

Village of McConnelsville

Morgan County, Ohio

Regular Audit

January 1, 2004 Through December 31, 2005

Fiscal Years Audited Under GAGAS: 2005 & 2004

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**Auditor of State
Betty Montgomery**

Village Council
Village of McConnelsville
9 West Main St.
McConnelsville, OH 43756

We have reviewed the *Independent Auditor's Report* of the Village of McConnelsville, Morgan County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2004 through December 31, 2005. 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 McConnelsville is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 13, 2006

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Village of McConnelsville
Morgan County, Ohio
For the Years Ended December 31, 2005 and 2004
Table of Contents

Title	Page
Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Statement of Net Assets—Cash Basis For the Year Ended December 31, 2005	10
Statement of Net Assets—Cash Basis For the Year Ended December 31, 2004	11
Statement of Activities---Cash Basis For the Year Ended December 31, 2005	12
Statement of Activities---Cash Basis For the Year Ended December 31, 2004	14
Statement of Cash Basis Assets and Fund Balances For the Year Ended December 31, 2005	16
Statement of Cash Basis Assets and Fund Balances For the Year Ended December 31, 2004	17
Statement of Cash Receipts, Disbursements and Changes in-Cash Basis Fund Balances—Governmental Funds—For the Year Ended December 31, 2005.....	18
Statement of Cash Receipts, Disbursements and Changes in-Cash Basis Fund Balances—Governmental Funds—For the Year Ended December 31, 2004.....	19
Statement of Receipts, Disbursements and Changes in Fund Balance— Budget and Actual—Budget Basis—General Fund For the Year Ended December 31, 2005	20
Statement of Receipts, Disbursements and Changes in Fund Balance— Budget and Actual—Budget Basis—General Fund For the Year Ended December 31, 2004	21
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	22
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, 2004	23
Statement of Receipts, Disbursements and Changes in Fund Balance— Budget and Actual—Budget Basis—Street Levy Fund For the Year Ended December 31, 2005	24

Village of McConnelsville
Morgan County, Ohio
For the Years Ended December 31, 2005 and 2004
Table of Contents (Continued)

Statement of Receipts, Disbursements and Changes in Fund Balance— Budget and Actual—Budget Basis— Street Levy Fund For the Year Ended December 31, 2004	25
Statement of Fund Net Assets – Cash Basis – Enterprise Funds As of December 31, 2005	26
Statement of Fund Net Assets – Cash Basis – Enterprise Funds As of December 31, 2004	27
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis – Enterprise Funds – For the Year Ended December 31, 2005.....	28
Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets – Cash Basis – Enterprise Funds – For the Year Ended December 31, 2004.....	29
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds As of December 31, 2005	30
Statement of Fiduciary Net Assets – Cash Basis – Fiduciary Funds As of December 31, 2004	31
Notes to the Financial Statements	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	44
Schedule of Findings and Responses.....	46
Schedule of Prior Audit Findings	47

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Ohio Society of Certified Public Accountants

Independent Auditors' Report

Village Council
Village of McConnelsville
Morgan County, Ohio
9 West Main Street
McConnelsville, OH 43756

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 McConnelsville, Morgan County, Ohio, (the Village) as of and for the years ended December 31, 2005 and 2004 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audits 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 that 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 basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Village of McConnelsville, Morgan County, Ohio as of December 31, 2005 and 2004, and the respective changes in cash basis financial position and the respective budgetary comparisons for the General Fund, Street Construction, Maintenance and Repair Fund, and Street Levy Fund, thereof for the years then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 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. 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 to provide an opinion on the internal control over financial reporting or 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.

Village of McConnellsville
Independent Auditors' Report
Page 2

The Management's Discussion and Analysis at pages 3-9 is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed further in Note 2, for the years ended December 31, 2005 and 2004, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The Township also implemented Governmental Accounting Standards Board Statement No. 38 – *Certain Additional Note Disclosures*, and GASB Statement No. 40 – *Deposits and Investment risk disclosures*.



Balestra, Harr & Scherer, CPAs, Inc.

June 14, 2006

Village of McConnellsville, Morgan County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

This discussion and analysis of the Village of McConnellsville's financial performance provides an overall review of the Village's financial activities for the years ended December 31, 2005 and 2004, within the limitations of the Village's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Government's financial performance.

Highlights

Key highlights for 2005 and 2004 are as follows:

Net assets of governmental activities increased \$192,066, or 200 percent, a significant change from 2004. The fund most affected by the increase in cash and cash equivalents was the General Fund, which had a significant increase in the intergovernmental receipts due to a large estate tax payment received during the year.

Net assets of governmental activities increased \$19,191, or 25.5 percent, a significant change from 2003. The funds most affected by the increase in cash and cash equivalents were the Street Construction, Maintenance and Repair Fund and the Street Levy Fund, which had significant increases in intergovernmental receipts.

The Village's general receipts are primarily property and income taxes. These receipts represent respectively 46.3 percent of the total cash received for governmental activities during the 2005 and 53.8 percent of the total cash received for governmental activities during the 2004 and. Property and income tax receipts for 2005 and 2004 changed very little compared to 2003 as development within the Village has slowed.

The water and sewer operations, the Village's major business-type activities, nearly broke even for each year with changes in net assets of near 10% or less in 2005 and 2004.

Using the Basic Financial Statements

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

Report Components

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

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

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

Village of McConnellsville, Morgan County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

Basis of Accounting

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

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

Reporting the Village as a Whole

The reporting entity is comprised of all funds, departments, boards and agencies that are not legally separate from the village.

The statement of net assets and the statement of activities reflect how the Village did financially during 2005 and 2004, within the limitations of 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 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 and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

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

Village of McConnellsville, Morgan County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

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 three categories: governmental, proprietary and fiduciary.

