursements</b>				
Current:				
General Government	29,496	0	0	29,496
Security of Persons and Property	0	0	3,174	3,174
Transportation	0	16,964	0	16,964
<i>Total Disbursements</i>	<u>29,496</u>	<u>16,964</u>	<u>3,174</u>	<u>49,634</u>
<i>Net Change in Fund Balances</i>	15,211	3,582	1,382	20,175
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>63,794</u>	<u>17,538</u>	<u>(1,192)</u>	<u>80,140</u>
<i>Fund Balances End of Year</i>	<u><u>\$79,005</u></u>	<u><u>\$21,120</u></u>	<u><u>\$190</u></u>	<u><u>\$100,315</u></u>

See accompanying notes to the basic financial statements

**Village of Aquilla**  
**Geauga County**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$11,860	\$11,860	\$12,086	\$226
Fines, Licenses and Permits	0	0	175	175
Intergovernmental	25,430	25,430	29,220	3,790
Interest	0	0	10	10
Cable Franchise Fees	0	0	1,504	1,504
Miscellaneous	0	0	1,712	1,712
<i>Total receipts</i>	37,290	37,290	44,707	7,417
<b>Disbursements</b>				
Current:				
General Government	0	0	29,496	(29,496)
<i>Net Change in Fund Balance</i>	37,290	37,290	15,211	(22,079)
<i>Fund Balance Beginning of Year</i>	58,022	58,022	63,794	(5,772)
<i>Fund Balance End of Year</i>	<u>\$95,312</u>	<u>\$95,312</u>	<u>\$79,005</u>	<u>(\$27,851)</u>

See accompanying notes to the basic financial statements

**Village of Aquilla**

**Geauga County**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual - Budget Basis  
Street Construction, Maintenance and Repair  
For the Year Ended December 31, 2005*

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	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Receipts</b>				
Property and Other Local Taxes	\$0	\$0	\$8,597	\$8,597
Intergovernmental	0	0	11,435	11,435
Miscellaneous	0	0	514	514
<i>Total receipts</i>	0	0	20,546	20,546
<b>Disbursements</b>				
Current:				
Transportation	0	0	16,964	(16,964)
<i>Net Change in Fund Balance</i>	0	0	3,582	3,582
<i>Fund Balance Beginning of Year</i>	17,538	17,538	17,538	0
<i>Fund Balance End of Year</i>	<u>\$17,538</u>	<u>\$17,538</u>	<u>\$21,120</u>	<u>\$3,582</u>

See accompanying notes to the basic financial statements



**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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**Note 1 – Description of the Village and Reporting Entity**

The Village of Aquilla, Geauga 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 Village provides general government services, including street maintenance and building inspections.

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the 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 financial support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations for which the Village approves the budget, the issuance of debt or the levying of 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.

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

**Note 2 – Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a *modified* cash basis of accounting. This 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 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 cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Village's accounting policies.

**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, except for fiduciary funds. 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 nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions. Monies are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Village's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

The other governmental fund of the Village accounts for special assessments and other resources whose use is restricted to a particular purpose.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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C. Basis of Accounting

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

As a result of the use of this 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 liabilities and the related expenses) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund level for all funds.

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

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

E. Cash and Investments

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

F. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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G. Capital Assets

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

H. 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 cash basis of accounting.

I. 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.

J. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The government-wide statement of net assets reports \$21,310 of restricted net assets, none of which is restricted by enabling legislation. Net assets restricted for other purposes include resources restricted for special Village programs.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

M. Interfund Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**Note 3 – Change in Basis of Accounting and Restatement of Fund Equity**

For the year ended December 31, 2004, the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor’s Office. For the year ended December 31, 2005, the Village revised its financial presentation comparable to the requirements of GASB Statement No. 34, “Basis Financial Statements – and Management’s Discussion and Analysis for State and Local Governments”. The financial statements now include entity-wide financial statements, which present information for the Village as a whole, and fund financial statements, which present information for individual major funds rather than by fund type.

The Village also implemented GASB Statement No. 37, which clarifies certain provisions of Statement No. 34, including the required content of the Management’s Discussion and Analysis, the classification of program revenues and the criteria for determining major funds, and GASB Statement No. 38, which modifies, establishes and rescinds certain financial statement note disclosures.

For 2005, the Village has implemented GASB Statement No. 40, “Deposits and Investment Risk Disclosure”. GASB Statement No. 40 creates new disclosure requirements for deposits and investments related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the Village’s financial statements for 2005.

The transition from the regulatory basis of accounting to the cash basis of accounting generated no changes to fund balances as previously reported at December 31, 2004.

**Note 4 – Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and the street construction, maintenance and repair special revenue fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. There are no differences between the budgetary basis and the cash basis.

