



**Auditor of State
Betty Montgomery**

VILLAGE OF BEAVERDAM
ALLEN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Beaverdam
Allen County
101 West Main Street
P.O. Box 127
Beaverdam, Ohio 45808

To the Members of Council:

We have audited the accompanying financial statements of the Village of Beaverdam, Allen County, (the Village), as of and for the years ended December 31, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Village's financial transactions were processed using the Auditor of States Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed and implemented, and as requested, operates UAN. However, *Government Auditing Standards* permit the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(B) and §115.56 mandate the Auditor of State to audit Ohio governments.

We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

May 21, 2004

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$11,086			\$11,086
Intergovernmental Receipts	22,453	\$31,585		54,038
Earnings on Investments	2,952	26	\$249	3,227
Fines, Licenses, and Permits	34			34
Miscellaneous	196		90,000	90,196
Total Cash Receipts	36,721	31,611	90,249	158,581
Cash Disbursements:				
Current:				
Security of Persons and Property	899			899
Public Health Services	159			159
Transportation		27,696		27,696
General Government	30,843			30,843
Capital Outlay		984	36,010	36,994
Total Cash Disbursements	31,901	28,680	36,010	96,591
Total Receipts Over/(Under) Disbursements	4,820	2,931	54,239	61,990
Other Financing Receipts				
Other Financing Sources	55			55
Total Other Financing Receipts	55			55
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	4,875	2,931	54,239	62,045
Fund Cash Balances, January 1	27,192	4,958	33,746	65,896
Fund Cash Balances, December 31	32,067	7,889	87,985	127,941
Reserves for Encumbrances, December 31	\$1,109	\$460	\$0	\$1,569

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$251,022
Total Operating Cash Receipts	251,022
Operating Cash Disbursements:	
Personal Services	43,623
Fringe Benefits	15,339
Contractual Services	35,427
Supplies and Materials	9,318
Capital Outlay	19,112
Miscellaneous	18,382
Total Operating Cash Disbursements	141,201
Operating Income	109,821
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	202
Total Non-Operating Cash Receipts	202
Non-Operating Cash Disbursements:	
Debt Service - Principal	21,986
Debt Service - Interest	23,240
Other Non-operating Cash Disbursements	7
Total Non-Operating Cash Disbursements	45,233
Excess of Cash Receipts and Non-operating Receipts Over/ (Under) Disbursements and Non-operating Disbursements	64,790
Fund Cash Balances, January 1	142,791
Fund Cash Balances, December 31	207,581
Reserve for Encumbrances, December 31	\$9,395

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$14,999			\$14,999
Intergovernmental Receipts	22,112	\$17,145		39,257
Earnings on Investments	3,220	4	\$396	3,620
Miscellaneous	1,131	159		1,290
Fines, Licenses, and Permits	307			307
	<hr/>			<hr/>
Total Cash Receipts	41,769	17,308	396	59,473
Cash Disbursements:				
Current:				
Security of Persons and Property	1,128			1,128
Transportation		16,614		16,614
General Government	31,852			31,852
Capital Outlay	2,127	1,522	1,503	5,152
Debt Service:				
Redemption of Principal	13,643	4,094		17,737
Interest and Other Fiscal Charges	114			114
	<hr/>			<hr/>
Total Cash Disbursements	48,864	22,230	1,503	72,597
Total Receipts Over/(Under) Disbursements	(7,095)	(4,922)	(1,107)	(13,124)
Other Financing Receipts and (Disbursements):				
Other Financing Uses	(3)			(3)
Other Financing Sources	824			824
	<hr/>			<hr/>
Total Other Financing Receipts/(Disbursements)	821			821
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(6,274)	(4,922)	(1,107)	(12,303)
Fund Cash Balances, January 1	33,466	9,880	34,853	78,199
	<hr/>			<hr/>
Fund Cash Balances, December 31	\$27,192	\$4,958	\$33,746	\$65,896
	<hr/>			<hr/>
Reserves for Encumbrances, December 31	\$2,901	\$0	\$0	\$2,901
	<hr/>			<hr/>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$225,747
Miscellaneous	1,738
	227,485
Operating Cash Disbursements:	
Personal Services	46,007
Fringe Benefits	11,794
Contractual Services	41,868
Supplies and Materials	43,204
Capital Outlay	92,679
Miscellaneous	19,136
	254,688
Total Operating Cash Disbursements	254,688
Operating Income	(27,203)
Non-Operating Cash Receipts:	
Earnings on Investments	366
Other Non-Operating Receipts	637
	1,003
Total Non-Operating Cash Receipts	1,003
Non-Operating Cash Disbursements:	
Debt Service - Principal	24,165
Debt Service - Interest	22,348
Other Non-Operating Cash Disbursements	966
	47,479
Total Non-Operating Cash Disbursements	47,479
Excess of Cash Receipts and Non-operating Receipts Over/ (Under) Disbursements and Non-operating Disbursements	(73,679)
Fund Cash Balances, January 1	216,470
Fund Cash Balances, December 31	\$142,791
Reserve for Encumbrances, December 31	\$24,615

