

VILLAGE OF LEIPSIC
PUTNAM COUNTY
FINANCIAL STATEMENTS
Year Ended December 31, 2006



Mary Taylor, CPA
Auditor of State

Village Council
Village of Leipsic
142 E. Main Street
Leipsic, Ohio 45856

We have reviewed the *Independent Auditor's Report* of the Village of Leipsic, Putnam County, prepared by Steyer & Co. CPA's, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Leipsic is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 10, 2008

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INDEPENDENT AUDITOR'S REPORT

Village of Leipsic
Putnam County, Ohio

To the Village Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

As described in Note 1 to the financial statements, the Village prepares its financial statements on the modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2008, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 – 8 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Steyer & Co." in a cursive, flowing script.

STEYER & CO.
Certified Public Accountants
Defiance, Ohio
July 3, 2008

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

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

Highlights

Key highlights for 2006 are as follows:

Net assets of governmental activities increased \$4,733,097, or 589%, a significant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the Reservoir Fund, which had a large increase due to the issuance of temporary revenue bonds.

The Village's general receipts, other than the issuance of bonds, are primarily municipal income taxes. These receipts represent 19% of the total cash received for governmental activities during the year. Income tax receipts for 2006 increased 15% compared to 2005 indicative of increased earnings within the Village of Leipsic.

The Water Fund, the Sanitary Sewer Fund, and the Wastewater Debt Fund, the Village of Leipsic's major business-type activities, realized changes in net assets of a decrease of 89%, an increase of 28%, a decrease of 26%, respectively. The majority of these changes are due to increases in contractual services, capital outlay, and principal and interest payments on debt service.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's modified cash basis of accounting.

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

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

Reporting the Government as a Whole

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

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

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

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

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

Business-type activities. The Village has two business-type activities, the provision of water and sewer. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the Village's Most Significant Funds

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

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

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

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village has three major enterprise funds, the Water Fund, Sanitary Sewer Fund, and Wastewater Debt Fund. When the services are provided to other departments of the Village, the service is reported as an internal service fund. The Village has no internal service funds.

The Village as a Whole

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

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Cash and cash equivalents	\$ 5,537,125	\$ 804,028	\$ 558,368	\$ 583,962	\$ 6,095,493	\$ 1,387,990
Total Assets	\$ 5,537,125	\$ 804,028	\$ 558,368	\$ 583,962	\$ 6,095,493	\$ 1,387,990
Net Assets						
Unrestricted	\$ 5,537,125	\$ 804,028	\$ 558,368	\$ 583,962	\$ 6,095,493	\$ 1,387,990
Total Net Assets	\$ 5,537,125	\$ 804,028	\$ 558,368	\$ 583,962	\$ 6,095,493	\$ 1,387,990

As mentioned previously, net assets of governmental activities increased \$4,733,097 or 589% during 2006. The primary reasons contributing to the increases in cash balances are as follows:

- There was an increase in the Reservoir Fund due to the issuance of temporary revenue bonds.

Table 2 reflects the changes in net assets on a modified cash basis in 2006 and 2005 for governmental activities, business-type activities, and total primary government.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005		
RECEIPTS:						
PROGRAM RECEIPTS:						
Charges for services and sales	\$ 67,070	\$ 74,818	\$ 1,353,038	\$ 1,211,395	\$1,420,108	\$1,286,213
Capital grants and contributions	<u>203,018</u>	<u>30,250</u>	<u>-</u>	<u>-</u>	<u>203,018</u>	<u>30,250</u>
Total program receipts	<u>270,088</u>	<u>105,068</u>	<u>1,353,038</u>	<u>1,211,395</u>	<u>1,623,126</u>	<u>1,316,463</u>
GENERAL RECEIPTS:						
Property and other local taxes	262,608	246,851	71,996	79,196	334,604	326,047
Income taxes	2,037,845	1,774,953	-	-	2,037,845	1,774,953
Grants and entitlements not restricted to specific programs	325,580	437,051	6,563	8,602	332,143	445,653
Sale of capital assets	98,696	3,598	-	-	98,696	3,598
Bonds issued	7,700,000	200,000	-	-	7,700,000	200,000
Fines, licenses and permits	11,385	10,587	3,262	5,905	14,647	16,492
Interest	41,289	36,520	18,172	-	59,461	36,520
Miscellaneous	<u>79,159</u>	<u>53,747</u>	<u>156,336</u>	<u>125,227</u>	<u>235,495</u>	<u>178,974</u>
Total general receipts	<u>10,556,562</u>	<u>2,763,307</u>	<u>256,329</u>	<u>218,930</u>	<u>10,812,891</u>	<u>2,982,237</u>
Total receipts	<u>10,826,650</u>	<u>2,868,375</u>	<u>1,609,367</u>	<u>1,430,325</u>	<u>12,436,017</u>	<u>4,298,700</u>
DISBURSEMENTS:						
General government	331,045	231,874	-	-	331,045	231,874
Security of persons and property	354,732	285,028	-	-	354,732	285,028
Public health services	1,852	3,061	-	-	1,852	3,061
Leisure time activities	84,626	102,205	-	-	84,626	102,205
Community environment	23,315	30,369	-	-	23,315	30,369
Transportation	227,875	254,261	1,940	3,953	229,815	258,214
Capital outlay	3,819,254	763,021	142,076	71,374	3,961,330	834,395
Debt Service:						
Principal retirement	-	567,000	540,789	142,952	540,789	709,952
Interest and fiscal charges	-	17,849	244,459	203,131	244,459	220,980
Personal services	-	-	541,573	514,187	541,573	514,187
Contractual services	728,354	81,053	568,112	412,166	1,296,466	493,219
Supplies and materials	<u>-</u>	<u>-</u>	<u>118,512</u>	<u>100,252</u>	<u>118,512</u>	<u>100,252</u>
Total disbursements	<u>5,571,053</u>	<u>2,335,721</u>	<u>2,157,461</u>	<u>1,448,015</u>	<u>7,728,514</u>	<u>3,783,736</u>
Excess (deficiency) before transfers	5,255,597	532,654	(548,094)	(17,690)	4,707,503	514,964
Transfers	<u>(522,500)</u>	<u>(429,000)</u>	<u>522,500</u>	<u>429,000</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	4,733,097	103,654	(25,594)	411,310	4,707,503	514,964
Net assets, January 1, 2006	<u>804,028</u>	<u>700,374</u>	<u>583,962</u>	<u>172,652</u>	<u>1,387,990</u>	<u>873,026</u>
Net assets, December 31, 2006	<u>\$ 5,537,125</u>	<u>\$ 804,028</u>	<u>\$ 558,368</u>	<u>\$ 583,962</u>	<u>\$6,095,493</u>	<u>\$1,387,990</u>