**Note 5 – Compliance**

Contrary to Section 5705.41(B), Ohio Revised Code, the General and Street Construction, Maintenance and Repair funds had, at the fund level, expenditures plus encumbrances in excess of appropriations:

Fund	Appropriations	Expenditures Plus Encumbrances	Excess
General	\$0	\$29,496	(\$29,496)
Street Construction Maintenance and Repair	0	16,964	(16,964)

The Village was also in violation of 5705.41(D) and 5705.38(A).

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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**Note 6 – Deposits and Investments**

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

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

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

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

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,

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk 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, \$387 of the Village's bank balance of \$100,387 was exposed to custodial credit risk because those deposits were 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.

**Note 7 – Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in Geauga County. Property tax receipt received during fiscal year for real and public utility property taxes represents collections of the prior years taxes. Property tax payments received during fiscal year for tangible personal property (other than public utility property) are for current year taxes.

Current year real property taxes are levied after October 1, on the assessed value as of January 1, the lien date. Assessed values are established by State law at 35 percent of appraised market value. Current year real property taxes are collected in and intended to finance the following fiscal year.

Real property taxes are payable annually or semi-annually. If paid annually, the 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 later payment dates to be established. Tangible personal property taxes paid 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.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. Current year public utility property taxes became a lien December 31, are levied after October 1, and are collected in the following fiscal year with real property taxes.

Current year tangible personal property taxes are levied after October 1, of the prior year, on the value as of December 31, of the prior year. Collections are made in the current year. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory is 18.75 percent. This will be reduced to 12.5 percent in 2007, 6.25 percent for 2008 and zero for 2009. 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.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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The full tax rate for all Village operations for the year ended December 31, 2005, was \$97.48 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

	2005
Real Property	\$3,564,170
Tangible Personal Property	36,710
Public Utility	144,360
Total Valuation	\$3,745,240

**Note 8 – Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the Village contracted with several companies for various types of insurance coverage as follows:

Company	Type of coverage	Coverage
Ohio Casualty Group	General Liability	\$300,000
	Buildings and Personal Property	100,000
	Errors and Omissions	2,200

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

**Note 9 – Defined Benefit Pension Plans**

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) 222-6705 or (800) 222-7377.



**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 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; members in public safety contributed 9.00 percent. The Village's contribution rate for pension benefits for 2005 was 9.55 percent. 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, 2005 and 2004 were \$1,205, and \$1,146 respectively; the full amount has been contributed for 2005, and 2004. No contributions to the member-directed plan were made in 2005.

**Note 10 - Postemployment Benefits**

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 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 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.0 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age 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 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 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 employer contributions for 2005 which were used to fund postemployment benefits were \$340. 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 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 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.

**Village of Aquilla**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2005*

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# Mary Taylor, CPA

Auditor of State

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

Village of Aquilla  
Geauga County  
65 Turner Drive  
Chardon, Ohio 44024

To the Village Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Aquilla, Geauga County, (the Village) as of and for the years ended December 31, 2006 and December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated April 17, 2008, wherein we noted the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions 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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-004 and 2006-005.

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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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. However, of the significant deficiencies described above, we believe findings number 2006-004 and 2006-005 are also material weaknesses.

#### **Compliance and Other Matters**

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

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 17, 2008.

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



**Mary Taylor, CPA**  
Auditor of State

April 17, 2008

VILLAGE OF AQUILLA  
GEAUGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 and 2005

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

Noncompliance Citations

FINDING NUMBER	2006-001
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**Ohio Revised Code § 5705.38(A)** provides that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1 of the current year, and the appropriation made in the temporary measure shall be chargeable to the appropriations in the annual appropriation measure for that fiscal year when passed.

The Village passed a permanent appropriation measure on May 1, 2006 for fiscal year 2006. The Village did not file with the County Budget Commission either a temporary or permanent appropriation measure for fiscal year 2005.

We recommend the Village pass temporary and permanent appropriations timely and update the ledgers on a monthly basis. Also, the Village should review their unencumbered appropriation prior to making encumbrances or expenditures.

FINDING NUMBER	2006-002
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**Ohio Revised Code § 5705.41(B)** prohibits a subdivision or taxing unit from making an expenditure unless it has been appropriated.

The Village did not pass a temporary or permanent appropriation measure for fiscal year 2005, therefore, the Village was expending monies illegally from all funds in the amount of \$49,711 for the period January 1, 2005 to December 31, 2005.

The Village should adopt appropriations timely and monitor expenditures and encumbrances committed against those appropriations, at the legal level of control. Pursuant to Ohio Administrative Code Section 117-2-02(C)(1), appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

FINDING NUMBER	2006-003
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**Ohio Rev. Code § 5705.41(D)(1)** prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

VILLAGE OF AQUILLA  
GEAUGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)

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

Noncompliance Citations (Continued)

FINDING NUMBER	2006-003
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**1. “Then and Now” certificate** – If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

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

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

The Village did not utilize purchase orders during the audit period, so (100%) of transactions tested were not certified by the fiscal officer at the time of the commitment was incurred and neither of the exceptions discussed above were used. Failure to properly certify the availability of funds can result in overspending fund and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Clerk-Treasurer utilize the encumbrance method of accounting and certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village encumber and certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**VILLAGE OF AQUILLA  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Material Weaknesses**

<b>FINDING NUMBER</b>	<b>2006-004</b>
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**Condition of the Financial Records**

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that are designed to record, process, summarize and report transactions consistent with management's assertions. Also, the fair presentation of cash basis financial statements is a direct and integral part of management's responsibility to provide reliable and accurate information.