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, Street Maintenance and Repair Fund and the Street Levy Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

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

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. The Mayor's Court Agency fund is the only fiduciary fund of the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2005 compared to 2004 on a cash basis (Note that a comparison to 2003 is not made due to 2004 being the first year that the Village implemented this method of presentation):

Village of McConnellsville, Morgan County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

(Table 1)
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Cash and Cash Equivalents	\$ 286,477	\$ 94,411	\$ 283,655	\$ 298,594	\$ 570,132	\$ 393,005
Total Assets	<u>\$ 286,477</u>	<u>\$ 94,411</u>	<u>\$ 283,655</u>	<u>\$ 298,594</u>	<u>\$ 570,132</u>	<u>\$ 393,005</u>
Net Assets						
Restricted for:						
Capital Outlay	\$ 2,774	\$ -	\$ -	\$ -	\$ 2,774	\$ -
Other Purposes	113,861	58,255	-	-	113,861	58,255
Unrestricted	169,842	36,156	283,655	298,594	453,497	334,750
Total Net Assets	<u>\$286,477</u>	<u>\$94,411</u>	<u>\$283,655</u>	<u>\$298,594</u>	<u>\$570,132</u>	<u>\$393,005</u>

As mentioned previously, net assets of governmental activities decreased \$192,066 or 200 percent during 2005. The primary reason contributing to the increase in cash balances is due to a large estate tax receipt received during 2005.

Table 2 reflects the changes in net assets in 2005 and 2004. Since the Village did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Village of McConnellsville, Morgan County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

	Governmental Activities 2005	Governmental Activities 2004	Business Type Activities 2005	Business Type Activities 2004
Receipts:				
Program Receipts:				
Charges for Services and Sales	\$46,312	\$65,055	\$740,086	\$532,800
Operating Grants and Contributions	156,778	103,325	0	0
Capital Grants and Contributions	100,000	82,878	0	0
Total Program Receipts	303,090	251,258	740,086	532,800
General Receipts:				
Property and Other Local Taxes	79,764	83,642	0	0
Income Taxes	351,775	332,184	0	0
Grants and Entitlements Not Restricted to Specific Programs	169,989	69,125	0	0
Interest	20,245	13,674	0	0
Miscellaneous	6,368	26,158	911	0
Total General Receipts	628,141	524,783	911	0
Total Receipts	931,231	776,041	740,997	532,800
Disbursements:				
General Government	177,875	195,165	0	0
Security of Persons and Property:	373,423	367,302	0	0
Public Health Services	12,868	12,090	0	0
Leisure Time Activities	3,279	14,564	0	0
Economic Development	97,226	83,382	0	0
Transportation	74,494	84,347	0	0
Swimming Pool	0	0	0	1,367
Water	0	0	380,681	238,408
Sewer	0	0	375,255	328,198
Total Disbursements	739,165	756,850	755,936	567,973
Excess (Deficiency) Before Transfers	192,066	19,191	(14,939)	(35,173)
Transfers				
Increase (Decrease) in Net Assets	192,066	19,191	(14,939)	(35,173)
Net Assets, January 1,	94,411	75,220	298,594	333,767
Net Assets, December 31,	\$286,477	\$94,411	\$283,655	\$298,594

Program receipts represent only 32.5 percent of total receipts of governmental activities for 2005 and 32.4 percent of total receipts of governmental activities for 2004 and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges.

General receipts represent 67.5 percent of the Village's total receipts for governmental activities for 2005 and 67.6 percent of total receipts of governmental activities for 2004, and of this amount, over 68.7 percent are local taxes for 2005 and 79.2 percent are local taxes for 2004. State and federal grants and entitlements make up the majority of the balance of the Village's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Village of McConnellsville, Morgan County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

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, and the auditor, treasurer, and income tax departments, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs of General Fund unrestricted receipts.

Security of Persons and Property are the costs of police and fire protection; Public Health Services is the health department; Leisure Time Activities are the costs of maintaining the parks and playing fields; 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, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for security of persons and property, which account for 50.5 percent for 2005 and 48.5 percent for 2004 of all governmental disbursements, respectively. The next three 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	Net Cost of Services	Total Cost Of Services	Net Cost of Services
	2005	2005	2004	2004
General Government	\$177,875	\$157,329	\$195,165	\$174,708
Security of Persons and Property	373,423	270,429	367,302	293,860
Public Health Services	12,868	12,868	12,090	12,090
Leisure Time Activities	3,279	3,279	14,564	14,564
Community Environment	97,226	(2,774)	83,382	504
Transportation	74,494	(5,056)	84,347	9,866
Total Expenses	<u>\$739,165</u>	<u>\$436,075</u>	<u>\$756,850</u>	<u>\$505,592</u>

The dependence upon property and income tax receipts is apparent as over 68.4 percent of governmental activities are supported through these general receipts.

Business-type Activities

The water and sewer operations of the Village is relatively large and routinely reports receipts and cash disbursements that are relatively equal. The Village is currently undergoing a large improvement project of the current infrastructure. The project was mandated by the Ohio Environmental Protection Agency and is being funded through Ohio Water Development Authority (OWDA) loans.

Village of McConnelsville, Morgan County
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

The Village's Funds

Total governmental funds had receipts of \$931,231 and disbursements of \$739,165 for 2005. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$133,686 primarily as the result of a large estate tax settlement received in 2005.

Total governmental funds had receipts of \$776,041 and disbursements of \$756,850 for 2004. The greatest change occurred within the Street Funds due mainly to reduced expenditures and a proactive budgeting by the Clerk and Council.

General Fund Budgeting Highlights

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

During 2005 and 2004, the Village did not amend its General Fund budget as it was not necessary.

Final disbursements were budgeted at \$526,640 for 2005 while actual disbursements were \$440,388. For 2004, final budgeted disbursements were \$567,448 while actual disbursements were \$499,065. Although receipts failed to live up to expectations, appropriations were not reduced. The Village kept spending very close to budgeted amounts as demonstrated by the minor reported variances.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently keep track of its capital assets and infrastructure. The Village is considering acquiring a software package to accomplish this task and is in the process of entering the necessary information.

Debt

At December 31, 2005, the Village's outstanding debt included \$256,893 in OWDA loans issued for improvements to the water and sewer plant mandated by the Ohio Environmental Protection Agency.

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base. Our newly prepared financial forecast predicts a net income for 2006.

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 Ellen Hemry, Clerk-Treasurer, Village of McConnelsville, 9 West Main Street, McConnelsville, Ohio 43756.

