

# **Village of Bellaire**

*Audited Financial Statements*

***December 31 2003***





**Auditor of State  
Betty Montgomery**

Members of Council  
Village of Bellaire

We have reviewed the Independent Auditor's Report of the Village of Bellaire, Belmont County, prepared by Rea & Associates, Inc. for the audit period January 1, 2003 through December 31, 2003. 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 Bellaire is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

July 28, 2004

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**VILLAGE OF BELLAIRE  
BELMONT COUNTY**

**DECEMBER 31, 2003**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
Independent Auditor's Report .....	1
Combined Statement of Cash Fund Balances – All Fund Types .....	2
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types and Expendable Trust Fund .....	3-4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type.....	5
Combined Statement of Receipts - Budgeted and Actual – All Budgeted Funds.....	6
Combined Statement of Disbursements and Encumbrances Compared with Expenditure Authority – All Budgeted Funds .....	7-8
Notes to the Financial Statements .....	9-20
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	21-22
Schedule of Findings .....	23-28

# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

June 3, 2004

Mayor and Members of Council  
Village of Bellaire  
Bellaire, OH 43906

## Independent Auditor's Report

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Village of Bellaire as of December 31, 2003, and its combined cash receipts and disbursements, and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the year then ended, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we also have issued our report dated June 3, 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 the 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 the Mayor, Village Council, management, other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

*Rea & Associates, Inc.*

# VILLAGE OF BELLAIRE

Combined Statement of Cash Fund Balances - All Fund Types  
For the Year Ended December 31, 2003

<u>Treasury</u>	<u>Balance</u>
Cash and Cash Equivalents	\$ 1,038,232
Investments	<u>22,166</u>
<b>Total Treasury Balance</b>	<b><u>\$ 1,060,398</u></b>
<b><u>Fund Type Balances:</u></b>	
Governmental Funds:	
General Fund	\$ 144,063
Special Revenue Funds	384,743
Capital Projects Funds	56,270
Proprietary Funds:	
Enterprise Funds	342,295
Fiduciary Funds:	
Expendable Trust Funds	18,621
Agency Fund	<u>114,406</u>
<b>Grand Total</b>	<b><u>\$ 1,060,398</u></b>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF BELLAIRE

Combined Statement of Cash Receipts, Cash Disbursements  
and Changes in Fund Cash Balances  
All Governmental Fund Types and Expendable Trust Fund

For the Year Ended December 31, 2003

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>Receipts</b>			
Income Taxes	\$ 588,600	\$ 0	\$ 0
Property and Other Taxes	85,577	15,795	0
Charges for Services	190,155	22,748	0
Fines, Licenses and Permits	67,057	0	0
Intergovernmental	385,183	427,376	165,900
Interest	5,005	270	0
Rent	0	0	26,348
Other	21,971	200	0
<b>Total Receipts</b>	<b>1,343,548</b>	<b>466,389</b>	<b>192,248</b>
<b>Disbursements</b>			
Current:			
General Government	399,201	0	0
Security of Persons and Property	957,806	62,461	0
Public Health Services	5,976	0	0
Transportation	0	194,580	165,900
Community Environment	42,100	98,967	171
Leisure Time Activities	13,100	0	0
Debt Service:			
Principal Retirement	0	38,289	15,000
Interest and Fiscal Charges	0	20,817	6,569
<b>Total Disbursements</b>	<b>1,418,183</b>	<b>415,114</b>	<b>187,640</b>
Excess of Receipts Over (Under) Disbursements	(74,635)	51,275	4,608
<b>Other Financing Sources</b>			
Proceeds from Sale of Fixed Assets	6,500	0	0
<b>Total Other Financing Sources</b>	<b>6,500</b>	<b>0</b>	<b>0</b>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements	(68,135)	51,275	4,608
Fund Cash Balances at Beginning Of Year	212,198	333,468	51,662
<b>Fund Cash Balance at End of Year</b>	<b>\$ 144,063</b>	<b>\$ 384,743</b>	<b>\$ 56,270</b>

The accompanying notes are an integral part of these financial statements.