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

Program receipts represent only 13% of total receipts and are primarily comprised of water and sewer user fees. Intergovernmental receipts such as CDBG grants as well as EMS rent, shelter house rent, swimming pool admissions, and concessions are also included in program receipts.

General receipts represent 87% of the Village's total receipts, and of this amount, 71% are from the issuance of bonds, and 22% are local taxes. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of council, mayor, administrator, solicitor, fiscal officer, and community environment departments, as well as internal services such as payroll and purchasing.

Security of Persons and Property are the costs of police and fire protection; Leisure Time Activities are the costs of maintaining the pool and parks; the economic development department promotes the Village to industry and commerce as well as working with other governments in the area to attract new business; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on page 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 capital improvements, which account for 69% of all governmental disbursements. Contractual services, security of persons and property, general government, and transportation, also represent significant costs, about 13%, 6%, 6%, and 4%, respectively. The next two columns of the Statement entitled Program 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. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)
Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
General government	\$ 354,067	\$ 110,882	\$ 231,874	\$ 153,925
Security of persons and property	354,732	354,732	285,028	285,028
Public health services	1,852	(1,748)	3,061	(539)
Leisure time activities	84,626	61,323	102,205	78,686
Community environment	23,315	23,315	30,369	30,369
Transportation	227,875	227,875	254,261	254,261
Contractual services	728,354	728,354	81,053	81,053
Capital outlay	3,819,254	3,819,254	763,021	763,021
Principal retirement	-	-	567,000	567,000
Interest and fiscal charges	-	-	17,849	17,849
Total expenses	<u>\$ 5,594,075</u>	<u>\$ 5,323,987</u>	<u>\$ 2,335,721</u>	<u>\$ 2,230,653</u>

The dependence upon property and income tax receipts is apparent as over 95% of governmental activities are supported through these general receipts.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
UNAUDITED**

Business-Type Activities

The Village of Leipsic has two major business-type activities, the provision of water and sewer, which are accounted for in the Water Fund, Water Debt Fund, Sanitary Sewer Fund, and Wastewater Debt Fund. Charges for services support 63% of the business-type activity disbursements.

The Government's Funds

Total governmental funds had receipts and other financing sources of \$12,191,885 and disbursements and other financing uses of \$7,458,788. The greatest change within governmental funds occurred within the Reservoir Fund. The fund balance of the Reservoir Fund increased \$4,970,976 due to the issuance of bonds.

The Reservoir Fund and Other Governmental Funds receipts were less than disbursements by \$3,345,228 and \$661,304, respectively, indicating that these funds are in a deficit spending situation. Management feels that short term deficit spending is acceptable based upon the fund balance but will continue to look for cost cutting measures as personal property tax and intergovernmental revenues are expected to decrease in the future.

General Fund Budgeting Highlights

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

During 2006, the Village amended its General Fund budget to reflect changing circumstances. Final budgeted receipts and other financing sources were the same as original budgeted receipts.

Final disbursements and other financing uses were budgeted at \$1,712,205 while actual disbursements were \$2,950,487. Although receipts failed to live up to expectations, appropriations were not reduced. The Village kept spending in areas like capital outlay and security of persons and property. The result is the decrease in fund balance of \$339,299 for 2006.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently keep track of its capital assets and infrastructure in the accompanying financial statements, but records payments for capital assets as disbursements.

Debt

At December 31, 2006, the Village's outstanding debt included \$2,342,995 in Ohio Water Development Authority (OWDA) loans for acquisition and improvements to wastewater facilities, \$218,336 in Ohio Public Works Commission (OPWC) loans for improvements to sewer utility services, \$307,500 for a sewer system improvement note, \$2,155,000 for a waterworks system mortgage revenue bond, and \$7,700,000 for a water system temporary revenue bond. For further information regarding the Village's debt, refer to Note 11 in the basic financial statements.