Village of McConnellsville, Morgan County

Statement of Net Assets - Cash Basis

December 31, 2005

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$286,477</u>	<u>\$283,655</u>	<u>\$570,132</u>
<i>Total Assets</i>	<u><u>\$286,477</u></u>	<u><u>\$283,655</u></u>	<u><u>\$570,132</u></u>
Net Assets			
Restricted for:			
Capital Projects	\$2,774	\$0	\$2,774
Other Purposes	113,861	0	113,861
Unrestricted	<u>169,842</u>	<u>283,655</u>	<u>453,497</u>
<i>Total Net Assets</i>	<u><u>\$286,477</u></u>	<u><u>\$283,655</u></u>	<u><u>\$570,132</u></u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County

Statement of Net Assets - Cash Basis

December 31, 2004

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$94,411</u>	<u>\$298,594</u>	<u>\$393,005</u>
<i>Total Assets</i>	<u><u>\$94,411</u></u>	<u><u>\$298,594</u></u>	<u><u>\$393,005</u></u>
Net Assets			
Restricted for:			
Other Purposes	58,255	0	58,255
Unrestricted	<u>36,156</u>	<u>298,594</u>	<u>334,750</u>
<i>Total Net Assets</i>	<u><u>\$94,411</u></u>	<u><u>\$298,594</u></u>	<u><u>\$393,005</u></u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2005*

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$177,875	\$20,546	\$0	\$0
Security of Persons and Property	373,423	25,766	77,228	0
Public Health Services	12,868	0	0	0
Leisure Time Activities	3,279	0	0	0
Community Environment	97,226	0	0	100,000
Transportation	74,494	0	79,550	0
<i>Total Governmental Activities</i>	739,165	46,312	156,778	100,000
Business Type Activities				
Water	380,681	291,198	0	0
Sewer	375,255	448,888	0	0
<i>Total Business Type Activities</i>	755,936	740,086	0	0
Total	\$1,495,101	\$786,398	\$156,778	\$100,000

General Receipts

Property Taxes Levied for:

 General Purposes

 Municipal Income Taxes

 Grants and Entitlements not Restricted to Specific Programs

 Interest

 Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$157,329)	\$0	(\$157,329)
(270,429)	0	(270,429)
(12,868)	0	(12,868)
(3,279)	0	(3,279)
2,774	0	2,774
5,056	0	5,056
(436,075)	0	(436,075)
0	(89,483)	(89,483)
0	73,633	73,633
0	(15,850)	(15,850)
-436,075	-15,850	-451,925
79,764	0	79,764
351,775	0	351,775
169,989	0	169,989
20,245	0	20,245
6,368	911	7,279
628,141	911	629,052
192,066	(14,939)	177,127
94,411	298,594	393,005
<u>\$286,477</u>	<u>\$283,655</u>	<u>\$570,132</u>

Village of McConnellsville, Morgan County

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2004*

	<u>Program Cash Receipts</u>			
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
General Government	\$195,165	\$20,457	\$0	\$0
Security of Persons and Property	367,302	44,598	28,844	0
Public Health Services	12,090	0	0	0
Leisure Time Activities	14,564	0	0	0
Community Environment	83,382	0	0	82,878
Transportation	84,347	0	74,481	0
<i>Total Governmental Activities</i>	756,850	65,055	103,325	82,878
Business Type Activities				
Swimming Pool	1,367	0	0	0
Water	238,408	212,231	0	0
Sewer	328,198	320,569	0	0
<i>Total Business Type Activities</i>	567,973	532,800	0	0
Total	\$1,324,823	\$597,855	\$103,325	\$82,878

General Receipts

Property Taxes Levied for:

 General Purposes

 Municipal Income Taxes

 Grants and Entitlements not Restricted to Specific Programs

 Interest

 Miscellaneous

Total General Receipts

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$174,708)	\$0	(\$174,708)
(293,860)	0	(293,860)
(12,090)	0	(12,090)
(14,564)	0	(14,564)
(504)	0	(504)
(9,866)	0	(9,866)
(505,592)	0	(505,592)
0	(1,367)	(1,367)
0	(26,177)	(26,177)
0	(7,629)	(7,629)
0	(35,173)	(35,173)
(505,592)	(35,173)	(540,765)
83,642	0	83,642
332,184	0	332,184
69,125	0	69,125
13,674	0	13,674
26,158	0	26,158
524,783	0	524,783
19,191	(35,173)	(15,982)
75,220	333,767	408,987
\$94,411	\$298,594	\$393,005

Village of McConnellsville, Morgan County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Street Construction Maintenance and Repair Fund	Street Levy Fund	Grant Construction	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$169,842	\$43,924	\$40,161	\$2,774	\$29,776	\$286,477
<i>Total Assets</i>	<u>\$169,842</u>	<u>\$43,924</u>	<u>\$40,161</u>	<u>\$2,774</u>	<u>\$29,776</u>	<u>\$286,477</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	\$1,990	\$1,699	\$0	\$0	\$204	\$3,893
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	167,852	0	0	0	0	167,852
Special Revenue Funds	0	42,225	40,161	0	29,572	111,958
Capital Projects Funds	0	0	0	2,774	0	2,774
<i>Total Fund Balances</i>	<u>\$169,842</u>	<u>\$43,924</u>	<u>\$40,161</u>	<u>\$2,774</u>	<u>\$29,776</u>	<u>\$286,477</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004