<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Expendable Trust</u>	
\$ 0	\$ 588,600
0	101,372
0	212,903
0	67,057
0	978,459
0	5,275
0	26,348
0	22,171
0	2,002,185
0	399,201
0	1,020,267
0	5,976
0	360,480
0	141,238
0	13,100
0	53,289
0	27,386
0	2,020,937
0	(18,752)
0	6,500
0	6,500
0	(12,252)
18,621	615,949
\$ 18,621	\$ 603,697

VILLAGE OF BELLAIRE

Combined Statement of Cash Receipts, Cash Disbursements  
and Changes in Fund Cash Balances  
Proprietary Fund Type and Agency Funds

For the Year Ended December 31, 2003

	<b>Proprietary Fund Type</b>	<b>Fiduciary Fund Type</b>	<b>Total (Memorandum Only)</b>
	<b>Enterprise</b>	<b>Agency</b>	
<b>Operating Receipts</b>			
Charges for Services	\$ 1,471,677	\$ 0	\$ 1,471,677
<b>Total Operating Receipts</b>	<u>1,471,677</u>	<u>0</u>	<u>1,471,677</u>
<b>Operating Disbursements</b>			
Personal Services	618,309	0	618,309
Contractual Service	446,979	5,393	452,372
Materials and Supplies	164,348	0	164,348
Capital Outlay	140,477	0	140,477
<b>Total Operating Disbursements</b>	<u>1,370,113</u>	<u>5,393</u>	<u>1,375,506</u>
Operating Income (Loss)	<u>101,564</u>	<u>(5,393)</u>	<u>96,171</u>
<b>Non-Operating Receipts (Disbursements)</b>			
Note Proceeds	49,124	0	49,124
Other non-operating revenues	0	2,158,647	2,158,647
Other non-operating disbursements	(7,200)	(2,148,758)	(2,155,958)
Principal Retirement	(118,091)	0	(118,091)
Interest and Fiscal Charges	(74,742)	0	(74,742)
<b>Total Non-Operating Receipts (Disbursements)</b>	<u>(150,909)</u>	<u>9,889</u>	<u>(141,020)</u>
Net Income (Loss)	(49,345)	4,496	(44,849)
Fund Cash Balance at Beginning of Year	<u>391,640</u>	<u>109,910</u>	<u>501,550</u>
<b>Fund Cash Balance at End of Year</b>	<u>\$ 342,295</u>	<u>\$ 114,406</u>	<u>\$ 456,701</u>

The accompanying notes are an integral part of these financial statements.

# VILLAGE OF BELLAIRE

## Combined Statement of Receipts Budgeted and Actual - All Budgeted Funds For the Year Ended December 31, 2003

<u>Fund Types / Funds</u>	<u>Estimated Receipts</u>	<u>Actual Receipts</u>	<u>Variance Favorable (Unfavorable)</u>
General Fund	\$ 1,306,095	\$ 1,350,048	\$ 43,953
Special Revenue	765,710	466,369	(299,341)
Capital Projects	24,000	192,248	168,248
Enterprise	<u>1,462,833</u>	<u>1,520,801</u>	<u>57,968</u>
Total All Funds	<u>\$ 3,558,638</u>	<u>\$ 3,529,466</u>	<u>\$ (29,172)</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF BELLAIRE

Combined Statement of Disbursements and Encumbrances  
 Compared with Expenditure Authority - All Budgeted Funds  
 For the Year Ended December 31, 2003

<u>Fund Types / Funds</u>	Reserve for Encumbrances as of Dec. 31, 2002	Appropriations for Year Ended Dec. 31, 2003	<u>Total</u>
General Fund	\$ 119,054	\$ 1,438,183	\$ 1,557,237
Special Revenue	1,479	362,736	364,215
Capital Projects	0	14,240	14,240
Enterprise	<u>107,098</u>	<u>1,574,844</u>	<u>1,681,942</u>
Total All Funds	<u>\$ 227,631</u>	<u>\$ 3,390,003</u>	<u>\$ 3,617,634</u>

The accompanying notes are an integral part of these financial statements.

Disbursements for Year Ended Dec. 31, 2003	Reserve for Encumbrances as of Dec. 31, 2003	Total	Variance Favorable (Unfavorable)
\$ 1,418,183	\$ 66,204	\$ 1,484,387	\$ 72,850
415,114	900	416,014	(51,799)
187,640	0	187,640	(173,400)
<u>1,570,146</u>	<u>21,756</u>	<u>1,591,902</u>	<u>90,040</u>
<u><u>\$ 3,591,083</u></u>	<u><u>\$ 88,860</u></u>	<u><u>\$ 3,679,943</u></u>	<u><u>\$ (62,309)</u></u>

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 1 – DESCRIPTION OF THE ENTITY**

The Village of Bellaire (the Village) is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The Village is located in Belmont County, in Southeastern Ohio, on the Ohio River. Bellaire was incorporated as a village in 1860. The Village was established as a statutory municipal corporation in 1873. Bellaire has a land area of 1.9 square miles and a 2001 census population of 4,892.