Current Issues

The challenge for all villages is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes. The Village of Leipsic is constantly looking at ways to cut costs without cutting services.

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 Rosemary Schortgen, Fiscal Officer, Village of Leipsic, 142 E. Main Street, Leipsic, Ohio 45856.

VILLAGE OF LEIPSIC
PUTNAM COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
December 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Equity in pooled cash and cash equivalents	\$ 5,537,125	\$ 558,368	\$ 6,095,493
Total assets	<u>\$ 5,537,125</u>	<u>\$ 558,368</u>	<u>\$ 6,095,493</u>
 NET ASSETS			
Unrestricted	\$ 5,537,125	\$ 558,368	\$ 6,095,493
Total net assets	<u>\$ 5,537,125</u>	<u>\$ 558,368</u>	<u>\$ 6,095,493</u>

See accompanying notes to the basic financial statements.

VILLAGE OF LEIPSIC
PUTNAM COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended December 31, 2006

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts & Changes in Net Assets</u>		
	<u>Cash</u>	<u>Charges for</u>	<u>Capital Grants</u>	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
	<u>Disbursements</u>	<u>Services and</u>	<u>and</u>	<u>Activities</u>	<u>Activities</u>	
		<u>Sales</u>	<u>Contributions</u>			
GOVERNMENTAL ACTIVITIES						
General government	\$ 354,067	\$ 40,167	\$ 203,018	\$ (110,882)	\$ -	\$ (110,882)
Security of persons and property	354,732	-	-	(354,732)	-	(354,732)
Public health services	1,852	3,600	-	1,748	-	1,748
Leisure time activities	84,626	23,303	-	(61,323)	-	(61,323)
Community environment	23,315	-	-	(23,315)	-	(23,315)
Transportation	227,875	-	-	(227,875)	-	(227,875)
Contractual services	728,354	-	-	(728,354)	-	(728,354)
Capital outlay	<u>3,819,254</u>	<u>-</u>	<u>-</u>	<u>(3,819,254)</u>	<u>-</u>	<u>(3,819,254)</u>
Total governmental activities	5,594,075	67,070	203,018	(5,323,987)	-	(5,323,987)
BUSINESS-TYPE ACTIVITIES						
Water	796,035	549,019	-	-	(247,016)	(247,016)
Sewer	<u>1,361,426</u>	<u>804,019</u>	<u>-</u>	<u>-</u>	<u>(557,407)</u>	<u>(557,407)</u>
Total business-type activities	<u>2,157,461</u>	<u>1,353,038</u>	<u>-</u>	<u>-</u>	<u>(804,423)</u>	<u>(804,423)</u>
Total	<u>\$ 7,751,536</u>	<u>\$ 1,420,108</u>	<u>\$ 203,018</u>	<u>\$ (5,323,987)</u>	<u>\$ (804,423)</u>	<u>\$ (6,128,410)</u>
GENERAL RECEIPTS						
Property taxes levied for general purposes				\$ 262,608	\$ 71,996	\$ 334,604
Municipal income taxes				2,037,845	-	2,037,845
Grants & entitlements not restricted to specific programs				325,580	6,563	332,143
Sale of capital assets				98,696	-	98,696
Bonds issued				7,700,000	-	7,700,000
Fines, licenses and permits				11,385	3,262	14,647
Interest				41,289	18,172	59,461
Miscellaneous				<u>102,181</u>	<u>156,336</u>	<u>258,517</u>
Total General Receipts				10,579,584	256,329	10,835,913
Transfers				<u>(522,500)</u>	<u>522,500</u>	<u>-</u>
Total General Receipts & Transfers				<u>10,057,084</u>	<u>778,829</u>	<u>10,835,913</u>
Change in Net Assets				4,733,097	(25,594)	4,707,503
Net Assets Beginning of Year				<u>804,028</u>	<u>583,962</u>	<u>1,387,990</u>
Net Assets End of Year				<u>\$ 5,537,125</u>	<u>\$ 558,368</u>	<u>\$ 6,095,493</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
December 31, 2006**

	General Fund	Reservoir Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Equity in pooled cash and cash equivalents	\$ 370,274	\$ 4,971,375	\$ 195,476	\$ 5,537,125
Total assets	\$ 370,274	\$ 4,971,375	\$ 195,476	\$ 5,537,125
FUND BALANCES				
Reserved:				
Reserved for encumbrances	\$ 36,715	\$ 32,134	\$ 59,842	\$ 128,691
Unreserved:				
Undesignated, reported in:				
General fund	333,559	-	-	333,559
Special revenue funds	-	-	108,848	108,848
Capital projects funds	-	4,939,241	26,786	4,966,027
Total Fund Balances	\$ 370,274	\$ 4,971,375	\$ 195,476	\$ 5,537,125

See accompanying notes to the basic financial statements.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2006