	General	Street Construction Maintenance and Repair Fund	Street Levy Fund	Grant Construction	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$36,156	\$24,686	\$20,566	\$0	\$13,003	\$94,411
<i>Total Assets</i>	<u>\$36,156</u>	<u>\$24,686</u>	<u>\$20,566</u>	<u>\$0</u>	<u>\$13,003</u>	<u>\$94,411</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	\$1,567	\$0	\$0	\$0	\$0	\$1,567
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	34,589	0	0	0	0	34,589
Special Revenue Funds	0	24,686	20,566	0	13,003	58,255
Capital Projects Funds	0	0	0	0	0	0
<i>Total Fund Balances</i>	<u>\$36,156</u>	<u>\$24,686</u>	<u>\$20,566</u>	<u>\$0</u>	<u>\$13,003</u>	<u>\$94,411</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan 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 Fund	Street Levy Fund	Grant Construction	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$300,914	\$0	\$0	\$0	\$50,861	\$351,775
Property and Other Local Taxes	33,416	0	22,431	0	23,917	79,764
Charges for Services	20,546	0	0	0	0	20,546
Fines, Licenses and Permits	25,566	0	0	0	200	25,766
Intergovernmental	169,989	71,467	2,460	100,000	82,851	426,767
Interest	17,281	2,692	0	0	272	20,245
Miscellaneous	4,371	1,112	0	0	885	6,368
<i>Total Receipts</i>	<u>572,083</u>	<u>75,271</u>	<u>24,891</u>	<u>100,000</u>	<u>158,986</u>	<u>931,231</u>
Disbursements						
Current:						
General Government	137,707	0	0	0	40,168	177,875
Security of Persons and Property	273,561	0	0	0	99,862	373,423
Public Health Services	12,868	0	0	0	0	12,868
Leisure Time Activities	3,279	0	0	0	0	3,279
Community Environment	0	0	0	97,226	0	97,226
Transportation	10,982	56,033	5,296	0	2,183	74,494
<i>Total Disbursements</i>	<u>438,397</u>	<u>56,033</u>	<u>5,296</u>	<u>97,226</u>	<u>142,213</u>	<u>739,165</u>
<i>Net Change in Fund Balances</i>	133,686	19,238	19,595	2,774	16,773	192,066
<i>Fund Balances Beginning of Year</i>	<u>36,156</u>	<u>24,686</u>	<u>20,566</u>	<u>0</u>	<u>13,003</u>	<u>94,411</u>
<i>Fund Balances End of Year</i>	<u><u>\$169,842</u></u>	<u><u>\$43,924</u></u>	<u><u>\$40,161</u></u>	<u><u>\$2,774</u></u>	<u><u>\$29,776</u></u>	<u><u>\$286,477</u></u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Street Construction Maintenance and Repair Fund	Street Levy Fund	Grant Construction	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$293,783	\$0	\$0	\$0	\$38,401	\$332,184
Property and Other Local Taxes	34,866	0	23,616	0	25,160	83,642
Charges for Services	20,457	0	0	0	0	20,457
Fines, Licenses and Permits	43,617	0	0	0	981	44,598
Intergovernmental	69,125	66,635	2,443	82,878	34,247	255,328
Interest	13,123	484	0	0	67	13,674
Miscellaneous	22,708	3,450	0	0	0	26,158
<i>Total Receipts</i>	<u>497,679</u>	<u>70,569</u>	<u>26,059</u>	<u>82,878</u>	<u>98,856</u>	<u>776,041</u>
Disbursements						
Current:						
General Government	153,607	0	0	0	41,558	195,165
Security of Persons and Property	306,377	0	0	0	60,925	367,302
Public Health Services	12,090	0	0	0	0	12,090
Leisure Time Activities	14,564	0	0	0	0	14,564
Basic Utility Services	504	0	0	0	0	504
Transportation	10,356	54,807	12,190	0	5,605	82,958
Capital Outlay	0	0	0	82,878	0	82,878
Debt Service:						
Principal Retirement	0	1,389	0	0	0	1,389
<i>Total Disbursements</i>	<u>497,498</u>	<u>56,196</u>	<u>12,190</u>	<u>82,878</u>	<u>108,088</u>	<u>756,850</u>
<i>Net Change in Fund Balances</i>	181	14,373	13,869	0	(9,232)	19,191
<i>Fund Balances Beginning of Year</i>	<u>35,975</u>	<u>10,313</u>	<u>6,697</u>	<u>0</u>	<u>22,235</u>	<u>75,220</u>
<i>Fund Balances End of Year</i>	<u>\$36,156</u>	<u>\$24,686</u>	<u>\$20,566</u>	<u>\$0</u>	<u>\$13,003</u>	<u>\$94,411</u>

See accompanying notes to the basic financial statements

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

	<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	\$308,224	\$308,224	\$300,914	(\$7,310)
Property and Other Local Taxes	31,264	31,264	33,416	2,152
Charges for Services	21,379	21,379	20,546	(833)
Fines, Licenses and Permits	34,630	34,630	25,566	(9,064)
Intergovernmental	72,246	72,246	169,989	97,743
Interest	14,200	14,200	17,281	3,081
Miscellaneous	8,372	8,372	4,371	(4,001)
<i>Total receipts</i>	<u>490,315</u>	<u>490,315</u>	<u>572,083</u>	<u>81,768</u>
Disbursements				
Current:				
General Government	164,574	165,470	138,445	27,025
Security of Persons and Property	328,161	328,161	274,760	53,401
Public Health Services	12,868	12,868	12,868	0
Leisure Time Activities	6,700	6,700	3,279	3,421
Transportation	13,441	13,441	11,036	2,405
<i>Total Disbursements</i>	<u>525,744</u>	<u>526,640</u>	<u>440,388</u>	<u>86,252</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(35,429)</u>	<u>(36,325)</u>	<u>131,695</u>	<u>168,020</u>
<i>Net Change in Fund Balance</i>	(35,429)	(36,325)	131,695	168,020
<i>Fund Balance Beginning of Year</i>	36,156	36,156	36,156	0
Prior Year Encumbrances Appropriated	<u>1,567</u>	<u>1,567</u>	<u>1,567</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$2,294</u>	<u>\$1,398</u>	<u>\$169,418</u>	<u>\$168,020</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004*