Management believes the financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

The Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State. 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 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.

**B. Pooled Cash and Investments**

The Village Clerk invests all available funds of the Village in interest-bearing checking accounts and certificates of deposit (see Note 4). This cash is pooled for investment purposes to capture the highest rate of return. Income from these investments is distributed according to Village policy.

**C. Fund Accounting**

The Village maintains its accounting records in accordance with the principles of fund accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each type of fund are as follows:

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Governmental Fund Types:**

**General Fund**

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required by law or contract 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.

**Special Revenue Funds**

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

**Capital Projects Funds**

These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

**2. Proprietary Fund Type:**

**Enterprise Funds**

The Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**3. Fiduciary Fund Type**

**Expendable Trust Fund**

These funds are accounted for and reported similarly to government funds.

**Agency Fund**

The Agency Funds are purely custodial (assets and liabilities) and thus do not involve measurement of results of operations.

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process**

**Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the subsequent January 1 to December 31 year.

**Estimated Resources**

The County Budget 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 receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to December 31, the Village must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 2003, unencumbered fund balances. However, those fund balances are available for appropriations.

**Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended during the year as new information becomes available. Appropriations may not exceed estimated resources. All funds, other than Agency Funds, are required to be budgeted and appropriated.

**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 the portion of the applicable appropriation. At the close of each 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 reappropriated.

**E. Property, Plant and Equipment**

Fixed assets acquired or constructed for the Village are recorded as disbursements. Depreciation is not recorded for these fixed assets.



**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Total Columns on the Financial Statements**

Total columns on the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**NOTE 3 – EQUITY IN POOLED CASH AND INVESTMENTS**

State statutes classify monies held by the Village into three categories.

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

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

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

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 3 – EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

- e. No-load money market mutual funds consisting exclusively of obligations as described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- f. The State Treasury Assets Reserve of Ohio (STAR Ohio).

The Village may also invest any monies not required to be used for a period of six months or more in the following:

- a. Bonds of the State of Ohio;
- b. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons;
- c. Obligations of the Village.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity.

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited within the institution.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**Cash on hand:** At year-end, the carrying amount of the Village's cash on hand was \$225.

**Deposits:** At year-end, the carrying amount of the Village's deposits was \$255,938, and the bank balance was \$218,642. Of the bank balance:

1. \$122,607 was covered by federal depository insurance.
2. \$96,035 was uninsured and uncollateralized. Although the collateral for the securities was held by the pledging financial institution's trust department in the Village's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Village to a successful claim by the FDIC.

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

**NOTE 3 – EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

**Investments.** GASB Statement No. 3, “Deposits with Financial Institutions (including Repurchase Agreements), and Revenue Repurchase Agreements,” requires the Village to categorize investments to give an indication of the level of custodial credit risk assumed by the Village at year-end. Category 1 includes investments that are insured or registered or are held by the Village or its agent in the Village’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s trust department or agent in the Village’s name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the Village’s name.

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$ 804,235	\$ 804,235	\$ 804,235

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less.

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 1,038,232	\$ 22,166
Repurchase Agreement	(804,235)	804,235
Certificates of deposit with maturities of greater than three months	22,166	(22,166)
Cash on Hand	(225)	0
GASB Statement 3	\$ 255,938	\$ 804,235

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 4 – PROPERTY TAXES**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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 financial statements as intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to make semi-annual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

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

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

**NOTE 5 - INCOME TAX**

The Village levies a municipal income tax of 1% on substantially all income earned within the Village. In addition, the residents of the Village are required to pay income tax on income earned outside the Village; however, the Village allows a credit for income taxes paid to another municipality up to 100% of the Village's current tax rate.

Employers within the Village are required to withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

Income tax proceeds are to be used to pay the cost of administering the tax, general fund operations, maintenance of equipment, new equipment, extension and enlargement of municipal services and facilities, and capital improvements as determined by Village Council. In 2003 the proceeds were allocated to the General Fund. Income tax cash collections for 2003 were \$598,530.