	General Fund	Reservoir Fund	Other Governmental Funds	Total Governmental Funds
RECEIPTS				
Municipal income taxes	\$ 2,037,845	\$ -	\$ -	\$ 2,037,845
Property and other local taxes	185,496	-	77,112	262,608
Charges for services	26,903	-	40,167	67,070
Fines, licenses and permits	11,017	-	368	11,385
Intergovernmental	142,471	-	386,127	528,598
Interest	24,747	8,832	7,710	41,289
Miscellaneous	84,013	1,582	16,586	102,181
Total receipts	2,512,492	10,414	528,070	3,050,976
DISBURSEMENTS				
Current:				
General governmental	354,067	-	-	354,067
Security of persons and property	277,200	-	77,532	354,732
Public health services	1,852	-	-	1,852
Leisure time activities	84,626	-	-	84,626
Community environment	23,315	-	-	23,315
Transportation	-	-	227,875	227,875
Contractual services	19,000	529,248	180,106	728,354
Capital outlay	288,999	2,826,394	703,861	3,819,254
Total disbursements	1,049,059	3,355,642	1,189,374	5,594,075
Excess of receipts over (under) disbursements	1,463,433	(3,345,228)	(661,304)	(2,543,099)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	98,696	-	-	98,696
Bonds issued	-	7,700,000	-	7,700,000
Transfers in	-	616,204	726,009	1,342,213
Transfers out	(1,864,713)	-	-	(1,864,713)
Total other financing sources (uses)	(1,766,017)	8,316,204	726,009	7,276,196
Net change in fund balances	(302,584)	4,970,976	64,705	4,733,097
Fund balances beginning of year	672,858	399	130,771	804,028
Fund balances end of year	\$ 370,274	\$ 4,971,375	\$ 195,476	\$ 5,537,125

See accompanying notes to the basic financial statements.

**VILLAGE OF LEIPSIC
PUTNAM 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>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS				
Municipal income taxes	\$ 2,100,000	\$ 2,100,000	\$ 2,037,845	\$ (62,155)
Property and other local taxes	210,200	210,200	185,496	(24,704)
Charges for services	27,850	27,850	26,903	(947)
Fines, licenses and permits	11,650	11,650	11,017	(633)
Intergovernmental	159,100	171,600	142,471	(29,129)
Interest	-	10,000	24,747	14,747
Miscellaneous	90,000	67,500	84,013	16,513
Total receipts	<u>2,598,800</u>	<u>2,598,800</u>	<u>2,512,492</u>	<u>(86,308)</u>
DISBURSEMENTS				
Current:				
General governmental	333,900	336,215	346,150	(9,935)
Security of persons and property	210,650	210,965	295,508	(84,543)
Public health services	3,000	3,000	1,852	1,148
Leisure time activities	124,025	124,025	87,808	36,217
Community environment	16,000	16,000	23,435	(7,435)
Capital outlay	86,500	36,500	307,999	(271,499)
Debt service:				
Principal retirement	310,000	310,000	-	310,000
Total disbursements	<u>1,084,075</u>	<u>1,036,705</u>	<u>1,062,752</u>	<u>(26,047)</u>
Excess of receipts over (under) disbursements	1,514,725	1,562,095	1,449,740	(112,355)
OTHER FINANCING SOURCES (USES)				
Sale of capital assets	1,000	1,000	98,696	97,696
Transfers out	(625,000)	(625,000)	(1,864,713)	(1,239,713)
Other financing uses	(50,500)	(50,500)	(23,022)	27,478
Total other financing sources (uses)	<u>(674,500)</u>	<u>(674,500)</u>	<u>(1,789,039)</u>	<u>(1,114,539)</u>
Net change in fund balance	840,225	887,595	(339,299)	(1,226,894)
Fund balance beginning of year	660,121	660,121	660,121	-
Prior year encumbrances appropriated	12,737	12,737	12,737	-
Fund balance end of year	<u>\$ 1,513,083</u>	<u>\$ 1,560,453</u>	<u>\$ 333,559</u>	<u>\$ (1,226,894)</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2006**

	Business-Type Activities				
	Water Fund	Sanitary Sewer Fund	Wastewater Debt Fund	Other Enterprise Funds	Total Enterprise Funds
ASSETS					
Equity in pooled cash & cash equivalents	\$ 3,093	\$ 183,822	\$ 131,069	\$ 240,384	\$ 558,368
Total Assets	<u>\$ 3,093</u>	<u>\$ 183,822</u>	<u>\$ 131,069</u>	<u>\$ 240,384</u>	<u>\$ 558,368</u>
NET ASSETS					
Unrestricted	<u>\$ 3,093</u>	<u>\$ 183,822</u>	<u>\$ 131,069</u>	<u>\$ 240,384</u>	<u>\$ 558,368</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS**
For the Year Ended December 31, 2006