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Beaverdam, Allen County, (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six member Council. The Village provides general governmental services, including water and sewer utilities, and street and highway maintenance. The Village contracts with the Allen County Sheriff's department to provide policing services. The Village provides the water and the Village residents volunteer their services to the Richland Township Fire and Emergency Medical Services who provide fire and ambulance services to Village residents.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which 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 expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. Certificates of deposit are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Permissive Motor Vehicle License Tax Fund - This fund receives motor vehicle license tax money for constructing, maintaining and repairing Village streets.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following significant capital project fund:

Impact Fee Construction Account Fund - This fund receives impact fees and interest earnings. The revenue is used for the expansion of utility facilities and infrastructure requirements.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

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

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

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over and need not be reappropriated in the subsequent year. The Village did not encumber all of the commitments that were required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon retirement. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2003	2002
Demand deposits	\$274,120	\$143,586
Certificates of deposit	<u>\$61,402</u>	<u>\$65,101</u>
Total deposits and investments	<u><u>\$335,522</u></u>	<u><u>\$208,687</u></u>

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$41,000	\$36,776	(\$4,224)
Special Revenue	17,309	31,611	14,302
Capital Projects	90,150	90,249	99
Enterprise	227,821	251,224	23,403
Total	<u><u>\$376,280</u></u>	<u><u>\$409,860</u></u>	<u><u>\$33,580</u></u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$55,072	\$33,010	\$22,062
Special Revenue	22,267	29,140	(6,873)
Capital Projects	33,896	36,010	(2,114)
Enterprise	292,583	195,829	96,754
Total	<u><u>\$403,818</u></u>	<u><u>\$293,989</u></u>	<u><u>\$109,829</u></u>

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$43,500	\$42,593	(\$907)
Special Revenue	25,000	17,308	(7,692)
Capital Projects	0	396	396
Enterprise	259,000	228,488	(30,512)
Total	\$327,500	\$288,785	(\$38,715)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$72,382	\$51,768	\$20,614
Special Revenue	33,593	22,230	11,363
Capital Projects	27,103	1,503	25,600
Enterprise	334,300	326,782	7,518
Total	\$467,378	\$402,283	\$65,095

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan 1	\$110,824	8.35%
Ohio Water Development Authority Loan 2	1,540	0%
Ohio Water Development Authority Loan 3	1,280	0%
Sewer System First Mortgage Revenue Bonds	207,000	5%
Total	\$320,644	

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

5. DEBT (Continued)

The Ohio Water Development Authority (OWDA) Loan 1 relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$168,000 in loans to the Village for this project. The loans will be repaid in semiannual installments of varying amounts. The final payment is scheduled for July 1, 2014. Beginning with the first payment of 2004, the OWDA provided the Village with a loan subsidy for the remaining life of the loan. This lowers the stated interest rate by approximately 1.35%.

The (OWDA) Loan 2 relates to a feasibility study for improvements to water supply system. The OWDA had approved \$3,850 in loans to the Village for this study. The loan will be repaid in annual installments of \$385 over ten years. The final payment is scheduled for July 1, 2007.