**NOTE 6 - RISK MANAGEMENT**

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. There was no reduction in insurance coverage from coverage in the prior year. Also, insurance was sufficient to cover settlements in 2001, 2002 and 2003.

VILLAGE OF BELLAIRE, OHIO

Notes to the Financial Statements  
December 31, 2003

**NOTE 6 - RISK MANAGEMENT (Continued)**

***Casualty Coverage***

PEP retains property risks up to \$250,000 per claim, including loss adjustment expenses. 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 Corporations.

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

***Property Coverage***

PEP retains property risks, including automobile physical damage up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. 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. APEEP's operating fund and general fund pay for losses and loss adjustment expenses should they exceed operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claim 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 accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and retained earnings at December 31, 2002 (the latest information available):

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

The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs to provide coverage to employees for job related injuries.

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

**NOTE 7 – LONG TERM OBLIGATIONS**

Changes in long-term obligations of the Village during the year ended December 31, 2003 consisted of the following:

	Restated Outstanding 12/31/2002	Additions	Reductions	Outstanding 12/31/2003
<b><u>Enterprise Funds Obligations</u></b>				
<i>Mortgage Revenue Bonds:</i>				
Water System - 5-6.875%	\$ 875,000	\$ 0	\$ (90,000)	\$ 785,000
<i>General Obligation Bonds:</i>				
Sanitary Sewer Bond - 5%	331,500	0	(6,500)	325,000
<i>Installment Notes:</i>				
Water Plant Improvement - 6.5%	38,460	0	(21,591)	16,869
Sewer Truck - 4%	0	49,124	0	49,124
<b>Total Enterprise Fund Obligations</b>	<b>1,244,960</b>	<b>49,124</b>	<b>(118,091)</b>	<b>1,175,993</b>
<b><u>Governmental Funds Obligations:</u></b>				
<i>Installment Notes:</i>				
Fire Equipment - 6.50%	37,011	0	(15,859)	21,152
Downtown Revitalization - 6.69%	105,000	0	(15,000)	90,000
Total installment notes	142,011	0	(30,859)	111,152
Police & Fire Pension - 4.25%	373,689	0	(5,506)	368,183
<i>Capital Leases:</i>				
Ambulance Lease	59,869	0	(16,924)	42,945
<b>Total Governmental Funds Obligations</b>	<b>575,569</b>	<b>0</b>	<b>(53,289)</b>	<b>522,280</b>
<b>Grand Total</b>	<b>\$ 1,820,529</b>	<b>\$ 49,124</b>	<b>\$ (171,380)</b>	<b>\$ 1,698,273</b>

General obligation bonds, mortgage revenue bonds, and claims and judgments, will be paid from revenues derived from charges for services in the enterprise funds. Capital lease obligations will be paid from the fund that maintains custody of the related asset. The police and fire pension liability will be paid from property tax revenues in the General Fund and the Policy and Fire Pension Special Revenue Funds.

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

**NOTE 7 – LONG TERM OBLIGATIONS (Continued)**

All installment notes are backed by the full faith and credit of the Village of Bellaire.

These loans are a non-revolving line of credit in the amount of \$100,000 and \$350,000. The \$100,000 loan was repaid in 2002. The \$350,000 line of credit will mature on June 10, 2003. The unused line of credit at year end is \$108,245. Principal will be due at the close of the State Route 149 project.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003 are as follows:

Year	Enterprise			Governmental Fund Types		Total
	General Obligation Bonds	Mortgage Revenue Bonds	Installment Notes	Installment Notes	Police and Fire Pension	
2004	\$ 23,050	\$ 142,963	\$ 17,548	\$ 49,333	\$ 21,330	\$ 254,224
2005	23,010	142,262	0	34,977	21,330	221,579
2006	23,055	141,138	0	29,542	21,330	215,065
2007	23,080	139,706	0	28,569	21,330	212,685
2008	23,085	142,969	0	24,850	21,330	212,234
2009-2013	115,185	278,581	0	15,729	106,649	516,144
2014-2018	115,255	0	0	0	106,649	221,904
2019-2023	115,340	0	0	0	106,649	221,989
2024-2028	115,605	0	0	0	106,649	222,254
2029-2033	0	0	0	0	106,649	106,649
2034-2037	0	0	0	0	31,033	31,033
	<u>\$ 576,665</u>	<u>\$ 987,619</u>	<u>\$ 17,548</u>	<u>\$ 183,000</u>	<u>\$ 670,928</u>	<u>\$ 2,435,760</u>