	<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	\$308,468	\$308,468	\$293,783	(\$14,685)
Property and Other Local Taxes	30,882	30,882	34,866	3,984
Charges for Services	22,482	22,482	20,457	(2,025)
Fines, Licenses and Permits	24,653	24,653	43,617	18,964
Intergovernmental	103,775	103,775	69,125	(34,650)
Interest	18,000	18,000	13,123	(4,877)
Miscellaneous	23,213	23,213	22,708	(505)
<i>Total receipts</i>	<u>531,473</u>	<u>531,473</u>	<u>497,679</u>	<u>(33,794)</u>
Disbursements				
Current:				
General Government	188,852	188,852	154,504	34,348
Security of Persons and Property	336,108	336,108	307,047	29,061
Public Health Services	12,090	12,090	12,090	0
Leisure Time Activities	14,564	14,564	14,564	0
Basic Utility Services	504	504	504	0
Transportation	15,330	15,330	10,356	4,974
<i>Total Disbursements</i>	<u>567,448</u>	<u>567,448</u>	<u>499,065</u>	<u>68,383</u>
<i>Net Change in Fund Balance</i>	(35,975)	(35,975)	(1,386)	34,589
<i>Fund Balance Beginning of Year</i>	35,975	35,975	35,975	0
Prior Year Encumbrances Appropriated	<u>5,634</u>	<u>5,634</u>	<u>5,634</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$5,634</u>	<u>\$5,634</u>	<u>\$40,223</u>	<u>\$34,589</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan 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>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$ 67,467	\$ 67,467	\$ 71,467	\$ 4,000
Interest	495	495	2,692	2,197
Miscellaneous	1,525	1,525	1,112	(413)
<i>Total receipts</i>	<u>69,487</u>	<u>69,487</u>	<u>75,271</u>	<u>5,784</u>
Disbursements				
Current:				
Transportation	94,173	94,173	57,732	36,441
<i>Total Disbursements</i>	<u>94,173</u>	<u>94,173</u>	<u>57,732</u>	<u>36,441</u>
<i>Net Change in Fund Balance</i>	<u>(24,686)</u>	<u>(24,686)</u>	<u>17,539</u>	<u>42,225</u>
<i>Fund Balance Beginning of Year</i>	24,686	24,686	24,686	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,225</u>	<u>\$ 42,225</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan 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, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	53,839	53,839	66,635	12,796
Interest	524	524	484	(40)
Miscellaneous	942	942	3,450	2,508
<i>Total receipts</i>	<u>55,305</u>	<u>55,305</u>	<u>70,569</u>	<u>15,264</u>
Disbursements				
Current:				
Transportation	65,618	64,229	54,807	9,422
Debt Service:				
Principal Retirement	0	1,389	1,389	0
<i>Total Disbursements</i>	<u>65,618</u>	<u>65,618</u>	<u>56,196</u>	<u>9,422</u>
<i>Net Change in Fund Balance</i>	<u>(10,313)</u>	<u>(10,313)</u>	<u>14,373</u>	<u>24,686</u>
<i>Fund Balance Beginning of Year</i>	10,313	10,313	10,313	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$24,686</u>	<u>\$24,686</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Street Levy Fund
 For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property and Other Local Taxes	\$ 20,525	\$ 20,525	\$ 22,431	\$ 1,906
Intergovernmental	2,450	2,450	2,460	10
<i>Total receipts</i>	<u>22,975</u>	<u>22,975</u>	<u>24,891</u>	<u>1,916</u>
Disbursements				
Current:				
Transportation	43,541	43,541	5,296	38,245
<i>Total Disbursements</i>	<u>43,541</u>	<u>43,541</u>	<u>5,296</u>	<u>38,245</u>
<i>Net Change in Fund Balance</i>	<u>(20,566)</u>	<u>(20,566)</u>	<u>19,595</u>	<u>40,161</u>
<i>Fund Balance Beginning of Year</i>	20,566	20,566	20,566	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$40,161</u></u>	<u><u>\$40,161</u></u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Street Levy Fund
 For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property and Other Local Taxes	\$ 19,855	\$ 19,855	\$ 23,616	\$ 3,761
Intergovernmental	2,450	2,450	2,443	(7)
<i>Total receipts</i>	<u>22,305</u>	<u>22,305</u>	<u>26,059</u>	<u>3,754</u>
Disbursements				
Current:				
Transportation	29,002	29,002	12,190	16,812
<i>Total Disbursements</i>	<u>29,002</u>	<u>29,002</u>	<u>12,190</u>	<u>16,812</u>
<i>Net Change in Fund Balance</i>	(6,697)	(6,697)	13,869	20,566
<i>Fund Balance Beginning of Year</i>	6,697	6,697	6,697	0
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$20,566</u>	<u>\$20,566</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County

Statement of Fund Net Assets - Cash Basis

Enterprise Funds

December 31, 2005

	Business-Type Activities		
	Water Fund	Sewer Fund	Total Enterprise Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$134,667</u>	<u>\$148,988</u>	<u>\$283,655</u>
Net Assets			
Unrestricted	<u>\$134,667</u>	<u>\$148,988</u>	<u>\$283,655</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County

Statement of Fund Net Assets - Cash Basis

Enterprise Funds

December 31, 2004

	Business-Type Activities			Total Enterprise Funds
	Water Fund	Sewer Fund	Non-Major Enterprise Fund	
Assets				
Equity in Pooled Cash and Cash Equivalents	<u>\$223,624</u>	<u>\$74,970</u>	<u>\$0</u>	<u>\$298,594</u>
Net Assets				
Unrestricted	<u>\$223,624</u>	<u>\$74,970</u>	<u>\$0</u>	<u>\$298,594</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Enterprise Funds
For the Year Ended December 31, 2005*

	Business-Type Activities		
	Water Fund	Sewer Fund	Total Enterprise Funds
Operating Receipts			
Charges for Services	\$291,198	\$448,888	\$740,086
<i>Total Operating Receipts</i>	<u>291,198</u>	<u>448,888</u>	<u>740,086</u>
Operating Disbursements			
Personal Services	101,558	108,604	210,162
Fringe Benefits	34,944	49,295	84,239
Contractual Services	163,676	82,076	245,752
Materials and Supplies	50,238	36,514	86,752
Capital Outlay	30,265	58,264	88,529
<i>Total Operating Disbursements</i>	<u>380,681</u>	<u>334,753</u>	<u>715,434</u>
<i>Operating Income (Loss)</i>	(89,483)	114,135	24,652
Non-Operating Receipts (Disbursements)			
Debt Service:			
Redemption of Principal	0	(21,046)	(21,046)
Interest & Fiscal Charges	0	(19,456)	(19,456)
Miscellaneous Non-operating Receipts	526	385	911
<i>Change in Net Assets</i>	(88,957)	74,018	(14,939)
<i>Net Assets Beginning of Year</i>	<u>223,624</u>	<u>74,970</u>	<u>298,594</u>
<i>Net Assets End of Year</i>	<u>\$134,667</u>	<u>\$148,988</u>	<u>\$283,655</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Enterprise Funds
For the Year Ended December 31, 2004*