The (OWDA) Loan 3 relates to a feasibility study for improvements to wastewater treatment system. The OWDA had approved \$3,200 in loans to the Village for this study. The loan will be repaid in annual installments of \$320 over ten years. The final payment is scheduled for July 1, 2007.

The Sewer System First Mortgage Revenue Bonds relates to the sewer improvement project. The bonds are to be repaid in annual installments of varying amounts. The final payment is scheduled for 2017.

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

Year ending December 31:	OWDA Loan 1	OWDA Loan 2	OWDA Loan 3	Mortgage Revenue Bonds	Totals
2004	\$7,363	\$385	\$320	\$21,350	\$29,418
2005	14,817	385	320	20,800	36,322
2006	14,916	385	320	21,250	36,871
2007	15,022	385	320	20,650	36,377
2008	15,138			21,050	36,188
Subsequent	93,857			187,500	281,357
Total	<u>\$161,113</u>	<u>\$1,540</u>	<u>\$1,280</u>	<u>\$292,600</u>	<u>\$456,533</u>

6. RETIREMENT SYSTEMS

Public Employees Retirement System (PERS)

Village officials and employees belong to PERS of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. PERS members were required to contribute 8.5 percent of their gross salaries, and the Village was required to contribute an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by PERS have an option to choose Social Security. A member of Council has elected social security. The Village's liability is 6.2 percent of wages paid.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

7. RISK POOL MEMBERSHIP

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to a per-occurrence limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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

Financial Position

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

Casualty Coverage	2002	2001
Assets	\$20,174,977	19,358,458
Liabilities	(8,550,749)	(8,827,588)
Retained earnings	<u>\$11,624,228</u>	<u>\$10,530,870</u>
Property Coverage	2001	2001
Assets	\$2,565,408	\$1,890,323
Liabilities	(655,318)	(469,100)
Retained earnings	<u>\$1,910,090</u>	<u>\$1,421,223</u>



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Beaverdam
Allen County
101 West Main Street
P.O. Box 127
Beaverdam, Ohio 45808

To the Members of Council:

We have audited the accompanying financial statements of the Village of Beaverdam, Allen County, (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated May 21, 2004, wherein we noted that the Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village, because the Auditor of State designed, developed, implemented, and as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-009. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 21, 2004.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-010 and 2003-011.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a 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 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2003-010 and 2003-011 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 21, 2004.

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



Betty Montgomery
Auditor of State

May 21, 2004

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER – 2003-001

Finding for Recovery – Cell Phone Payment

For November and December of 2003, the Mayor's personal cell phone calls were paid by the Village. Although a Village cell phone was available for his use, there was no policy established for the mayor's personal cell phone to be used for Village purposes for those two months. For the period of November 2003 through December 2003, the Mayor's personal cell phone bill was paid in the amount of \$460.23.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended, is hereby rendered against, Dale Walters, Mayor, and his bonding company, Ohio Farmers Insurance Company, jointly and severally, in the amount of four hundred sixty dollars and twenty-three cents (\$460.23), and in favor of the Village of Beaverdam treasury for the General Fund and the Water and Sewer Utility Funds.

FINDING NUMBER – 2003-002

Recording of Minutes

Ohio Rev. Code Sections 121.22 and 733.27, state the village clerk shall keep an accurate record of the proceedings, and of all rules, by-laws, and ordinances passed or adopted by Council and the board of public affairs and of all of its accounts and transactions and that the minutes shall be promptly prepared and made available for public inspection.

- Ordinances, resolutions and financial matters relevant to the Village were not clearly or properly disclosed in the minutes. There was no indication which financial reports were presented and the minutes were not complete as to matters discussed. The minutes were also very confusing and difficult to understand.
- Minutes did not indicate which financial reports were reviewed and accepted by Council and the Board of Public Affairs.
- Current minutes always indicated that prior minutes were approved, but they were not always signed by the Mayor, President of Council, and/or the Clerk.

Since the minutes are the official record through which Council and the Board of Public Affairs act and speak, the lack of complete information and an official review and approval, allows for the possibility of inaccurate records and conclusions, misunderstandings, and/or questions to arise. In addition, the minutes, ordinances and resolutions constitute a history of the Village, and are considered a permanent record and should be permanently retained.