We noted the Village's financial records had the following weaknesses:

- The Village has no revenue ledgers for fiscal years 2005 and 2006;
- The Village utilizes a pre-numbered duplicate receipt book, a receipt was not prepared for funds received from the County or the State by Clerk-Treasurer; and,
- The Mayor and Council did not always receive monthly financial reports during 2005 and 2006 and when the Mayor and Council did receive reports, they were not accurate;

We recommend that the Village develop and maintain a system of controls and financial records which exhibit the financial position of the Village, and at a minimum, consist of the following:

- Revenue ledgers which record all sources of monies received, purpose of the receipt, and from whom received;
- Sequentially pre-numbered duplicate receipts prepared for all monies received;
- Copies of all deposit transactions to the bank;
- Reconciliations of bank deposits to duplicate receipts and revenue ledgers;
- Preparation of monthly financial statements;
- Development of management policies which enumerate and describe the financial records to be maintained by the Village;
- Development by management of a complete system of controls to help ensure the completeness, accuracy, and validity of the Village's financial transactions;
- Evidence of review of the financial statements and supporting documentation by the Mayor and Council; and;
- Any other records (financial or non-financial) which the Mayor or Council should determine to be useful in the discharge of their duties.

It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the Village management should seek training sessions for financial statement preparation, read and study the available authoritative literature, develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity, and if necessary seek out the assistance of a professional who is familiar with the these requirements.

VILLAGE OF AQUILLA  
GEAUGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2006  
(Continued)

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

Material Weaknesses (Continued)

FINDING NUMBER	2006-005
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Segregation of Duties/Council Monitoring Controls

The Clerk-Treasurer performs the following duties:

- Receives over-the-counter money and processes it through the financial records;
- Receives mail and processes the money through the financial records;
- Prepares and makes the daily deposits with the bank;
- Posts revenue transactions to the Cash Journal;
- Processes and posts all disbursements to the Cash Journal;
- Reconciles the bank account; and,
- Prepares the annual financial statements;

The lack of segregation of duties allows for the possibility of errors or diversion of funds occurring without being detected on a timely basis. In addition, no one compares the actual receipts and expenditures to budgeted figures; reviews and approves the financial statements; or reviews the journals, ledgers, and bank reconciliations. As a result, Council is not completely aware of the financial position of the Village.

To improve controls over revenue and expenditures, Council should expand their fiscal monitoring procedures to include review of detail budgetary reports and ledgers. In addition, Council should ensure reconciliations between the ledgers and journals are performed on a monthly basis, along with bank reconciliations. This will increase their awareness of interim financial activity and also help gauge the Village's financial status on a regular basis. This type of review will also provide additional checks and balances to reduce the risks inherent in a control environment which lacks a segregation of accounting duties.

The Clerk-Treasurer should maintain up to date financial records and the financial report should be presented to the Council for review and approval at the monthly Council meetings to allow the Village to make sound financial decisions. By reviewing and approving monthly financial information, the Council will be better able to assess the Village's current and long-term financial position.

Official Response: No Response Received for Findings 2006-001 through 2006-005.



**VILLAGE OF AQUILLA  
GEAUGA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain</b>
2004-001	Finding for Recovery – Overpayment of Clerk-Treasurer.	Yes	
2004-002	Finding for Recovery – Overpayment by Clerk-Treasurer to Street Commissioner.	Yes	
2004-003	ORC 117.38 – The Village did not file its annual financial report.	Yes	
2004-004	ORC 5705.36 – The Village did not certify available funds to the County Auditor	Yes	
2004-005	ORC 5705.38 (A) – The Village did not establish annual appropriations.	No	Not Corrected - Reissued in Schedule of Findings as 2006-001.
2004-006	ORC 5705.41(B) – The Village did not pass appropriations timely.	No	Partially Corrected - Reissued in Schedule of Findings as 2006-002.
2004-007	ORC 5705.41 (D) – The Village did not utilize purchase orders as required.	No	Not Corrected - Reissued in Schedule of Findings as 2006-003.
2004-008	Maintenance of accurate financial records.	No	Partially Corrected - Reissued in Schedule of Findings as 2006-004
2004-009	Segregation of duties of work performed by Clerk-Treasurer	No	Not Corrected - Reissued in Schedule of Findings as 2006-005





**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF AQUILLA**

**GEAUGA 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  
MAY 6, 2008**