	Business-Type Activities				Total Enterprise Funds
	Water Fund	Sanitary Sewer Fund	Wastewater Debt Fund	Other Enterprise Funds	
OPERATING RECEIPTS					
Charges for services	\$ 412,459	\$ 591,644	\$ 212,375	\$ 136,560	\$ 1,353,038
Fines, license and permits	2,162	1,100	-	-	3,262
Miscellaneous	1,208	155,128	-	-	156,336
Total operating receipts	<u>415,829</u>	<u>747,872</u>	<u>212,375</u>	<u>136,560</u>	<u>1,512,636</u>
OPERATING DISBURSEMENTS					
Personal services	292,942	248,631	-	-	541,573
Travel transportation	240	1,700	-	-	1,940
Contractual services	174,202	393,910	-	-	568,112
Supplies and materials	75,176	43,336	-	-	118,512
Capital outlay	115,275	26,801	-	-	142,076
Total operating disbursements	<u>657,835</u>	<u>714,378</u>	<u>-</u>	<u>-</u>	<u>1,372,213</u>
Operating income (loss)	(242,006)	33,494	212,375	136,560	140,423
NON-OPERATING RECEIPTS (DISBURSEMENTS)					
Property and other local taxes	-	-	71,996	-	71,996
Intergovernmental	-	-	6,563	-	6,563
Earnings on investments	675	6,191	2,770	8,536	18,172
Principal payments	-	-	(511,789)	(29,000)	(540,789)
Interest and fiscal charges	-	-	(135,259)	(109,200)	(244,459)
Total non-operating receipts (disbursements)	<u>675</u>	<u>6,191</u>	<u>(565,719)</u>	<u>(129,664)</u>	<u>(688,517)</u>
Income (loss) before transfers	(241,331)	39,685	(353,344)	6,896	(548,094)
Transfer in	<u>215,000</u>	<u>-</u>	<u>307,500</u>	<u>-</u>	<u>522,500</u>
Change in net assets	(26,331)	39,685	(45,844)	6,896	(25,594)
Net assets beginning of year	<u>29,424</u>	<u>144,137</u>	<u>176,913</u>	<u>233,488</u>	<u>583,962</u>
Net assets end of year	<u>\$ 3,093</u>	<u>\$ 183,822</u>	<u>\$ 131,069</u>	<u>\$ 240,384</u>	<u>\$ 558,368</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 1 – REPORTING ENTITY

The Village of Leipsic, Putnam 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 publicly-elected six-member Council.

A. Primary Government

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

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. Based on these criteria, 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 modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government and 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 LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

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

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.

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

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 two categories, governmental and proprietary.

Government Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village has two major governmental funds which are the General Fund and the Reservoir Fund.

- The General Fund is used to account 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.
- The Reservoir Fund accounts for the capital improvement for the construction of a reservoir.

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

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

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major enterprise funds are the Water Fund, Sanitary Sewer Fund, and Wastewater Debt Fund.

VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Water Fund – The water fund accounts for the provision of water to the residents and commercial users located within the Village.

Sanitary Sewer Fund – The sanitary sewer fund accounts for the provision of wastewater services to the residents and commercial users within the Village.

Wastewater Debt Fund - The wastewater debt fund accounts for the debt issues relating to the sanitary sewer services facility.

C. Basis of Accounting

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

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

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

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 was \$24,747.

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.

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 modified 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 modified 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. Net assets restricted for other purposes include resources restricted for capital expenditures such as land and land improvements, street improvements, and police and fire equipment.

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. Fund balance reserves have been established for encumbrances.

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

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability

1. There were numerous deficit fund balances throughout 2006 in amounts ranging from \$623 to \$1,035,310. The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. Management addressed this issue by transferring funds from the General Fund to the funds with deficit balances so by year end, all funds were positive.

B. Compliance

1. There were several funds at year end where expenditures exceeded appropriations. This is considered a significant violation of State of Ohio compliance. As of December 31, 2006, the funds in violation were:

<u>Fund</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
General	\$ 1,688,075	\$ 3,258,820	\$ (1,570,745)
CDBG Formula Grants & Issue II Grants	\$ 130,000	\$ 175,069	\$ (45,069)
Reservoir	\$ 75,000	\$ 3,355,642	\$ (3,280,642)
Water	\$ 559,350	\$ 657,835	\$ (98,485)
Sanitary Sewer	\$ 583,960	\$ 714,494	\$ (130,534)
Wastewater Debt	\$ 353,000	\$ 647,048	\$ (294,048)

Management is aware of this non-compliance issue and plans to monitor the budget closer. If expenditure levels are thought to surpass the appropriation by fund, then Council will have to approve the increase in appropriations and the amendment of estimated resources.

2. A significant violation of State of Ohio compliance occurred throughout the year involving the expenditure of money where no certificate of the fiscal officer was attached showing lawful appropriation of the funds. In addition, the Village had \$179,457 in outstanding purchase commitments at December 31, 2006 that were not certified until 2007.

Management is aware of this non-compliance issue and plans to improve controls over disbursements by receiving prior certification of the Fiscal Officer that are within the appropriations adopted by Council.

3. There was one instance noted throughout the year where securities on deposit with the federal depository did not cover \$14,155 of the Village's depository balance. This is considered a significant violation of State of Ohio compliance.

Management is aware of this non-compliance issue and will review the pooled collateral statements received from the bank throughout the year to the depository balances to verify that all cash is covered. If the securities are not adequate, an increase in collateral will be requested.

4. A significant violation of State of Ohio compliance occurred in regards to filing cash basis annual reports with the Auditor of State. The annual reports were prepared and timely filed, but the report contained mathematical errors and did not match the computerized books of the Village.

Management is aware of this non-compliance issue and will review the annual reports for these errors and make any necessary corrections before sending them to the Auditor of State.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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 - Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$36,715 for the General Fund.

NOTE 5 – 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% 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;

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 5 – DEPOSITS AND INVESTMENTS (CONTINUED)

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.