Proper steps should be taken to ensure that all information regarding the official actions of the Village is recorded and that the information is complete and accurate, timely prepared, properly approved and maintained in a proper manner as a permanent record.

NON-COMPLIANCE – OHIO REVISED CODE

FINDING NUMBER – 2003-003

Records Destruction

Ohio Revised Code Section 149.351(A) states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission.

The necessary documents and required records have not been adequately maintained by the Village as follows:

- A copy of the appropriation resolution for 2002 was not retained by the Village and had to be obtained from the County Auditor.
- There were only three completed Form 941's that could be located for the two year audit period.

The failure to retain the required records could result in unexpected liabilities if evidence of payment cannot be presented, possible opinion qualification on the financial statements if sufficient supporting records are not available, and increased audit costs.

Important records and supporting documentation should be retained and maintained in a logical manner. A policy should be adopted establishing procedures on the retainage of records generated and the manner in which they are to be maintained. A request for destruction of records should be submitted to the Records Commission to address the appropriate procedures for destruction.

FINDING NUMBER – 2003-004

Village Records

Ohio Rev. Code Section 733.28, states the village clerk shall keep the books of the village, exhibit accurate statements of all money received and expended, of all the property owned by the village and the income derived there from.

The Village uses the UAN accounting system. Manual checks are being written, and upon the issuance of the check, the check number and the amount, along with a UAN account code to classify the expenditure must be entered. Sixty-five out of one hundred three expenditures tested were not posted according to the proper fund and/or account code. In addition, check numbers and amounts in the system were not always in agreement with the manual check, and all debt payments were posted incorrectly. As a result, incorrect amounts for receipts and disbursements had been posted when compared to the supporting documentation.

Also, the fund journal, receipt and disbursement journals, the list of outstanding checks, and the bank reconciliations presented were inaccurate. During 2003 and 2002, numerous expenditures and revenues were increased and/or decreased in an effort to balance the books with the bank. The outstanding check lists had check numbers and amounts that did not agree to the checks that were actually outstanding.

**FINDING NUMBER – 2003-004
 (Continued)**

The lack of posting receipts and disbursements to the system accurately results in the inability to properly reconcile the accounting records. Also, additional accounting and auditing procedures are necessary to complete the audit which results in increased audit costs.

The following represents the net adjustments reflected in the financial statements that were necessary to balance the records with the depositories.

Fund	12/31/2003	Net	Adjusted	12/31/2002	Net	Adjusted
	<u>Balance</u>	<u>Adjustments</u>	<u>Balance</u>	<u>Balance</u>	<u>Adjustments</u>	<u>Balance</u>
General	\$33,860	(\$1,793)	\$32,067	\$29,058	(\$1,866)	\$27,192
Street Construction	6,140		6,140	3,150		3,150
State Highway	1,749		1,749	1,808		1,808
Capital Projects	87,985		87,985	33,746		33,746
Water Operating	113,602	(7,483)	106,119	68,124	(4,875)	63,249
Sewer Operating	42,277	12,763	55,040	24,137	8,983	33,120
Sewer Reserve	26,890	(348)	26,542	26,890	(348)	26,542
Sewer Surplus	20,170	(290)	19,880	20,170	(290)	19,880
Total	<u>\$332,673</u>	<u>\$2,849</u>	<u>\$335,522</u>	<u>\$207,083</u>	<u>\$1,604</u>	<u>\$208,687</u>

Failure to post expenditures according to the correct check number and amount, and to the correct funds and account codes, could result in a material misstatement to the financial statements. In addition, the receipts should be posted to the records in their actual amounts consistent with the supporting documentation, and any adjustments should be separately entered.

The cash journal should be supported by the receipts and appropriations subsidiary ledgers, and reconcile with the depositories. In turn, the records should support the compilation of the annual financial statements. The records should be maintained up-to-date and accurate bank reconciliations performed. In addition, the UAN Chart of Accounts should be utilized to ensure that revenues and expenditures are properly classified.

