



**VILLAGE OF CALEDONIA
MARION COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

VILLAGE OF CALEDONIA
MARION COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Government-Wide Financial Statements:	
Statement of Net Assets – Cash Basis – December 31, 2005	3
Statement of Activities – Cash Basis – For the Year Ended December 31, 2005.....	4
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds – December 31, 2005.....	5
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances – Governmental Funds – For the Year Ended December 31, 2005	6
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – General Fund – For the Year Ended December 31, 2005.....	7
Statement of Cash Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis – Street Construction, Maintenance, and Repair Fund – For the Year Ended December 31, 2005.....	8
Statement of Fund Net Assets – Cash Basis – Proprietary Funds – December 31, 2005.....	9
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis – Proprietary Funds – For the Year Ended December 31, 2005	10
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	23

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Caledonia
Marion County
110 East Marion Street
Caledonia, Ohio 43314

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 Caledonia, Marion County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

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

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

For the year ended December 31, 2005, the Village implemented the cash basis of accounting.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 26, 2006

**VILLAGE OF CALEDONIA
MARION COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005**

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$117,747	\$475,036	\$592,783
Net Assets			
Restricted for:			
Capital Projects	\$5,046	\$0	\$5,046
Other Purposes	38,372	0	38,372
Unrestricted	74,329	475,036	549,365
<i>Total Net Assets</i>	\$117,747	\$475,036	\$592,783

See accompanying notes to the basic financial statements

**VILLAGE OF CALEDONIA
MARION COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General Government	\$66,303	\$1,205	\$0	(\$65,098)	\$0	(\$65,098)
Security of Persons and Property	19,398	0	0	(19,398)	0	(19,398)
Leisure Time Activities	7,409	110	0	(7,299)	0	(7,299)
Community Environment	675	75	0	(600)	0	(600)
Transportation	77,852	0	33,087	(44,765)	0	(44,765)
Capital Outlay	581	0	0	(581)	0	(581)
<i>Total Governmental Activities</i>	172,218	1,390	33,087	(137,741)	0	(137,741)
Business Type Activity						
Sewer Operating	120,691	188,332	0	0	67,641	67,641
Enterprise Debt Service	50,100	0	0	0	(50,100)	(50,100)
Other Enterprise	1,700	5,839	0	0	4,139	4,139
Total	\$344,709	\$195,561	\$33,087	(137,741)	21,680	(116,061)
General Receipts						
Property Taxes Levied for:						
General Purposes				54,921	0	54,921
Capital Outlay				3,351	0	3,351
Grants and Entitlements not						
Restricted to Specific Programs				46,023	0	46,023
Interest				640	7,649	8,289
Miscellaneous				5,230	10	5,240
<i>Total General Receipts</i>				110,165	7,659	117,824
Change in Net Assets				(27,576)	29,339	1,763
<i>Net Assets Beginning of Year</i>				145,323	445,697	591,020
<i>Net Assets End of Year</i>				\$117,747	\$475,036	\$592,783

See accompanying notes to the basic financial statements

**VILLAGE OF CALEDONIA
MARION COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General</u>	<u>Street Construction, Maintenance, and Repair</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$74,329</u>	<u>\$35,319</u>	<u>\$8,099</u>	<u>\$117,747</u>
Fund Balances				
Unreserved:				
Undesignated, Reported in:				
General Fund	74,329			74,329
Special Revenue Funds		35,319	3,053	38,372
Capital Projects Funds			5,046	5,046
<i>Total Fund Balances</i>	<u>\$74,329</u>	<u>\$35,319</u>	<u>\$8,099</u>	<u>\$117,747</u>