	Business-Type Activities			Total Enterprise Funds
	Water Fund	Sewer Fund	Non-Major Enterprise Fund	
Operating Receipts				
Charges for Services	\$212,231	\$320,569	\$0	\$532,800
<i>Total Operating Receipts</i>	<u>212,231</u>	<u>320,569</u>	<u>0</u>	<u>532,800</u>
Operating Disbursements				
Personal Services	90,775	111,380	0	202,155
Fringe Benefits	34,418	51,255	0	85,673
Contractual Services	68,076	58,392	0	126,468
Materials and Supplies	34,317	27,247	1,367	62,931
Capital Outlay	10,822	32,593	0	43,415
<i>Total Operating Disbursements</i>	<u>238,408</u>	<u>280,867</u>	<u>1,367</u>	<u>520,642</u>
<i>Operating Income (Loss)</i>	(26,177)	39,702	(1,367)	12,158
Non-Operating Receipts (Disbursements)				
Debt Service:				
Redemption of Principal	0	(26,505)	0	(26,505)
Interest & Fiscal Charges	0	(20,826)	0	(20,826)
<i>Change in Net Assets</i>	(26,177)	(7,629)	(1,367)	(35,173)
<i>Net Assets Beginning of Year</i>	<u>249,801</u>	<u>82,599</u>	<u>1,367</u>	<u>333,767</u>
<i>Net Assets End of Year</i>	<u>\$223,624</u>	<u>\$74,970</u>	<u>\$0</u>	<u>\$298,594</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County

Statement of Fiduciary Net Assets - Cash Basis

Agency Fund

December 31, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$143</u>
Net Assets	
Unrestricted	<u>\$143</u>

See accompanying notes to the basic financial statements

Village of McConnellsville, Morgan County

Statement of Fiduciary Net Assets - Cash Basis

Agency Fund

December 31, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,796</u>
Net Assets	
Unrestricted	<u>\$1,796</u>

See accompanying notes to the basic financial statements

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1- DESCRIPTION OF THE VILLAGE AND REPORTING ENTITY:

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

Reporting Entity

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

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 and bridges, park operations, and police and fire protection services.

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 body and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Village is obligated for the debt of the organization. Component units may also include organizations for which the Village approves the budget, the issuance of debt or the levying of taxes. There are no component units included as part of this report.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Fund Accounting

The Village uses fund accounting to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid

financial management by segregating transactions related to certain Village functions or activities. The operation of each fund is accounted for within a separate set of self-balancing set of accounts.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Cash disbursements are assigned to the fund from which they are paid. The difference between governmental fund assets and cash disbursements is reported as fund balance. The following are the Village's major governmental funds:

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

General Fund - This fund is the operating fund of the Village and 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 and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Street Levy Fund – This fund receives property tax monies to construct, maintain and repair Village streets.

Grant Construction – This fund receives Community Development Block Grant funding for the renovation of downtown buildings and 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 proprietary funds are used to account for the Village's ongoing activities that are similar to those found in the private sector. The only proprietary funds reported by the Village are enterprise funds. The following are the Village's major enterprise funds:

Water Fund – This fund receives charges for services from residents to cover the cost of treating and distributing water throughout the Village.

Sewer Fund – This fund receives charges for services from residents to cover the cost of collecting, treatment, and distribution of sewage throughout the Village.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The Village's only fiduciary fund is an agency fund which is used to account for resources collected for a mayor's court. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

Basis of Presentation

The Village prepares its financial statements in accordance with the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The Village's basic financial statements consist of government-wide statements, including a statement of net cash assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets-cash basis presents the cash basis financial condition of governmental activities

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

of the Village at year-end. The statement of activities-cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the Village's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the Village. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each business segment or governmental function is self-financing or draws from the general cash receipts of the Village.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds in order 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 fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

Basis of Accounting

The Village chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivables and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Cash Receipts – Exchange and Non-exchange Transactions

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the year in which the resources are received. Non-exchange transactions, in which the Village receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On a cash basis, receipts from property taxes are recognized in the year in which the taxes are received. Receipts from grants, entitlements and donations are recognized in the year in which the monies have been received.

Cash Disbursements

On the cash basis of accounting, disbursements are recognized at the time payments are made.

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting.

The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Tax Budget

A tax budget of estimated revenues and expenditures for all budgeted funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and revises estimated revenues. The commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the Village must revise its budget so that the total

contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the fiscal officer determines that the revenue collected is greater or less than the current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2005 and 2004.

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance controls the spending authority at the function level for all funds of the Village. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified.

The allocation of appropriations among functions within the funds may be modified during the year only by an ordinance of Council. During the year supplemental appropriation measures were legally passed. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve a portion of the applicable appropriation. At the close of the fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be re-appropriated.

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of the total of fund cash balances from all funds as of December 31, 2005 and 2004. To improve cash management, cash received by the Village is pooled. Monies from all funds, including proprietary funds, are maintained in this pool. Village funds are maintained in a checking account. Individual fund balance integrity is maintained through the Village's records. Balances of all funds are maintained in this account. All interest receipts are reported in the General Fund unless required by State law or local ordinance. In 2005 interest receipts for the General, Street Construction, Maintenance and Repair funds totaled \$17,281 and \$2,692 respectively, while interest posted to other funds within the village totaled \$272. In 2004 interest receipts for the General, Street Construction, Maintenance and Repair funds totaled \$13,123 and \$484 respectively, while interest posted to other funds within the Village totaled \$67.

Capital Assets and Depreciation

Capital assets acquired or constructed are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported separately on the financial statements.