Procedures should be implemented to determine that all revenues and expenditures are posted to the correct fund and line item according to the UAN chart of accounts.

FINDING NUMBER – 2003-005

Ohio Rev. Code Section 5705.36, allows all subdivisions to request increased amended certificates of estimated resources or reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

During 2003, additional revenue was received and expended in the amount of \$14,457 for the Motor Vehicle Permissive Tax Fund, Special Revenue Fund type and an amended certificate was not obtained.

Failure to obtain an amended certificate could result in appropriations and expenditures being made in excess of the certified revenue and result in deficit spending.

The Village should obtain an amended certificate of estimated resources whenever it is determined that the revenue collected will be greater than the amount certified in the prior issued certificate of estimated resources when the intention is to appropriate and expend the additional funds.

FINDING NUMBER – 2003-006

Supplemental Appropriations

Ohio Revised Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. Transfers may be made by resolution or ordinance from one appropriation item to another.

During 2002, additional appropriations totaling \$63,000, or 14 percent of total appropriations, were posted to the Village books without Council Resolution or Ordinance. In addition, object level appropriation modifications of \$8,500 during 2003 and \$50,012 during 2002 were made to the books without Council approval. These appropriations are not reflected in the notes to the financial statements.

Village Council cannot delegate its authority to make appropriation modifications or the transfer of appropriations between line items. Council must approve all appropriation modifications and appropriation transfers through Board ordinance or resolution since these changes are not considered approved until formal legal action has been taken.

FINDING NUMBER – 2003-007

Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated. Expenditures exceeded appropriations at the legal level of control in the following funds:

	<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
2003	Street Construction			
	Supplies and Materials	\$3,838	\$5,324	\$(1,486)
	Permissive Motor Vehicle			
	Capital Outlay	0	14,457	(14,457)
	Capital Projects			
	Other	33,896	36,010	(2,114)
	Water Operating			
	Other Contractual Services	500	2,822	(2,322)
	Other	43,320	51,050	(7,730)
	Sewer Operating			
	OPERS	500	546	(46)
	Other	8,124	11,043	(2,919)
	Equipment	1,000	4,365	(3,365)
2002	General Fund			
	Rents and Leases	44	239	(195)
	Travel and Transportation	300	488	(188)
	Office Supplies and Materials	500	723	(223)
	Other Personal Services	1,000	1,260	(260)
	Other Miscellaneous	17,242	22,129	(4,887)
	Electricity	0	404	(404)
	Advertising	50	372	(322)
	OPERS	200	1,089	(889)
	Street Construction			
	Other Supplies and Material	0	300	(300)
	Other Miscellaneous	2,333	6,464	4,131
	Streets, Sidewalks, and Curbs	0	1,522	(1,522)
	State Highway			
	Other Miscellaneous	2,009	2,086	(77)

**FINDING NUMBER – 2003-007
 (Continued)**

Fund	Appropriations	Expenditures	Excess
Water Operating			
Other Personal Services	20,000	22,907	(2,907)
OPERS	2,500	4,470	(1,970)
Travel and Transportation	700	1,275	(575)
Electricity	6,000	7,547	(1,547)
Auditing Services	2,500	5,000	(2,500)
Engineering Services	2,000	2,659	(659)
Other Contractual Services	0	449	(449)
Repairs and Maintenance	16,000	18,858	(2,858)
Other Supplies and Materials	0	10,922	(10,922)
Other Miscellaneous	9,537	33,703	(24,166)
Clerk/Treasurer	3,400	3,673	(273)
OPERS	400	981	(581)
Sewer Operating			
Electricity	4,000	6,588	(2,588)
Auditing Services	2,500	5,000	(2,500)
Repairs and Maintenance	10,000	11,527	(1,527)
Other Miscellaneous	15,304	30,054	(14,750)
Clerk/Treasurer	3,400	3,923	(523)
Land and Land Improvements	1,000	13,056	(12,056)
Utility Distribution System	0	1,000	(1,000)
Principal Payments	21,000	21,350	(350)
Other Financing Uses	0	676	(676)

The failure to monitor appropriations versus expenditures could result in expenditures exceeding available resources and possibly result in deficit spending. Council should monitor the budget versus actual reports and approve modifications when necessary. Approval of these modifications should be legally enacted and documented in the Council minutes.