See accompanying notes to the basic financial statements

**VILLAGE OF CALEDONIA
MARION COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Street Construction, Maintenance, and Repair	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	50,243	3,801	3,351	57,395
Charges for Services	110	0	0	110
Fines, Licenses and Permits	2,158	0	0	2,158
Intergovernmental	45,588	30,605	2,917	79,110
Interest	434	181	25	640
Miscellaneous	5,230	0	0	5,230
<i>Total Receipts</i>	<u>103,763</u>	<u>34,587</u>	<u>6,293</u>	<u>144,643</u>
Disbursements				
Current:				
General Government	66,303	0	0	66,303
Security of Persons and Property	19,399	0	0	19,399
Leisure Time Activities	7,409	0	0	7,409
Community Environment	675	0	0	675
Transportation	32,378	41,474	4,000	77,852
Capital Outlay	0	0	581	581
<i>Total Disbursements</i>	<u>126,164</u>	<u>41,474</u>	<u>4,581</u>	<u>172,219</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(22,401)	(6,887)	1,712	(27,576)
<i>Fund Balances Beginning of Year</i>	<u>96,730</u>	<u>42,206</u>	<u>6,387</u>	<u>145,323</u>
<i>Fund Balances End of Year</i>	<u><u>\$74,329</u></u>	<u><u>\$35,319</u></u>	<u><u>\$8,099</u></u>	<u><u>\$117,747</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF CALEDONIA
MARION COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$47,066	\$47,066	\$50,243	\$3,177
Intergovernmental	37,152	37,152	45,588	8,436
Charges for Services	3,939	3,939	110	(3,829)
Fines, Licenses and Permits	2,641	2,641	2,158	(483)
Interest	3,060	3,060	434	(2,626)
Miscellaneous	857	857	5,230	4,373
<i>Total receipts</i>	94,715	94,715	103,763	9,048
Disbursements				
General Government	84,530	94,696	66,303	28,393
Security of Persons and Property	26,800	26,800	19,399	7,401
Leisure Time Activities	11,200	11,200	7,409	3,791
Community Environment	6,751	6,751	675	6,076
Transportation	4,550	34,489	32,378	2,111
<i>Total Disbursements</i>	133,831	173,936	126,164	47,772
<i>Excess of Receipts (Under) Disbursements</i>	(39,116)	(79,221)	(22,401)	56,820
Other Financing Uses				
Transfers Out	(4,000)	(7,500)	0	7,500
Other Financing Uses	(20,000)	(1,395)	0	1,395
<i>Total Other Financing Uses</i>	(24,000)	(8,895)	0	8,895
<i>Net Change in Fund Balance</i>	(63,116)	(88,116)	(22,401)	65,715
<i>Fund Balance Beginning of Year</i>	96,730	96,730	96,730	0
<i>Fund Balance End of Year</i>	\$33,614	\$8,614	\$74,329	\$65,715

See accompanying notes to the basic financial statements

**VILLAGE OF CALEDONIA
MARION COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
STREET CONSTRUCTION, MAINTENANCE, AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Receipts				
Property and Other Local Taxes	\$4,585	\$4,585	\$3,801	(\$784)
Intergovernmental	25,364	25,364	30,605	5,241
Interest	109	109	181	72
<i>Total receipts</i>	<u>30,058</u>	<u>30,058</u>	<u>34,587</u>	<u>4,529</u>
Disbursements				
Transportation	43,500	43,500	41,474	2,026
<i>Total Disbursements</i>	<u>43,500</u>	<u>43,500</u>	<u>41,474</u>	<u>2,026</u>
<i>Excess of Receipts (Under) Disbursements</i>	(13,442)	(13,442)	(6,887)	6,555
<i>Fund Balance Beginning of Year</i>	<u>42,206</u>	<u>42,206</u>	<u>42,206</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$28,764</u></u>	<u><u>\$28,764</u></u>	<u><u>\$35,319</u></u>	<u><u>\$6,555</u></u>

See accompanying notes to the basic financial statements

VILLAGE OF CALEDONIA
MARION COUNTY

STATEMENT OF FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2005

	Business-Type Activities			Total Enterprise Funds
	Sewer Operating	Enterprise Debt Service	Other Enterprise Funds	
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$366,963</u>	<u>\$35,435</u>	<u>\$72,638</u>	<u>\$475,036</u>
Net Assets				
Unrestricted	<u>\$366,963</u>	<u>\$35,435</u>	<u>\$72,638</u>	<u>\$475,036</u>