**NOTE 8 - CAPITAL LEASES**

The Village entered into a lease purchase agreement with Leasing One Corporation for the purchase of an ambulance.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2003:

Year	Ambulance
2004	\$ 19,933
2005	19,933
Total payment requirements	39,866
Less: interest	(1,921)
Present value of minimum lease payments	<u>\$ 37,945</u>

**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 9 – JOINTLY GOVERNED ORGANIZATION**

- A. Eastern Ohio Regional Transit Authority was established to provide transportation to the residents of the Ohio Valley and is statutorily created as a separate and distinct political subdivision of the State. The Authority is operated by a board of directors that is appointed by the nine Mayors of the municipalities served by the Authority. The Village did not contribute any amounts to the Authority during 2003. The continued existence of the Authority is not dependent on the Village's continued participation and no equity interest exists. The Authority has no outstanding debt for which the Village of Bellaire is responsible.
- B. Ohio Mid-Eastern Governments Association (OMEGA) is a ten county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. Village membership is voluntary. The Mayor of the Village of Bellaire serves as the Village's representative on the board. The board has total control over budgeting, personnel, and financial matters. Each member currently pays a per capita membership fee based upon the most recent United States census. During 2003, OMEGA received \$0 from the Village of Bellaire for an annual fee. The continued existence of OMEGA is not dependent on the Village's continued participation and no equity interest exists. OMEGA has no outstanding debt.
- C. Jefferson-Belmont Joint Solid Waste Authority is established by State statutes and is operated to provide solid waste services to Jefferson and Belmont counties. The Authority is governed by a fourteen member board of directors of which the Mayor of the Village of Bellaire is a member. The Authority is not dependent on the Village of Bellaire for its continued existence, no debt exists, and the Village does not maintain an equity interest. The Village does not make any monetary contributions to the Authority.
- D. Bel-O-Mar Regional Council is operated as a non-profit organization formed to provide planning and administrative services to all local governments in a four county region comprised of Belmont County, Ohio and three counties in West Virginia. The governing board is comprised of 58 officials from the four county service area of which three members and one alternate member are appointed by Belmont County and one member is appointed by each local government within Belmont County. The Mayor of the Village of Bellaire serves as the Village's representative on the board. The Council is not dependent upon the Village of Bellaire for its continued existence, no debt exists, and the Village does not maintain an equity interest. During 2003, Bel-O-Mar Regional Council received annual fees of \$1,369.



**VILLAGE OF BELLAIRE, OHIO**

**Notes to the Financial Statements  
December 31, 2003**

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**NOTE 9 – JOINTLY GOVERNED ORGANIZATION (Continued)**

E. Belmont County Sewer Authority is established by Ohio Revised Code Section 6119, serving the municipalities of Bellaire, Brookside, Bridgeport and Martins Ferry. The Authority is operated by a four-member Board of Trustees. One member is appointed by the Mayor of Bellaire. The Authority is not dependent on the Village of Bellaire for its continued existence and the Village does not maintain an equity interest. The Village does not make any monetary contributions to the Authority.

**NOTE 10 – CONTINGENCIES**

A. Grants:

The Village received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with term and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the Village at December 31, 2003.

B. Litigation:

The Village of Bellaire is currently party to pending litigation proceedings seeking damages or injunctive relief as confirmed by the Village Law Director and outside legal counsel. However, in the opinion of management, the outcome of these proceedings would not have a material effect on their financial position.

**NOTE 11 – LEGAL COMPLIANCE**

The Village did not obtain prior certification of the Village Clerk for disbursements, contrary to Ohio Rev. Code Section 5705.41(D).

The Village had expenditures in excess of appropriations, contrary to Ohio Rev. Code 5705.41(B).

The Village did not establish an Issue II Fund, contrary to Ohio Rev. Code Section 5705.09.

The Village had appropriations in excess of estimated resources, contrary to Ohio Rev. Code Section 5705.36.

