



**Auditor of State
Betty Montgomery**

VILLAGE OF BETTSVILLE
SENECA COUNTY

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**Auditor of State
Betty Montgomery**

Village of Bettsville
Seneca County
P.O. Box 505
Bettsville, Ohio 44815-0505

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005, interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

June 15, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Bettsville
Seneca County
P.O. Box 505
Bettsville, Ohio 44815-0505

To the Village Council:

We have audited the accompanying financial statements of the Village of Bettsville, Seneca County, (the Village) as of and for the year ended December 31, 2004. 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.

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

We were unable to obtain sufficient evidential matter supporting amounts reported as charges for services revenue in the Water Fund which accounts for ninety four percent of the total enterprise fund operating revenue for fiscal year 2004.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if

the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidential matter for amounts reported as charges for services in the Water Fund for fiscal year 2004, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Bettsville, Seneca County, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the financial statements that collectively comprise the Village's financial statements. The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* requires presenting a federal awards expenditure schedule. The schedule is not a required part of the financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Betty Montgomery
Auditor of State

June 15, 2006

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<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	\$51,236	\$17,529		\$68,765
Intergovernmental Receipts	77,743	91,466	\$256,544	425,753
Charges for Services	30,480			30,480
Fines, Licenses, and Permits	44,590			44,590
Earnings on Investments	401			401
Miscellaneous	27,354			27,354
	<u>231,804</u>	<u>108,995</u>	<u>256,544</u>	<u>597,343</u>
Total Cash Receipts				
	<u>231,804</u>	<u>108,995</u>	<u>256,544</u>	<u>597,343</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	125,051	5,385		130,436
Public Health Services	1,464			1,464
Transportation		42,609		42,609
General Government	76,092	434	333	76,859
Debt Service:				
Principal Payments	10,009	16,481		26,490
Interest Payments	2,113			2,113
Capital Outlay	27,684	47,873	256,544	332,101
	<u>242,413</u>	<u>112,782</u>	<u>256,877</u>	<u>612,072</u>
Total Cash Disbursements				
	<u>242,413</u>	<u>112,782</u>	<u>256,877</u>	<u>612,072</u>
Total Receipts (Under) Disbursements	<u>(10,609)</u>	<u>(3,787)</u>	<u>(333)</u>	<u>(14,729)</u>
Other Financing Receipts and (Disbursements):				
Sale of Fixed Assets	15,110			15,110
Transfers-In		11,000		11,000
Transfers-Out	(11,000)			(11,000)
Other Financing Sources	1,837			1,837
Other Financing Uses	(25,334)			(25,334)
	<u>(19,387)</u>	<u>11,000</u>		<u>(8,387)</u>
Total Other Financing Receipts/(Disbursements)				
	<u>(19,387)</u>	<u>11,000</u>		<u>(8,387)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(29,996)</u>	<u>7,213</u>	<u>(333)</u>	<u>(23,116)</u>
Fund Cash Balances, January 1 (restated)	<u>54,301</u>	<u>2,915</u>	<u>\$333</u>	<u>57,549</u>
Fund Cash Balances, December 31	<u><u>\$24,305</u></u>	<u><u>\$10,128</u></u>		<u><u>\$34,433</u></u>