Compensated Absences

Vacation and sick leave benefits are not accrued under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

Long-term Obligations

In general, bonds, long-term loans, and capital leases are recorded as cash disbursements in the financial statements when paid.

Net Cash Assets

Net cash assets represent the difference between assets and liabilities. Net cash assets consist of cash receipts reduced by cash disbursements for the current Net cash assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Restricted for Other Purposes is comprised of net assets restricted for various grants. The Village applies restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Transactions

Exchange transactions between funds are reported as cash receipts in the seller funds and as cash disbursements in the purchaser funds. Flows of cash or goods from one fund to another without the requirement for repayment are reported as transfers. Transfers are reported as other financing sources/uses in governmental funds. Repayment from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented on the financial statements. In the government-wide financial statements transfers within governmental activities or within business-type activities are eliminated.

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 3 - DEPOSITS AND INVESTMENTS:

Monies of substantially all funds of the Village are maintained in a common bank account. This is done in order to maximize the rate of interest that can be earned on invested funds. Interest income is distributed to the funds according to statutory requirements.

The deposit of Village monies are governed by the provisions of the Ohio Revised Code. In

accordance with these provisions, only financial institutions located in Ohio and primary security dealers are eligible to hold public deposits. The provisions also permit the Village to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAR Ohio) and obligations of the United States government or certain agencies thereof. The Village may also enter into repurchase agreements with any eligible depository for a period not exceeding five years.

Cash on Hand

At 2005 and 2004 years end, the Village had \$200 and \$194 of cash on hand which is included as part of Net Cash Assets.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2005, \$506,712 of the Village's bank balance of \$606,712 was exposed to custodial credit risk because it was uninsured and collateralized. At December 31, 2004, \$339,611 of the Village's bank balance of \$439,611 was exposed to custodial credit risk because it was uninsured and collateralized. Although all statutory requirements for the deposit of money had been followed for both years, non-compliance with federal requirements could potentially subject the Village to a successful claim by the FDIC.

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 4 – BUDGETARY BASIS FUND BALANCES:

Differences between the budgetary basis fund balances and the fund cash balances are due to encumbrances. The table below presents the differences between the net changes in fund balance reported in the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Cash Basis and the Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance (Budgetary Basis) for the Village's General and major special revenue funds:

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Street Construction and Repair Fund	Street Levy
2005:			
Fund Balance – Cash Basis	\$169,842	\$43,924	\$40,161
Encumbrances	(424)	(1,699)	0
Budgetary Basis Amount	\$169,418	\$42,225	\$40,161
2004:			
Fund Balance – Cash Basis	\$36,156	\$24,686	\$20,566
Encumbrances	4,067	0	0
Budgetary Basis Amount	\$40,223	\$24,686	\$20,566

NOTE 5 - PROPERTY TAXES:

Property taxes include amounts levied against all real, public utility and tangible personal property located in the Village. Property tax revenue received during 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax

payments received during 2005 for tangible personal property (other than public utility property) is for 2005 taxes.

2005 real property taxes are levied after October 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes collected in and intended to finance 2006.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 24 percent of true value for inventory.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The full tax rate of for all Village operations for the year ended December 31, 2005 was \$5.2 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property Tax Assessed Valuation	\$ 19,248,520
Public Utility Tangible Personal Property Assessed Valuation	1,046,760
Tangible Personal Property Assessed Valuation	<u>1,868,650</u>
Total	<u>\$ 22,163,930</u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20.

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county tax payers are due September 20.

Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the

county, including the Village of McConnelsville. The County Auditor periodically remits to the Village its portion of the taxes collected.

NOTE 6 – LOCAL INCOME TAXES:

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

NOTE 7 – DEFINED BENEFIT PENSION PLANS:

Ohio Public Employees Retirement System

The Village of McConnelsville participates in the Ohio Public Employees Retirement System of Ohio (OPERS), which administers three separate pension plans; the Traditional Pension Plan (TPP), the Member-Directed Plan (MDP) and the Combined Plan (CP). The TPP is a cost sharing, multiple-employer defined benefit pension plan. The MDP 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), and members accumulate retirement assets equal to the value of member and (vested) employer contribution plus any investment earnings. The CP is a cost sharing, multiple-employer defined benefit plan where employer contributions are invested by OPERS to provide a formula retirement benefit similar to the TP benefit, but the member contribution is self-directed by the members and accumulate retirement assets in a manner similar to the MDP.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TPP and CP Plans. Members of the MDP do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 432 15-4642, or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, member and contribution rates were consistent across all three plans. The 2005 member contribution rate was 8.5 percent and the Village's contribution rate was 13.55 percent of covered payroll. The Village's contributions to the plans for the years ending December 31, 2005, 2004, and 2003 were \$45,155, \$44,485, and \$43,675, respectively; 100 percent has been contributed for 2005, 2004 and 2003.

Ohio Police and Fire Pension Fund

The Village of McConnelsville contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined pension plan. OP&F provides retirement and disability benefits, cost of-living adjustments, and death benefits to plan member 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 statements and required supplementary

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 and 24.0 percent respectively for police officers and firefighters. The Village's contributions to OP&F for the years ending December 31, 2005, 2004 and 2003 were \$30,473, \$33,055 and \$28,756, respectively; 100 percent has been contributed for 2005, 2004 and 2003.

NOTE 8 – POSTEMPLOYMENT BENEFITS:

Ohio Public Employees Retirement System

In order to qualify for postretirement health care coverage, age and services retirees under the TPP and the CP plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualifying survivor benefit recipients is available. The health care coverage provided by PERS is considered to be an Other Post Employment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS. For 2005 the portion of the required contribution used to fund health care was 4 percent.

Benefits are advance-funded on an actuarially basis. The following assumptions and calculations are based on OPERS' latest actuarial review, performed December 31, 2004. An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investments annually. The investment assumption rate for 2004 was 8 percent. An annual increase of 4 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4 percent

base increase, were assumed to range from 0.5 percent to 6.3 percent. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond), health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

The Traditional Pension and Combined Plans had 376,109 active contributing participants as of December 31, 2005. The number of active contributing participants for both plans used in the December 31, 2004, actuarial valuation was 355,287. The Village's actual contributions for 2005 which were used to fund post-employment benefits were \$55,903. The actual contribution and the actuarially required contribution amounts are the same. The amount of \$10.8 billion represents the actuarial value of OPERS' net assets available for OPEB at December 31, 2004. The Actuarial Valuation as of December 31, 2004, reported the actuarially accrued liability and unfunded actuarially accrued liability for OPEB, based on the actuarial cost method used, at \$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 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.