**NOTE 12 – DEBT SERVICE TRUSTED FUNDS**

The Water Plant Expansion trust agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The village has established this fund. At December 31, 2003, the custodian held \$212,524 in village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

# Rea & Associates, Inc.

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ACCOUNTANTS AND BUSINESS CONSULTANTS

June 3, 2004

Mayor and Members of Council  
Village of Bellaire  
Bellaire, OH 43906

Independent Auditor's Report on Compliance and Internal Control  
Over Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of the Village of Bellaire (the "Village") as of and for the year ended December 31, 2003, and have issued our report thereon dated June 3, 2004. 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* and are described in the accompanying schedule of findings as items 2003-001 through 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 3, 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 2003-005 to 2003-010.

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 item 2003-005 to be a material weakness. 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 the management of the Village in a separate letter dated June 3, 2004.

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

*Rea & Associates, Inc.*

VILLAGE OF BELLAIRE  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003

**1. SUMMARY OF AUDITOR'S RESULTS**

Type of Financial Statement Opinion	Unqualified
Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes

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

Material Noncompliance

FINDING NUMBER	2003 – 001
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\*Ohio Rev. Code Section 5705.09 states that each subdivision is to establish a special fund for each class of revenue derived from a source other than the general property tax, which the law requires to be used for a particular purpose.

The Village received Ohio Public Works Commission-Issue II (OPWC) funding and did not record the activity on their accounting records, or establish a separate fund. The Village passed a tax levy in 2002 and received tax proceeds in 2003 for the purpose of fire and EMS services. A separate fund was not established. The proceeds were commingled with the Village's other fire levy fund.

We recommend the Village establish the above funds and record all activity associated with these monies on the Village ledgers in accordance with Ohio Revised Code and Auditor of the State Bulletin #2003-004 regarding OPWC. The activities not recorded and correcting entries have been made to the financial statement for the OPWC monies. However, the Village needs to review the expenditures in the Fire Levy Fund to determine which expenditures relate to the new fire levy. The Village should then determine the cash balance relating to the new fire levy and move it to a newly established Fire and EMS Levy Fund. The 2003 gross tax receipts and Homestead/Rollback receipts pertaining to the new fire levy were \$81,827.

VILLAGE OF BELLAIRE  
 BELMONT COUNTY

SCHEDULE OF FINDINGS  
 (CONTINUED)  
 DECEMBER 31, 2003

FINDING NUMBER	2003 – 002
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\*Ohio Rev. Code Section 5705.41(B) states that no subdivision is to expend money unless it has been appropriated. The following funds had expenditures exceeding appropriations:

Special Revenue Funds:

State Highway Fund	\$ 16,989
Downtown Revitalization Fund	9,810

Capital Projects Funds:

Issue II Fund	165,900
Commerce Park Fund	7,500
CDBG/Home Fund	93,726

FINDING NUMBER	2003 – 003
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\*Ohio Rev. Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund, free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

VILLAGE OF BELLAIRE  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
(CONTINUED)  
DECEMBER 31, 2003

- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of council upon the completion of a "then and now" certificate, if such expenditure is otherwise valid.

The Village only used purchase orders in some departments and prior certification was not always obtained.

FINDING NUMBER	2003 – 004
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\*Ohio Rev. Code Section 5705.36 states amended certificates of estimated resources should be obtained upon determination by the fiscal officer, the revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. The Village did not include revenues for OPWC – Issue II Fund and CDBG/Home Fund in their estimated resources. General Fund and Parking Lot Fund actual revenues did exceed estimated revenues, however, sufficient amended certificates were not obtained. All of these funds had expenditures for 2003. Because an amended certificate was not obtained, it caused the appropriations in these funds to exceed estimated resources.

We recommend the Village Clerk advise the County Auditor of any additional revenues received if the Village intends to appropriate and expend these funds. An amended certificate of estimated resources should be obtained from the County Auditor prior to appropriating these funds.

Material Control Weaknesses

FINDING NUMBER	2003 – 005
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\* Expenditure Procedures

The Village does not have formal policies and procedures established for the expenditure function. As a result we noted several instances of inconsistencies in the payments tested. There were several items where the invoices were either not attached. No evidence was attached indicating that the goods were received by the ordering department. There was no evidence attached that indicated the invoice was reviewed by anyone other than the person paying the bill.