At year end, the Village had \$110 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

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, \$6,593,675 of the Village's bank balance of \$6,693,675 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 6 – INCOME TAXES

The Village levies a 1.5% income tax whose proceeds are placed into the Local Income Tax Fund. The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a credit of the lesser of actual taxes paid to another city or 100% of the 1.5% tax rate on taxable income. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

NOTE 7 – PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Property tax receipts received in 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed values as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State statute at 35% of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2006 public utility property taxes which became a lien on December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 7 – PROPERTY TAXES (CONTINUED)

2006 tangible property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75%. This will be reduced to 12.5% for 2007, 6.25% 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 3, with the remainder due September 20.

The full tax rate for all Village operations for the year ended December 31, 2006, was \$8.35 per \$1,000 of assessed value. The assessed values of real and personal property upon which 2006 property tax receipts were based are as follows:

Real Property		
Residential/Agricultural	\$	18,247,220
Commercial/Industrial		4,521,500
Public Utilities		50,530
Tangible Personal Property		
General		16,992,448
Public Utilities		<u>3,281,090</u>
Total Assessed Values	\$	<u>43,092,788</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

NOTE 8 – RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

For an occurrence prior to January 1, 2006, PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 from the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 8 – RISK MANAGEMENT (CONTINUED)

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

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

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

Financial Position

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

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

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$14.3 million and \$12 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$76,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Based on discussions with PEP the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP

2004	\$	83,653
2005	\$	86,001
2006	\$	71,487

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdraw, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdraw.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2006, the members of all three plans were required to contribute 9.5% of their annual covered salaries. The Village's contribution rate for pension benefits for 2006 was 13.85%. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the combined plans for the years ended December 31, 2006, 2005 and 2004, were \$87,364, \$81,840, and \$76,115, respectively. The full amount has been contributed for 2005 and 2004. Ninety-nine percent has been contributed for 2006.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary to fund pension benefits while the Village is required to contribute 19.5% for police officers. Contributions are authorized by State statute. The Village's contributions to OP&F for police officers were \$25,712 for the year ended December 31, 2006, \$16,408 for the year ended December 31, 2005, and \$15,839 for the year ended December 31, 2004. The full amount has been contributed for 2005 and 2004. Seventy-six percent has been contributed for 2006.

NOTE 10 – POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability 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 13.85% of covered payroll; 4% of covered payroll was the portion that was used to fund health care.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 10 – POSTEMPLOYMENT BENEFITS (CONTINUED)

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 6.5%, an annual increase in active employee total payroll of 4% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50% and 6.3% based on additional annual pay increases. Health care costs were assumed to increase between .50% to 6% annually for the next nine years and 4% 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% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% 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 2006 which were used to fund postemployment benefits were \$25,046. 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.

B. Ohio Police and Fire Pension Fund

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

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The Village's actual contributions for 2006 that were used to fund postemployment health care benefits were \$10,219 for police. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 11 – DEBT

The Village's long-term debt activity for the year ended December 31, 2006, was as follows:

	Interest	Balance			Balance	Due
<u>Governmental Activities</u>	<u>Rate</u>	<u>12-31-05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-06</u>	<u>Within</u>
						<u>1 Year</u>
Temporary revenue bond	4.75%	\$ _____ -	\$ <u>7,700,000</u>	\$ _____ -	\$ <u>7,700,000</u>	\$ <u>7,700,000</u>
Total Gov. Activities		\$ _____ -	\$ <u>7,700,000</u>	\$ _____ -	\$ <u>7,700,000</u>	\$ <u>7,700,000</u>
<u>Business-Type Activities</u>	<u>Rate</u>	<u>12-31-05</u>	<u>Additions</u>	<u>Reductions</u>	<u>12-31-06</u>	<u>1 Year</u>
OWDA #1682	7.89%	\$ 633,491	\$ -	\$ 50,963	\$ 582,528	\$ 54,983
OWDA #2316	4.12%	1,585,983	-	104,570	1,481,413	108,924
OWDA #4298	0.00%	124,028	155,028	-	279,056	55,811
OPWC #CM725	0.00%	59,579	-	6,620	52,959	3,310
OPWC #CM21B	0.00%	71,493	-	5,296	66,197	2,648
OPWC #CM24D	0.00%	106,020	-	6,840	99,180	3,420
Sewer note	5.15%	645,000	-	337,500	307,500	307,500
Waterworks bond	5.00%	<u>2,184,000</u>	-	<u>29,000</u>	<u>2,155,000</u>	<u>31,000</u>
Total Bus-Type Activities		\$ <u>5,409,594</u>	\$ <u>155,028</u>	\$ <u>540,789</u>	\$ <u>5,023,833</u>	\$ <u>567,596</u>

The Water System Temporary Revenue Bonds, Series 2006, relates to the costs of improving the Village's water system by constructing a reservoir. The bond will be repaid in one annual installment of \$7,700,000 plus interest at 4.75%.

The Ohio Water Development Authority (OWDA) loan #1682 relates to the acquisition of wastewater treatment and/or water management. The loan will be repaid in semiannual installments of \$50,472 including interest, over 25 years. Utility system charges are the dedicated source of repayment for this loan.

The Ohio Water Development Authority (OWDA) loan #2316 relates to the wastewater treatment plant improvements. The loan will be repaid in semiannual installments of \$84,967 including interest, over 20 years. Utility system charges are the dedicated source of repayment for this loan.

The Ohio Water Development Authority (OWDA) 0% loan #4298 relates to the separation of the Village's combined sewer. The loan will be repaid in semi-annual installments over 6 years. Utility system charges are the dedicated source of repayment for this loan.