See accompanying notes to the basic financial statements

**VILLAGE OF CALEDONIA
MARION COUNTY**

**STATEMENT OF CASH RECEIPTS
DISBURSEMENTS AND CHANGES IN FUND NET ASSETS - CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Business-Type Activities			Total Enterprise Funds
	Sewer Operating	Enterprise Debt Service	Other Enterprise Funds	
Operating Receipts				
Charges for Services	\$137,781	\$0	\$5,839	\$143,620
Operating Disbursements				
Personal Services	2,835	0	0	2,835
Fringe Benefits	462	0	0	462
Contractual Services	65,856	0	0	65,856
Materials and Supplies	2,910	0	0	2,910
<i>Total Operating Disbursements</i>	<u>72,063</u>	<u>0</u>	<u>0</u>	<u>72,063</u>
<i>Operating Income (Loss)</i>	65,718	0	5,839	71,557
Non-Operating Receipts (Disbursements)				
Special Assessments	50,551	0	0	50,551
Interest	7,341	129	179	7,649
Miscellaneous Receipts	10	0	0	10
Debt Service - Principal	(34,145)	(10,000)	(1,700)	(45,845)
Debt Service - Interest	(14,483)	(40,100)	0	(54,583)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>9,274</u>	<u>(49,971)</u>	<u>(1,521)</u>	<u>(42,218)</u>
<i>Income (Loss) before Transfers</i>	74,992	(49,971)	4,318	29,339
Transfers In	0	50,392	5,100	55,492
Transfers Out	(55,492)	0	0	(55,492)
<i>Change in Net Assets</i>	19,500	421	9,418	29,339
<i>Net Assets Beginning of Year</i>	<u>347,463</u>	<u>35,015</u>	<u>63,219</u>	<u>445,697</u>
<i>Net Assets End of Year</i>	<u><u>\$366,963</u></u>	<u><u>\$35,436</u></u>	<u><u>\$72,637</u></u>	<u><u>\$475,036</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 1 – Reporting Entity

The Village of Caledonia, Marion County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a six-member Council elected at large for four year terms.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, sewer utilities, maintenance of Village roads and bridges, and park operations (leisure time activities).

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

Governmental Funds

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

General Fund – This 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.

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

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. The Village's 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 following:

Sewer Operating Fund - This fund receives charges for services from residents and commercial users within the Village to cover the cost of providing this utility.

Enterprise Debt Service Fund – This fund accumulates monies transferred from the Sewer Operating Fund in order to pay bond principal and interest amounts as they become due.

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 2 – Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

The Village's financial statements are prepared using the 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 cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

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 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 Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

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

E. Cash and Investments

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 2 – Summary of Significant Accounting Policies (continued)

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

During 2005, the Village invested in STAR Ohio, an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

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 2005 was \$434, which includes \$48 assigned from other Village funds.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village has no restricted assets.

G. 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.

H. 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.

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

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 constructing, maintaining, and repairing Village streets.

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 2 – Summary of Significant Accounting Policies (continued)

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 balance which is not available for appropriation or which is legally segregated for a specific future use. Unreserved and undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. The Village has no fund balance reserves at December 31, 2005.

M. Interfund Transactions

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.

Note 3 – Change in Basis of Accounting

Last year the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Village has implemented the cash basis of accounting described in note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type. This change had no effect on fund balances as previously reported.

Note 4 – Change in Accounting Principle

The Village has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investments Risk Disclosure." GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the Village's financial statements.

Note 5 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and street construction, maintenance, and repair fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Note 6 – Deposits and Investments

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

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

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 6 – Deposits and Investments (continued)

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) or by eligible securities pledged by the financial institution as security for repayment.

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.

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 6 - Deposits and Investments (continued)

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, \$502,073 of the Village's bank balance of \$602,073 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.

Investments

The Village invests only in STAR Ohio, which had a carrying value of \$194,112 at December 31, 2005.

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 7 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 7 – Property Taxes (continued)

The full tax rate for all Village operations for the year ended December 31, 2005, was \$12.50 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential	\$ 5,739,890
Commercial/Industrial/Mineral	562,930
Public Utility Property	
Real	17,230
Personal	638,280
Tangible Personal Property	146,190
Total Assessed Value	\$ 7,104,520

Note 8 – Risk Management

The Village belongs to the Ohio Government Risk Management Plan (the “Plan”), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative service to approximately 465 Ohio governments (“Members”).