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

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Operating Cash Receipts:			
Charges for Services	\$82,770		\$82,770
Earnings on Investments		\$2,470	\$2,470
Miscellaneous	291		291
Total Operating Cash Receipts	<u>83,061</u>	<u>2,470</u>	<u>85,531</u>
Operating Cash Disbursements:			
Personal Services	50,683		50,683
Fringe Benefits	29,756		29,756
Capital Outlay	1,828,737		1,828,737
Total Operating Cash Disbursements	<u>1,909,176</u>		<u>1,909,176</u>
Operating Income (Loss)	<u>(1,826,115)</u>	<u>2,470</u>	<u>(1,823,645)</u>
Non-Operating Cash Receipts:			
Special Assessment	277,645		277,645
Earnings on Investments	84		84
Proceeds from OWDA	2,387,031		2,387,031
Total Non-Operating Cash Receipts	<u>2,664,760</u>		<u>2,664,760</u>
Non-Operating Cash Disbursements:			
Debt Service Principal	428,047		428,047
Debt Service Interest	3,187		3,187
Other Non-Operating Cash Disbursements	350	7,000	7,350
Total Non-Operating Cash Disbursements	<u>431,584</u>	<u>7,000</u>	<u>438,584</u>
Net Receipts Over/(Under) Disbursements	407,061	(4,530)	402,531
Fund Cash Balances, January 1 (restated)	<u>161,473</u>	<u>153,388</u>	<u>314,861</u>
Fund Cash Balances, December 31	<u>\$568,534</u>	<u>\$148,858</u>	<u>\$717,392</u>

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

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Bettsville, Seneca County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, and police services. The Village appropriates general and special revenue fund money to support a volunteer fire department.

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash

The Village values certificates of deposit 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or 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.

Fire Levy Fund - This fund receives property tax revenues that are restricted for fire department uses.

VILLAGE OF BETTSVILLE
SENECA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

2004 FEMA Fire Equipment Grant - This fund accounts for a grant from the Federal Emergency Management Agency for fire equipment.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

OPWC Grant #CP13E - This fund receives a grant from the Ohio Public Works Commission to be used towards a wastewater improvement project.

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

OWDA #4084 - This fund receives loan proceeds from the Ohio Water Development Authority to finance a wastewater improvement project.

OWDA #4085 - This fund receives loan proceeds from the Ohio Water Development Authority to finance a wastewater improvement project.

5. Fiduciary Funds (Trust Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. The Village had the following significant fiduciary funds:

Grace Frankhauser Trust - This fund receives interest revenue to give scholarships to students of the Village.

Sadie Grimes Trust - This fund receives interest revenue to give scholarships to students of the Village.

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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. Village 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 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 commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2004 budgetary activity appears in Note 4.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. PRIOR PERIOD ADJUSTMENT

The Village's Sewer Capital Improvement Fund was previously reported as a Capital Projects Fund. A reevaluation of this fund determined it would be more appropriate to report it as an Enterprise Fund. The effect of this adjustment as previously reported is as follows:

	Capital Projects	Enterprise
Fund Balance December 31, 2003	\$123,201	\$38,605
Fund Balance Reclassification	(\$122,868)	\$122,868
Restated Fund Balance January 1, 2004	\$333	\$161,473

3. EQUITY IN POOLED CASH

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

	2004
Demand deposits	\$605,789
Certificates of deposit	146,036
Total deposits	\$751,825

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

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$262,691	\$248,751	(\$13,940)
Special Revenue	126,468	119,995	(6,473)
Capital Projects		256,544	256,544
Enterprise	116,800	2,747,821	2,631,021
Fiduciary	4,800	2,470	(2,330)
Total	\$510,759	\$3,375,581	\$2,864,822

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

4. BUDGETARY ACTIVITY – (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$317,521	\$278,747	\$38,774
Special Revenue	128,844	112,782	16,062
Capital Projects	333	256,877	(256,544)
Enterprise	924,200	2,340,760	(1,416,560)
Fiduciary	10,000	7,000	3,000
Total	\$1,380,898	\$2,996,166	(\$1,615,268)

Contrary to Ohio law, appropriations exceeded estimated resources in the General, Fire Levy, and OWDA #4085 funds by \$529, \$460 and \$700,000 respectively for the year ended December 31, 2004. Also contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the OWDA #4084, OWDA #4085, OPWC #CP13E, and OPWC #CP011 funds by \$467,380, \$1,080,821, \$212,579 and \$138,830 for the year ended December 31, 2004. The Village did not properly certify funds in accordance with Ohio Revised Code § 5705.41(D).