FINDING NUMBER - 2003-008

Certification of Expenditures

Ohio Revised Code Section 5705.41 (D), states that no order or contract involving the expenditure of money is to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

An exception to this basic requirement provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of the warrant ("Then and Now".) The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district. Amounts of less than \$1,000 (\$3,000 after April 7, 2003), may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Prior certification was not obtained from the clerk for the expenditure of Village funds for 85 percent of the transactions during the audit period. The lack of proper certifications could result in the Village obligating funds in excess of fund balances resulting in a deficit spending situation. Certification that funds are available should be obtained prior to purchasing goods and services to prevent possible overspending of resources and/or the obligation of amounts in excess of specific line item appropriations.

The Village should establish procedures for obtaining certification prior to incurring an obligation, and/or for subsequent certification and approval as provided by the exception noted above.

FINDING NUMBER - 2003-009

Debt Covenant Compliance

The Village has not complied with the Sewer Revenue Bond debt covenant requirements to establish four funds, post the revenue and expenditures to the appropriate funds, and invest the money. The required funds according to the debt covenant are the:

Sewer System Fund - This fund was established when the bonds were issued, and receives the revenues from the operation of the sewer utility.

Sewer System Revenue Bond and Interest Sinking Fund - This fund was not established as required by the bond covenant. The Village is required to place equal monthly payments in this fund in order to meet the next yearly debt payment due in February. A money market savings account was utilized to deposit a monthly amount from the sewer fund to pay the debt; however, the amount in this account is reflected within the sewer system fund rather than this debt fund as required.

Sewer Reserve Fund – This fund was established when the bonds were issued and a maximum balance of \$20,885 is required to be maintained in this fund to cover unforeseen catastrophic expenditures. If the amount falls below the requirement, monthly payments of \$174.05 are required until the maximum balance of \$20,885 is again reached. The balance in the fund, at December 31, 2002 and 2003 was \$27,644 which is \$6,759 more than the maximum requirement. The money in this fund may be invested in five year certificates of deposit, savings account, or any allowable investment such as STAR Ohio. The balance has been invested in certificates of deposit, and interest earnings are credited to the fund.

Sewer Surplus Fund – This fund was established when the bonds were issued. Annually, on January 15th, the revenue available in the Sewer System Fund account at the end of the preceding calendar year, after making the payments required to fund the Sewer Reserve and the Sewer System Revenue Bond and Interest Sinking Funds, and after reserving therein an amount sufficient to provide adequate working capital, shall be transferred to the Sewer Surplus Fund. This money can be used for any sewer operating expenditures of the Village and may be invested in five year certificates of deposit, savings account, or other allowable investment such as STAR Ohio. The balance has been invested in certificates of deposit, and interest earnings are credited to the fund. For the audit period, there was no annual determination at January 15th, and subsequent transfer of surplus revenue into this fund.

The Village should establish the revenue bond and interest sinking fund as required by the debt covenant and follow the debt covenant guidelines for the transactions required among the funds. Also, the numerous certificates of deposits purchased from these funds could be consolidated as they become due, or invested in STAR Ohio where the money may be easily transferred back and forth as needed.

FINDING NUMBER – 2003-010

Monitoring of Monthly Financial Reports

Council minutes indicated that a financial report was presented to Council for their review and approval, but it did not appear that it was presented to Council at every monthly meeting.

Financial reports presented to Council and the Board of Public Affairs (BPA) included the Revenue Status Report which did not include revenue amounts from the Certificate of Estimated Resources. Since the amounts were not posted to the system it does not appear that Council and the BPA were monitoring estimated revenue versus actual revenue.

**FINDING NUMBER – 2003-010
(Continued)**

Although officials indicated that bank statements were presented for their review, there was no evidence such as a signature on the bank statements indicating they had been reviewed by Council. In addition, there were several months on which the UAN monthly bank to book reconciliations had large amounts listed as “other adjusting factors” with no explanation given, which were apparently inserted so the bank reconciliation would balance. However, there was no indication in the Council or BPA minutes that anyone had requested an explanation as to what made up the “other adjusting factors” on the monthly bank to book reconciliation.