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

The Plan issues its own policies and reinsures with A-VII or better rated carriers, except for a portion the Plan retains. Effective November 1, 2005, the Plan began retaining 15% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. With policies effective September 1, 2003 and after, the Plan pays the lesser of 5% or \$25,000 for casualty losses up to the coverage limit and the lesser of 5% or \$50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan’s financial statements (audited by other auditors) conform with accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004:

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

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

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 9 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$1,216, \$1,066, and \$922 respectively. The full amount has been contributed for 2005, 2004 and 2003.

Note 10 - Postemployment Benefits

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 primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. 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 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 10 - Postemployment Benefits (continued)

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$510. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Note 11 – Debt

The Village's long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Business-type Activities</u>						
Ohio Water Development Authority Loan	4.04%	\$ 364,481	\$ 0	\$ 24,145	\$ 340,336	\$ 25,130
Ohio Public Works Commission Loan (Sewer)	0.00%	115,000	0	10,000	105,000	10,000
Ohio Public Works Commission Loan (Drains)	0.00%	26,342	0	1,700	24,642	1,700
Sanitary Sewer Mortgage Revenue Bonds	5.00%	802,000	0	10,000	792,000	11,000
Total Business-type Activities		<u>\$ 1,307,823</u>	<u>\$ 0</u>	<u>\$ 45,845</u>	<u>\$ 1,261,978</u>	<u>\$ 47,830</u>

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$526,500 in loans to the Village for this project. The loans will be repaid in semiannual installments of \$19,314, including interest, over 20 years. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) sewer loan relates to the sewer plant construction project. The loan is being repaid in semiannual installments of \$5,000, interest free, over 20 years. The Village's storm sewer project exceeded the OPWC grant amount and thus a loan amount of \$33,990 became effective in 2000. The OPWC loan relating to storm drain construction will be repaid in semiannual installments of \$850, interest free, over 20 years.

**VILLAGE OF CALEDONIA
MARION COUNTY**

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

Note 11 – Debt (continued)

The Sanitary Sewer Mortgage Revenue Bonds relate to the sewer plan construction. The bonds were issued on behalf of the Village by the United States Department of Agriculture Rural Community Development Services as a loan reimbursement at the completion of the construction project. The bonds will be repaid in annual installments ranging from \$40,223 to \$50,900, including interest, over 40 years.

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

Year	OWDA Loan		OPWC Loans		USDA Bonds	
	Interest	Principal	Interest	Principal	Interest	Principal
2006	\$ 13,498	\$ 25,130	\$ 0	\$ 11,700	\$ 39,600	\$ 11,000
2007	12,473	26,155	0	11,700	39,050	11,000
2008	11,405	27,223	0	11,700	38,500	12,000
2009	10,295	28,334	0	11,700	37,900	12,000
2010	9,138	29,490	0	11,700	37,300	13,000
2011 – 2015	26,627	166,513	0	58,500	176,300	74,000
2016 – 2020	1,137	37,491	0	12,642	155,750	94,000
2021 – 2025	0	0	0	0	129,700	121,000
2026 – 2030	0	0	0	0	96,350	154,000
2031 – 2035	0	0	0	0	53,750	197,000
2036 – 2037	0	0	0	0	7,050	93,000
Totals	<u>\$ 84,573</u>	<u>\$340,336</u>	<u>\$ 0</u>	<u>\$129,642</u>	<u>\$811,250</u>	<u>\$792,000</u>

Note 12 – Interfund Transfers

During 2005 the following transfers were made:

Transfers from the Sewer Operating Fund to:	
Enterprise Debt Service	\$ 50,392
Other Enterprise Fund	5,100
Total Transfers from the Sewer Operating Fund	<u>\$ 55,492</u>

Transfers to the Enterprise Debt Service Fund were for bond principal and interest payments, and transfers to the Enterprise Reserve (Other Enterprise Fund) were made pursuant to bond requirements.

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Auditor of State Betty Montgomery

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

Village of Caledonia
Marion County
110 East Marion Street
Caledonia, Ohio 43314

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 Caledonia, Marion County, Ohio, (the Village) as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated June 26, 2006, wherein we noted the Village implemented the cash basis of accounting. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated June 26, 2006, we reported an other matter related to noncompliance we deemed immaterial.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

Village of Caledonia
Marion County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the finance committee, management, and the Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 26, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF CALEDONIA

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 12, 2006**