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

6. DEBT

Debt outstanding at December 31, 2004, was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan #4084	\$469,169	1.00%
Ohio Water Development Authority Loan #4085	1,927,344	1.90%
Old Fort Bank Water Tower Loan	46,584	6.00%
Old Fort Bank Fire Equipment Loan	33,138	6.00%
Old Fort Bank Police Cruiser Loan	12,539	4.90%
Old Fort Bank Bridge Loan	14,117	6.00%
Total	\$2,502,891	

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

6. DEBT – (Continued)

The Ohio Water Development Authority (OWDA) loan #4084 relates to a wastewater collection and treatment project. This loan paid off the previous OWDA planning and design loans, and provided additional funds for the Village to use for the wastewater collection and treatment project. OWDA approved up to \$1,000,000 in loans to the Village for this project. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. Final amortization of this loan is not available as funds are still being disbursed on this project.

The Ohio Water Development Authority (OWDA) loan #4085 also relates to the wastewater collection and treatment project. This loan represents the interim financing of a federal loan through the United States Department of Agriculture Rural Utility Service Department. OWDA approved up to \$2,160,000 in loans to the Village for this portion of the project. The Village will repay the loan in 2006 through the issuance of mortgage revenue bonds. The rights to the federal loan receipts to be received collateralize the loan. Final amortization of this loan is not available as funds are still being disbursed on this project.

The Old Fort Bank Water Tower Loan relates to a commercial bank loan for improvements made to the Village's water tower. The loan is collateralized by tax revenues.

The Old Fort Bank Fire Equipment loan relates to a commercial bank loan for the purchase of equipment for the Fire Department. The loan is collateralized by the 91 Ford Truck and 82 Simon Duplex Truck. Extra principal payments were made on this loan in an attempt to pay off the debt early.

The Old Fort Bank Police Cruiser Loan relates to a commercial bank loan for the purchase of a new police cruiser. The loan is collateralized by the 2003 Crown Victoria Police Cruiser.

The Old Fort Bank Bridge Loan relates to a commercial bank loan for improvements made to a damaged bridge. The loan is collateralized by tax revenue.

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>Water Tower Loan</u>	<u>Fire Equipment Loan</u>	<u>Police Cruiser Loan</u>	<u>Bridge Loan</u>
2005	\$8,868	\$8,156	\$6,741	\$4,082
2006	8,868	8,156	6,741	4,082
2007	8,868	8,156		4,082
2008	8,868	8,156		4,082
2009	8,868	6,174		
2010-2011	13,548			
Total	<u>\$57,888</u>	<u>\$38,798</u>	<u>\$13,482</u>	<u>\$16,328</u>

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

7. RETIREMENT SYSTEMS

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004, OPERS members contributed 8.5 percent of their wages, except for law enforcement members who contributed 10.1 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries except for law enforcement employees, where the Village contributed 12.7 percent. The Village has paid all contributions required through December 31, 2004.

8. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$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-claim limit of \$2,000,000.

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions. 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 local government.

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

8. RISK MANAGEMENT – (Continued)

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, 2004 and 2003:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,547,049	\$25,288,098
Liabilities	<u>(16,989,918)</u>	<u>(12,872,985)</u>
Retained earnings	<u>\$13,557,131</u>	<u>\$12,415,113</u>
<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$3,652,970	\$3,158,813
Liabilities	<u>(544,771)</u>	<u>(792,061)</u>
Retained earnings	<u>\$3,108,199</u>	<u>\$2,366,752</u>

9. CONTINGENT LIABILITIES

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

10. RELATED PARTY TRANSACTIONS

On December 1, 1972, the Village leased a building to the Bettsville Public Library for a period of ninety-nine years. The Library agreed to be responsible for maintaining the building and providing adequate insurance coverage. The Library pays a lease of one dollar per year. The Library is independent of the Village and does not vote on Village matters.

11. SUBSEQUENT EVENTS

On March 17, 2006, the Village issued Sanitary Sewer System Mortgage Revenue Bonds, Series 2006 in the amount of \$2,160,000 to retire the Ohio Water Development Authority Loan #4085. The bonds have an interest rate of 4.5%.