Receiving financial information on an inconsistent basis could result in Council and/or the BPA obligating funds that are not available, or making decisions based on inaccurate financial data. The failure to properly monitor revenue could result in misappropriation of revenues without timely detection by management. The lack of timely and accurate financial information impedes the ability of officials to act responsibly in conducting Village affairs.

Council should request and monitor monthly reports such as the revenue and expenditure reports, and the budget versus actual information. Council should review the monthly bank to book reconciliations and document the reason for using “other adjusting factors” to reconcile. Council should initial and date the reports as proof of their review. Council should be aware on a continuing basis of the financial position of the Village in order to make informed decisions.

FINDING NUMBER - 2001-011

Supporting Documentation

In thirty three out of one hundred three expenditures tested, or 32 percent, the expenditure did not have adequate support to substantiate the payment. There were instances noted in which no support was provided; where the amount paid did not agree to the invoice/statement; and where the amount was being paid from a statement rather than from an invoice. Council is reviewing and approving a list of bills written in Ordinance form; however, the actual invoices are not being reviewed to confirm the legitimacy of the expenditures. Also, the Board of Public Affairs (BPA) minutes indicate BPA has reviewed and approved bills for payment, but there is no indication that they reviewed the invoice prior to giving approval for the payment. One hundred percent of the purchase orders generated during the period did not have either Council or Board of Public Affairs signatures’ giving authorization for the obligation of funds.

Failure to sign the purchase orders could result in obligations without Council approval and failure to review the invoices could result in payments being made without the knowledge of Council, or approved bills being paid in the wrong amount. Submitting payment without adequate supporting documentation could result in incorrect payments, possible misappropriation, and/or loss of Village funds.

Without adequate supporting documentation and original invoices, Council should not approve payment and the Clerk should not make payment. Purchase orders should be signed by Council. The Clerk should attach the supporting documentation to the voucher. The Clerk should not pay any bill from a statement only. If the payment amount stated on the supporting documentation does not agree with the actual amount paid, the reason should be noted on the supporting documentation.

To enhance controls over the payment process, the following should be considered: 1) At the monthly meetings, the check for payment, an addressed stamped envelope, and the invoice should be attached to the Ordinance for Council’s review; 2) Council should not approve payment without first reviewing the invoice and should indicate their review of all payments by initialing the invoice/supporting documentation or attached voucher; and 3) the check should then be signed by the Clerk and the Mayor or Board President, placed into the envelope and mailed by the Mayor.

**VILLAGE OF BEAVERDAM
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-001	Finding for Recovery - Theft in Utility Revenue	No	Village paid the obligation in January 2004; Former Clerk has not made restitution.
2001-002	Finding for Recovery – Mileage	No	Not repaid by the former Clerk
2001-003	Finding for Recovery – Mileage	Yes	Repaid in full
2001-004	ORC 149.351(A) – Records Destruction	No	Repeated as finding 2003-003
2001-005	ORC 733.69 – Bonds	Yes	Clerk now bonded
2001-006	ORC 5705.09 – Fund Establishment	Yes	Established Permissive Motor Vehicle License Tax-Fund - 2012
2001-007	ORC 5705.10 – Posting of Revenues	Yes	
2001-008	ORC 5705.38 – Appropriation Adoption	Yes	Adopted and filed with County Auditor
2001-009	ORC 5705.40 – Supplemental Appropriations	No	Repeated as finding 2003-006
2001-010	ORC 5705.41(B)– Expenditures Exceed Appropriations	No	Repeated as finding 2003-007
2001-011	ORC 5705.41(D) – Certification of Expenditures	No	Repeated as finding 2003-008
2001-012	Segregation of Duties – Utilities	No	Will Repeat in Management Letter
2001-013	Monitoring of Monthly Financial Reports	No	Repeated as finding 2003-010
2001-014	Deposit of Public Money	Yes	Deposits made frequently



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VILLAGE OF BEAVERDAM

ALLEN 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 7, 2004**