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such persons. An eligible dependent child is any child under the age of eighteen whether or not he is attending school or under twenty-two if attending full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the post-employment health care program during 2004 and 2005. In addition, since July 1, 1992, most retirees 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 2004 that were used to fund post-employment benefits were \$10,249. The OP&F's total health care expense for the year ended December 31, 2004 (the date of the last actuarial information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

NOTE 9 – DEBT OBLIGATIONS:

Under the cash basis of accounting, debt obligations are not reported as a liability in the accompanying financial statements. However, information regarding such changes in the Village's debt obligations during 2005 is as follows:

	Principal Outstanding 12/31/2003	Additions	Deletions	Principal Outstanding 12/31/2005	Principal Due within One Year
OWDA Loans Payable	\$ 297,500	\$ -	\$ 40,607	\$ 256,893	\$ 22,644
Promissory Notes	8,333	-	8,333	-	-
Total	\$ 305,833	\$ -	\$ 48,940	\$ 256,893	\$ 22,644

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved up to \$500,000 for this project, but the Village borrowed only \$466,063. The loan will be repaid in semiannual installments over the remaining life of the loan. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

In 2001, the Village issued promissory notes with General Motors Acceptance Corporation for the purchase of two Chevrolet trucks. The original note amounts were for \$14,999 and \$14,999. There is a 0% interest rate on these notes. The notes were paid in full in 2004 as disclosed in the above schedule.

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Amortization of the above debt is scheduled as follows:

Year Ending December 31:	OWDA Loans	
	Principal	Interest
2006	\$ 22,644	\$ 17,983
2007	24,362	16,398
2008	26,211	14,692
2009	28,201	12,857
2010	30,341	10,883
2011-2014	125,139	20,618
Total	\$ 256,898	\$ 93,431

NOTE 10 - RISK MANAGEMENT:

The Village maintains comprehensive insurance coverage with private carriers for general liability and casualty, public official's liability, real property, building contents and vehicles. Vehicles policies include liability coverage for bodily injury and property damage.

Settled claims have not exceeded coverage in any of the past three years. In addition, there has not been a significant reduction in coverage from the prior year.

NOTE 11 – JOINT VENTURE:

During the years ended December 31, 2005 and 2004, the Village was part of the following joint venture:

The Village of McConnelsville and the Village of Malta established a Recreation Committee under the provisions of Ohio Revised Code Section 755.16 to provide organized recreational programs for the citizens of both Villages and to construct, operate and maintain a swimming pool. The Committee consists of three Council Members from each Village appointed by the respective Village Councils and the Mayor of the Villages in alternating two year terms.

Revenue and expenditures are budgeted and accounted for by the villages in alternating two year terms. The Committee can be dissolved only by mutual consent of both Village Councils. If the Committee would be dissolved, original start up assets revert to the contributing Village or if acquired jointly, would be split equally. The financial activity of the Recreation Committee is included in the annual report of the Village which budgets and accounts for revenue and expenditures. The accompanying financial statements of the Village of McConnelsville do not include the activity of the Recreation Committee for 2005 or 2004. The activity for 2005 and 2004 was accounted for and reported by the Village of Malta.

NOTE 12 – CONTINGENT LIABILITIES:

Litigation

During the course of normal governmental operation the Village is subject to a variety of lawsuits. However, the Village is of the opinion that ultimate disposition of claims and legal proceedings will not have a material effect, if any, on the financial condition of the Village.

VILLAGE OF MCCONNELSVILLE, MORGAN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

Federal and State Grants

For the period January 1, 2004 to December 31, 2005 the Village received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the Village believes such disallowance, if any would be immaterial.

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLES:

For 2005 and 2004, the Village has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” which changed the required disclosure regarding risk associated with deposits and investments in the notes to the basic financial statements. The implementation of this statement had no effect on the amounts within the basic financial statements. These additional disclosures are included in Note 3 to the basic financial statements.

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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 Council
Village of McConnelsville
Morgan County, Ohio
9 West Main Street
McConnelsville, OH 43756

We have audited the financial statements of the government activities, the business type activities, each major fund, and the aggregate remaining fund information of the Village of McConnelsville, Morgan County, Ohio (the "Village") as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Village's financial statements and have issued our report thereon dated June 14, 2006 wherein we noted the Village prepared its financial statements on the cash basis, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We also noted that the Village implemented GASB Statements No. 38 and 40. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider 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* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002.

We noted certain matters that we reported to management of the Village in a separate letter dated June 14, 2006.

Village of McConnellsville
Morgan County

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
Page 2

This report is intended solely for the information and use of the management and the Village Council, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

June 14, 2006

**VILLAGE OF MCCONNELSVILLE
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5705.39 states the total appropriation from each fund shall not exceed the total estimated revenue. Appropriations exceeded available resources in the Fire Levy Fund by \$3,250 in 2004 and by \$30,000 in the Mayor's Court Fund. In 2005, Appropriations exceeded available resources by \$86,251 in the Water fund and by \$10,515 in the Mayor's Court Fund.

Response:

The village will implement monitoring controls to mitigate the risk of non-compliance in subsequent years.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) states no subdivision is to expend money unless it has been appropriated. Village expenditures exceeded appropriations at the legal level of control in the Grant Construction fund capital outlay function by \$82,878 in 2004. In 2005, expenditures exceeded appropriations in the FEMA fund security of person and property function by \$51,593.

Response:

The village will implement monitoring controls to mitigate the risk of non-compliance in subsequent years.

**VILLAGE OF MCCONNELSVILLE
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Ohio Rev. Code Section 5705.39, Expenditures exceeded available resources.	No	Re-issued as finding 2005-001



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VILLAGE OF McCONNELSVILLE

MORGAN 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 26, 2006**