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004**

FEDERAL GRANTOR	Pass Through Entity Number	Federal CFDA Number	Disbursements
Program Title			
U.S. DEPARTMENT OF AGRICULTURE			
Direct Assistance			
Water and Waste Disposal Systems for Rural Communities	41-074-0346400112-01	10.760	\$ 1,780,821
Total U.S. Department of Agriculture			<u>1,780,821</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY			
Direct Assistance			
Assistance to Firefighters Grant	EMW-2004-FG-16904	97.044	47,873
Total Federal Emergency Management Agency			<u>47,873</u>
Total Federal Awards Expenditures			<u><u>\$1,828,694</u></u>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the Village contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

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

Village of Bettsville
Seneca County
P.O. Box 505
Bettsville, Ohio 44815-0505

To the Village Council:

We have audited the financial statements of the Village of Bettsville, Seneca County, (the Village) as of and for the year ended December 31, 2004, and have issued our report thereon dated June 15, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also qualified our report due to our inability to obtain sufficient evidential matter supporting charges for services revenue in fiscal year 2004. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-005.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. 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 material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Village's management dated June 15, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001, 2004-002, 2004-003, and 2004-004. In a separate letter to the Village's management dated June 15, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

June 15, 2006



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Village of Bettsville
Seneca County
P.O. Box 505
Bettsville, Ohio 44815-0505

To the Village Council:

Compliance

We have audited the compliance of the Village of Bettsville, Seneca County, (the Village) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Village's major federal program. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village of Bettsville complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report which is described in the accompanying schedule of findings as item 2004-006.

Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Village's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings as item 2004-007.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over compliance 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 material weaknesses. We consider item 2004-007 to be a material weakness.

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



Betty Montgomery
Auditor of State

June 15, 2006

**VILLAGE OF BETTSVILLE
SENECA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Adverse: GAAP, Qualified: Regulatory basis
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Water and Waste Disposal Systems for Rural Communities CFDA #10.760
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code §5705.39 states total appropriations from each fund shall not exceed the total estimated resources available for expenditure therefrom, as certified by the budget commission nor in the case of appeal, by the board of tax appeals. The Village had appropriations in excess of estimated resources in the following funds for the following amounts:

Fund	Appropriations	Estimated Resources	Variance
2004			
General	\$317,521	\$316,992	(\$529)
Fire Levy	22,876	22,416	(460)
OWDA #4085	700,000		(700,000)

To avoid over appropriating, we recommend the Village monitor appropriations and estimated resources to ensure that appropriations do not exceed the amount of estimated resources.

Officials Response

The Village has implemented the UAN accounting system which will assist the Clerk in better monitoring of compliance. Council will monitor compliance by receiving monthly budgetary reports from the Clerk.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. Our testing of budgetary compliance at December 31 identified the following instances in which expenditures (cash disbursements plus encumbrances) exceeded appropriations in the following funds:

Fund	Appropriations	Expenditures	Excess
2004			
OWDA #4084		\$467,380	(\$467,380)
OWDA #4085	\$700,000	1,780,821	(1,080,821)
OPWC #CP13E		212,579	(212,579)
OPWC #CP011		43,965	(43,965)

Management was advised that the failure to have adequate appropriations in place at the time expenditures are being made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**FINDING NUMBER 2004-001
(Continued)**

Officials Response

The Village has implemented the UAN accounting system which will assist the Clerk in better monitoring of compliance. Council will monitor compliance by receiving monthly budgetary reports from the Clerk.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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, Council can authorize the drawing of a warrant for the payment of the amount due. Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Council.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Seventy percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2004-003
(Continued)**

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

Officials Response

The Village has implemented the UAN accounting system which will assist the Clerk in better monitoring of compliance.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Revised Code § 149.351 states all records are the property of the public office, 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 provided under § 149.39. The 2004 quarterly utility meter reading sheets, seven purchase orders tested, and twelve duplicate receipts from the Magistrate Court could not be located. As a result, the auditors were unable to properly test all revenues for 2004, which resulted in a qualified opinion. Several other items requested could not be located by Village officials; however, copies were provided after contacting vendors. We recommend all public records be maintained and stored by the Clerk as provided by Ohio Revised Code.