The Ohio Public Works Commission (OPWC) 0% loans relate to a sewer replacement project, a street storm sewer, and a sanitary sewer separation project. The sewer replacement project loan, the street storm sewer loan, and the sanitary sewer separation project loan will be repaid in semiannual installments of \$3,310, \$3,420, and \$2,648, respectively, all over 20 years.

The Sewer System Improvement Note, Series 2000, relates to the costs of improving the Village's sanitary sewer system and waterworks system by acquiring and installing a water tower, acquiring and installing a new grit chamber at the Village's waste water treatment plant, and constructing storm sewer bypasses at various locations throughout the Village. The note will be repaid in annual installments of \$25,000 over 4 years, \$30,000 over 2 years, and a final installment of \$615,000 in year 7.

The Waterworks System Mortgage Revenue Bonds, Series 1997, relates to the costs of improving the Village waterworks system by acquiring and constructing improvements to and an expansion of the Village's water treatment plant, water storage facilities, and water distribution and supply system and to provide funds to retire outstanding temporary Mortgage Revenue Bonds, Series 1995, of the Village. The bond will be repaid in annual installments of various amounts over 40 years.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 11 – DEBT (CONTINUED)

The following is a summary of the Village’s future annual debt service requirements:

Year	OWDA Loans		OPWC Loans		Sewer Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 219,718	\$ 100,701	\$ 9,378	\$ -	\$ 307,500	\$ 7,918
2008	228,590	92,318	18,756	-	-	-
2009	237,993	83,443	18,756	-	-	-
2010	247,962	74,044	18,756	-	-	-
2011	258,534	64,086	18,756	-	-	-
2012-2016	986,428	155,886	83,849	-	-	-
2017-2021	163,772	5,078	50,085	-	-	-
Totals	<u>\$ 2,342,997</u>	<u>\$ 575,556</u>	<u>\$ 218,336</u>	<u>\$ -</u>	<u>\$ 307,500</u>	<u>\$ 7,918</u>

Year	Waterworks Bond		Temporary Revenue Bond	
	Principal	Interest	Principal	Interest
2007	\$ 31,000	\$ 107,750	\$ 7,700,000	\$ 364,734
2008	32,000	106,200	-	-
2009	34,000	104,600	-	-
2010	35,000	102,900	-	-
2011	37,000	101,150	-	-
2012-2016	215,000	476,000	-	-
2017-2021	274,000	416,600	-	-
2022-2026	349,000	341,100	-	-
2027-2031	447,000	244,450	-	-
2032-2036	569,000	121,100	-	-
2037-2041	132,000	6,600	-	-
Totals	<u>\$ 2,155,000</u>	<u>\$ 2,128,450</u>	<u>\$ 7,700,000</u>	<u>\$ 364,734</u>

The Ohio Revised Code provides that net general obligation debt of the Village, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5% of the tax valuation of the Village. The Revised Code further provides that total voted and unvoted net debt of the Village less the same exempt debt shall never exceed amount equal to 10.5% of its tax valuation. The effects of the debt limitations at December 31, 2006, were an overall debt margin of \$2,370,103 and an unvoted debt margin of \$4,524,743.

NOTE 12 – LEASES

The Village leases a copier with a minimum commitment of 12 months. The monthly rentals are determined by a meter program. In years 2005 through June 2006, the meter rate is \$0.015 per copy. As of July 2006, the meter rate increased to \$0.016 per copy.

The Village also acts as a lessor of 5 acres of land in the well field complex. The 5 acres meets the zoning code to accommodate a 250 foot free standing cellular tower. The terms of the lease are for seven 5-year terms for a total of 35 years. The first 5-year term of the lease begins in 2006 with an upfront payment received of \$40,000. The other six 5-year terms will be charged \$1.00 per term. The Village will still retain the right to use the 5 acres however they feel fit. When the lease is finished, the cellular tower will be removed.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 13 – INTERFUND TRANSFERS

During 2006 the following transfers were made:

Transfers from the General Fund (which includes the Local Income Tax Fund):

Reservoir Fund	\$ 616,204
Other Governmental Funds	726,009
Water Fund	215,000
Wastewater Debt Fund	<u>307,500</u>
Total Transfers from General Fund	<u>\$ 1,864,713</u>

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in the other funds in accordance with budgeting authorizations.

NOTE 14 – CONSTRUCTION & CONTRACTUAL COMMITMENTS

As of December 31, 2006, the Village had the following construction and contractual purchase commitments:

<u>Company</u>	<u>Amount Remaining</u>
Kirk Bros. Co., Inc.	\$ 7,065,846
Melco, Inc.	3,260,609
Degen Excavating Company, Inc.	102,863
County Electric, LLC	99,780
J & R Construction	<u>7,032</u>
	<u>\$ 10,536,130</u>

NOTE 15 – CONTINGENT LIABILITIES

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Village of Leipsic
Putnam County, Ohio

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Leipsic, Putnam County, Ohio (the Village) as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 3, 2008, wherein, we noted the Village prepares its financial statements on the modified cash basis of accounting. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion 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 to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses, 2006-1 through 2006-5, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

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 considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-1 and 2006-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2006-1 through 2006-5.

The Village's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Steyer & Co.".