VILLAGE OF BELLAIRE  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
(CONTINUED)  
DECEMBER 31, 2003

We recommend that the following procedure be implemented:

- The Village should prepare an expenditure packages that includes the purchase order, original invoice, the packing slip, purchase requisition, a copy of the check, and sign off by Village clerk indicating approval.
- The purchase order should be prepared prior to ordering the goods and include a certification statement indicating the money is available to pay for the item(s), and be signed and dated by the Village clerk.
- The original invoice and /or packing slip should be initialed and dated by the department head responsible for the purchase if the item(s) to document approval.
- The requisition form should be utilized by all departments and include the fund and account number the department head wants to charge.

Reportable Conditions

FINDING NUMBER	2003 – 006
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\*Accounting and Personnel Policies

The Village has not established or indicated they had adopted policies, procedures, or job descriptions outside of the union contract. Elected officials and management should convey the message that integrity and ethical values of the Village cannot be compromised and employees must receive and understand that message. Elected officials and management should continually demonstrate, through words and actions, a commitment to high ethical standards and proper working practices. By not establishing written accounting and personnel policies, improper procedures may be utilized, as well as, unethical or illegal activity could occur. In addition, other problems may arise (i.e. budget deficits, labor difficulties, etc.) which may be improperly handled because of an inadequate understanding of management's responsibilities and employee procedures.

We recommend the Village adopt accounting policies, personnel policies, and job descriptions for Village officials and employees which are not addressed by union contracts. This will establish procedural guidelines, help serve as a deterrent to possible unethical behavior by employees and officials and convey management's position regarding procedures and behavior. The Village has hired an outside consultant to develop an employee handbook but has not received it yet.

The accounting policies will be a reference guide to ensure uniformity of accounting transactions, and also provide accounting guidance for new hires.

VILLAGE OF BELLAIRE  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
(CONTINUED)  
DECEMBER 31, 2003

FINDING NUMBER	2003 – 007
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\*Segregation of Duties

The Village Clerk's office, Mayor's office, Income Tax office, and Utility Department office each have one employee performing all functions of the office, including receipting, depositing, reconciling, billing, and posting of applicable ledgers. Village management provided very limited monitoring of these offices, however, some monitoring commenced over the Utility Department office.

We recommend the Village establish monitoring controls that require management or an employee independent of the department to periodically review the procedures performed which lack segregation of duties.

FINDING NUMBER	2003 – 008
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\* Financial Accountability

Village service department supervisors, except for police and fire, do not receive a copy of ledgers reflecting the transactions posted to their departmental accounts. Department supervisors, therefore, do not review the transactions to gain assurance that items which should be credited and/or debited have been accurately posted nor are they kept aware of departmental budget balances.

We recommend the Village establish procedures to have the department supervisors review their departmental ledgers on a monthly basis to gain assurances regarding the classification of the transactions posted and to be cognizant of their departmental budgets.

The Village should also require each department supervisor attest (by signing/initialing) the review of these reports. Errors or questions should be presented to the finance office so they may be discussed and resolved timely. These reviews would give the Village additional assurances over receipts and expenditures where limited staffing causes a lack of segregation in duties.

FINDING NUMBER	2003 – 009
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\*Audit Committee

The Village does not have an audit committee or a body that functions similarly to an audit committee. As a result, the audit findings have not been communicated beyond the statutory financial officer and audit findings from prior years have not been corrected.

We recommend the Village establish an audit committee or its equivalent to review audit findings. Also, the committee could periodically review the implementation and employee adherence of Village internal control procedures.



VILLAGE OF BELLAIRE  
BELMONT COUNTY

SCHEDULE OF FINDINGS  
(CONTINUED)  
DECEMBER 31, 2003

FINDING NUMBER	2003 – 010
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\*Management Review of Chip Program Accounting

Bel-O-Mar provides the Village detailed receipt and disbursement information on a monthly basis regarding their Chip programs. The Village does not have a review or oversight process in place to verify the accounting records are maintained accurately by the Village. There is no accountability or responsibility fixed in an individual to oversee accounting entries are recorded accurately and in a timely manner. As a result, receipt, disbursement, and balance information provided by Bel-O-Mar for the entire year was not posted by the Village understating receipts, disbursements, and balance for the Chip program for the year and went undetected by Village management and Bel-O-Mar.

We recommend management implement a review process to ensure accurate and timely posting of Chip activity. As part of this process the Village should document a reconciliation of the Village records to the Bel-O-Mar records monthly.

\* Also reported in the prior audit schedule of findings





**Auditor of State  
Betty Montgomery**

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**VILLAGE OF BELLAIRE**

**BELMONT 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  
AUGUST 10, 2004**