Officials Response

The Village is implementing a new filing system to better assure all records are accounted for and easily retrieved.

FINDING NUMBER 2004-005

Reportable Condition

Utility Adjustment Policy

The Village has no policy to address adjustments to utility billings. As a result the utility clerk posted adjustments to utility accounts at her own discretion with no supporting documentation or Council approval. The lack of a policy limits control and accountability over adjustments and could allow errors or irregularities to occur and not be detected during the normal course of operations. We recommend Council adopt a formal written policy regarding adjustments to customer utility accounts. This policy should include, but is not limited to, situations which adjustments are deemed allowable, required supporting documentation to be maintained by the utility clerk, and written approvals required by someone independent of the utility billing function.

Officials Response

Council will adopt a policy outlining allowable utility adjustments and supporting documentation required.

3. FINDINGS FOR FEDERAL AWARDS

1. Single Audit Reporting

Finding Number	2004-006
CFDA Title and Number	Water and Waste Disposal Systems for Rural Communities CFDA#10.760
Federal Award Number / Year	41-074-0346400112-01
Federal Agency	United States Department of Agriculture
Pass-Through Agency	None

Noncompliance Finding

OMB Circular A-133 Subpart B §__.200(b) requires Non-Federal entities that expend \$500,000 or more of Federal awards within a year shall have a single audit conducted. Subpart C §__.320(a) requires entities subject to single audit to remit the audit report within nine months after the end of the period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. In 2004, the Village spent over \$500,000 in federal awards and no single audit was performed with a corresponding report submitted to the United States Department of Agriculture, which is considered the oversight agency, or the Single Audit Clearinghouse within the nine month period for 2004. Future funding to the Village for these programs could be jeopardized if the A-133 Single Audit reporting requirements are not met. We recommend the Village monitor federal funding and request single audits when required from the Auditor of State of Ohio.

Officials Response and Corrective Action Plan

In the future, the Village will request single audits when required.

2. Federal Disbursements

Finding Number	2004-007
CFDA Title and Number	Water and Waste Disposal Systems for Rural Communities CFDA#10.760
Federal Award Number / Year	41-074-0346400112-01
Federal Agency	United States Department of Agriculture
Pass-Through Agency	None

Material Weakness

Federal disbursements should be reviewed and approved by Council to assure they are allowable federal disbursements in accordance with OMB Circular A-87. Council did sign/approve voucher cover sheets for federal disbursements. However, \$1,629,058 out of \$1,780,821 in major federal program expenditures did not have any supporting documentation attached to the voucher packets approved by Council. The missing supporting documentation had to be requested from the specific vendors, which resulted in additional audit time. Without supporting documentation it is not possible for Council to review and verify that federal disbursements are allowable in accordance with OMB Circular A-87. To improve controls over federal disbursements, we recommend the Clerk attach supporting documentation to each voucher cover sheet. Council should then perform a detailed review of the supporting documentation, and sign/approve the voucher cover sheet after the review has been completed and determined to be allowable.

Officials Response and Corrective Action Plan

The Clerk will assure that all disbursements are adequately supported and Council will verify there is support prior to approving disbursements.

VILLAGE OF BETTSVILLE
SENECA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Revised Code § 5705.41(D) failure to certify funds.	No	Not corrected. Repeated as Finding #2004-003.
2003-002	Ohio Revised Code § 5705.41(B) expenditures in excess of appropriations.	No	Not corrected. Repeated as Finding #2004-002.



**Auditor of State
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VILLAGE OF BETTSVILLE

SENECA 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
JULY 13, 2006**