STEYER & CO.
Certified Public Accountants
Defiance, Ohio
July 3, 2008

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006**

2006-1 Material Weakness

Non-Compliance Citation

Ohio Revised Code § 5705.10 states money paid into any fund shall be used only for the purposes for which the fund was established.

The existence of a deficit balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance. There were eight instances of deficit fund balances throughout 2006 in amounts ranging from \$623 to \$1,035,310.

We recommend the Village transfer or advance money from the General Fund, or reduce planned expenditures as necessary, to avoid deficit balances.

Management's Response

Management understands and agrees with the citation and will make the necessary corrections.

2006-2 Material Weakness

Non-Compliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making any expenditure of money unless it has been lawfully appropriated as provided in such chapter.

Expenditures exceeded appropriations in the following funds at year end:

<u>Fund</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
December 31, 2006:			
General	\$ 1,688,075	\$ 3,258,820	\$ (1,570,745)
CDBG Formula Grants & Issue II Grants	\$ 130,000	\$ 175,069	\$ (45,069)
Reservoir	\$ 75,000	\$ 3,355,642	\$ (3,280,642)
Water	\$ 559,350	\$ 657,835	\$ (98,485)
Sanitary Sewer	\$ 583,960	\$ 714,494	\$ (130,534)
Wastewater Debt	\$ 353,000	\$ 647,048	\$ (294,048)

We recommend the Fiscal Officer and Village Council monitor the budget on a monthly basis. The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Management's Response

Management understands and agrees with the citation and will make the necessary corrections.

2006-3 Significant Deficiency

Non-Compliance Citation

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006**

2006-3 Significant Deficiency (continued)

Non-Compliance Citation

This section also provides two “exceptions” to the above requirement:

- a. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- b. If the amount involved is less than \$3,000 the fiscal officer may authorize it to be paid without the affirmation of Council, upon completion of a then and now certificate, if such expenditure is otherwise valid.

Thirty-eight percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and neither of the exceptions provided for were used. In addition, the Village had \$179,457 in outstanding purchase commitments at December 31, 2006 that were not certified until 2007. The accompanying financial statements have been adjusted to include these amounts as outstanding encumbrances at year end.

Certification is not only required by Ohio law but is key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expanded or exceeding budgetary spending limitations as set by the Council. To improve controls over disbursements, we recommend all Village disbursements receive prior certification of the Fiscal Officer and the Council periodically review the expenditures made to ensure they are within the appropriations adopted by the Council, certified by the Fiscal Officer, and recorded against appropriations.

Management’s Response

Management understands and agrees with the citation and will make the necessary corrections.

2006-4 Significant Deficiency

Non-Compliance Citation

Ohio Revised Code §135.18 (specific collateral) and §135.181 (pooled collateral) states that the Fiscal Officer of the Village must require the depository to provide security equal to the funds on deposit at all times. Security may consist of federal deposit insurance, security company bonds, or pledged securities.

There was one instance noted throughout the year where securities were not appropriate. As of June 30, 2006, the depository balance was \$14,155 more than what the balance of securities on deposit with the federal depository was.

We recommend that the Fiscal Officer review the pooled collateral statements received from the bank throughout the year to the depository balances to verify that all cash is covered. If the securities are not adequate, request an increase in collateral.

Management’s Response

Management understands and agrees with the citation and will make the necessary corrections.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
*DECEMBER 31, 2006***

2006-5 Significant Deficiency

Non-Compliance Citation

Ohio Revised Code §117.38 states that cash-basis entities must file annual reports with the Auditor of State within 60 days of the fiscal year end. The report shall contain the amount of: (A) receipts, and amounts due from each source; (B) expenditures for each purpose; (C) income of any public service industry that the entity owns or operates, as well as the costs of ownership or operation; (D) public debt of each taxing district, the purpose of the debt, and how the debt will be repaid.

The annual report was timely filed with the Auditor of State, but as we reviewed the report, we noticed that it was significantly deficient. The report did not foot, crossfoot, or match the computerized books of the Village.

We recommend that the Fiscal Officer fills out the Individual Fund Worksheets first and match them to the computerized books. Then, the combining statements should be prepared. All reports should foot and crossfoot. The use of Excel would be beneficial since most of the errors noted were due to manual errors of not carrying over the proper balances on the correct lines of the reports, along with addition and subtraction errors.

Management's Response

Management understands and agrees with the citation and will make the necessary corrections.

**VILLAGE OF LEIPSIC
PUTNAM COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Action Taken
2005-1	ORC § 5705.10 Deficit fund balances	No	Not corrected. Reissued as finding 2006-1.
2005-2	ORC § 5705.39 Appropriations exceeded estimated resources	Yes	Finding no longer valid.
2005-3	ORC § 5705.41(B) Expenditures exceeded appropriations	No	Not corrected. Reissued as finding 2006-2.
2005-4	ORC § 5705.41(D) Certification of funds	No	Not corrected. Reissued as finding 2006-3.
2005-5	ORC § 5705.36(A)(3) Amended certificate	Yes	Finding no longer valid.
2005-6	ORC § 5705.30 Public notice	Yes	Finding no longer valid.
2005-7	ORC § 135.18 and § 135.181 Collateral	No	Not corrected. Reissued as finding 2006-4.



Mary Taylor, CPA
Auditor of State

VILLAGE OF LEIPSIC

PUTNAM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 23, 2008