



**CANTER & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS

**VILLAGE OF ORWELL  
ASHTABULA COUNTY**

**REGULAR AUDIT  
FOR THE YEARS ENDED  
DECEMBER 31, 2005 & 2006**





# Mary Taylor, CPA

## Auditor of State

Village Council  
Village of Orwell  
PO Box 56  
Orwell, OH 44076

We have reviewed the *Independent Accountants' Report* of the Village of Orwell, Ashtabula County, prepared by Canter and Company, for the audit period January 1, 2005 to December 31, 2006. 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.

### **Finding For Recovery:**

The Village's Policy Sections 6.1 and 6.1.1– Sick Leave – allows for employees to be credited 120 hours of sick time each January 1. Employees, who do not use all of their yearly sick leave hours (the amount credited to the employee January 1<sup>st</sup> of each year), will be entitled to “convert to cash” one-half of the unused balance of their yearly sick leave in December of each calendar year. The remaining unused balance shall be added to the employee's accumulation of sick leave hours. The capping of accumulated sick leave at 960 hours shall be for the purposes of payment of unused sick leave at the time of the employee's retirement from the Village. An employee, who retires from employment, may elect to be paid in cash for any unused sick leave balance, which shall be determined to be by the rate of 25% of all unused sick leave, not to exceed 960 hours, for a total payment of 240 hours maximum.

The Clerk-Treasurer credited in error an additional 120 hours of sick leave to employees of the Village, which inflated the balances that were available. Upon retirement, Charles Smith, a former employee, on December 31, 2005 was credited with having a balance of 411 hours of sick leave, of which 25% was paid to Charles Smith at his hourly rate of pay of \$14.87. (411 x 25% equals 102.75 hours times \$14.87 equals payment of \$1,527.89). The correct sick leave balance, less the additional 120 hours credited in error should have been 291 hours. Based off of the retirement criteria, payment should have been 291 hours times 25% equals 72.75 hours times \$14.87 equals a payment of \$1,081.79. The difference between what was paid, \$1,527.89, and the correct pay out of \$1,081.79, amounted to an overpayment of \$446.10 of sick leave hours paid to Charles Smith. In the official position as Clerk-Treasurer and in performance of these duties, signed and issued the check to Charles Smith. Consequently, as the Clerk-Treasurer, Cynthia Pace is liable for the overpayment to Charles Smith, as is Charles Smith for receiving the overpayment.

In accordance with the foregoing facts, a Finding for Recovery for public monies illegally expended is hereby issued against Charles Smith, a former employee, Cynthia Pace, Clerk-Treasurer, and her bonding company, Ohio Farmer's Insurance Company, jointly and severally, in the amount of \$446.10, and in favor of the Village of Orwell's General Fund, in the amount of \$446.10.

Village Council  
Village of Orwell  
PO Box 56  
Orwell, OH 44076  
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The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Orwell is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

August 29, 2007

Village of Orwell  
Ashtabula County

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## INDEPENDENT ACCOUNTANTS' REPORT

Village of Orwell  
Ashtabula County  
179 West Main Street  
P.O Box 56  
Orwell, Ohio 44084

To the Members of Council:

We have audited the accompanying financial statements of the Village of Orwell, Ashtabula County, (the Village) as of and for the years ended December 31, 2005 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the 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.

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, 2005 and 2006. Instead of the combined funds the accompanying financial statements present for 2005 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2006. 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.

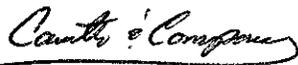
The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation 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, 2005 and 2006 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, 2005 and 2006, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Orwell, Ashtabula County, as of December 31, 2005 and 2006, and its combined cash receipts and disbursements for the years 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 years ended December 31, 2005 and 2006. 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 July 13, 2007 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.



CANTER & COMPANY

July 18, 2007

**VILLAGE OF ORWELL  
ASHTABULA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$83,746	\$108,367	\$4,428	\$0	\$196,541
Municipal Income Tax	740,977	67,964	0	97,244	906,185
Special Assessments	0	0	0	3,033	3,033
Intergovernmental Receipts	32,882	78,750	0	191,453	303,085
Charges for Services	30,495	0	0	0	30,495
Fines, Licenses, and Permits	14,003	1,230	0	0	15,233
Earnings on Investments	9,236	499	0	0	9,735
Miscellaneous	9,110	1,750	0	0	10,860
<b>Total Cash Receipts</b>	<u>920,449</u>	<u>258,560</u>	<u>4,428</u>	<u>291,730</u>	<u>1,475,167</u>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	397,971	96,289	0	0	494,260
Public Health Services	16,878	0	0	0	16,878
Leisure Time Activities	9,496	0	0	0	9,496
Community Environment	1,327	0	0	0	1,327
Basic Utility Services	0	0	0	217	217
Transportation	1,993	121,402	0	0	123,395
General Government	350,072	0	0	0	350,072
Capital Outlay	0	251,534	0	642,275	893,809
<b>Total Cash Disbursements</b>	<u>777,737</u>	<u>469,225</u>	<u>0</u>	<u>642,492</u>	<u>1,889,454</u>
Total Receipts Over/(Under) Disbursements	142,712	(210,665)	4,428	(350,762)	(414,287)
<b>Other Financing Receipts and (Disbursements):</b>					
Transfers-In	0	0	28,600	0	28,600
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	142,712	(210,665)	33,028	(350,762)	(385,687)
Fund Cash Balances, January 1	4,047	152,398	39,817	112,603	308,865
<b>Fund Cash Balances, December 31</b>	<u>\$146,759</u>	<u>(\$58,267)</u>	<u>\$72,845</u>	<u>(\$238,159)</u>	<u>(\$76,822)</u>
Reserved for Encumbrances, December 31	\$9,227	\$6,652	\$0	\$2,154	\$18,033

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

**VILLAGE OF ORWELL  
ASHTABULA 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, 2005**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$768,397	\$0	\$768,397
<b>Operating Cash Disbursements:</b>			
Personal Services	256,035	0	256,035
Fringe Benefits	522	0	522
Contractual Services	250,198	22,803	273,001
Supplies and Materials	39,973	0	39,973
Total Operating Cash Disbursements	546,728	22,803	569,531
Operating Income/(Loss)	221,669	(22,803)	198,866
<b>Non-Operating Cash Receipts:</b>			
Property Tax and Other Local Taxes	0	22,803	22,803
Other Non-Operating Receipts	45,849	0	45,849
Total Non-Operating Cash Receipts	45,849	22,803	68,652
<b>Non-Operating Cash Disbursements:</b>			
Debt Service:			
Principal	140,740	0	140,740
Interest	130,384	0	130,384
Total Non-Operating Cash Disbursements	271,124	0	271,124
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(3,606)	0	(3,606)
Transfers-In	30,000	0	30,000
Transfers-Out	(58,600)	0	(58,600)
Net Receipts Over/(Under) Disbursements	(32,206)	0	(32,206)
Fund Cash Balances, January 1	497,870	(101)	497,769
<b>Fund Cash Balances, December 31</b>	<b>\$465,664</b>	<b>(\$101)</b>	<b>\$465,563</b>
Reserved for Encumbrances, December 31	\$4,200	\$0	\$4,200

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

VILLAGE OF ORWELL  
ASHTABULA COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$77,597	\$96,362	\$0	\$0	\$173,959
Municipal Income Tax	937,159	75,986	0	0	1,013,145
Intergovernmental Receipts	56,471	85,935	0	576,763	719,169
Charges for Services	40,433	0	0	0	40,433
Fines, Licenses, and Permits	9,531	665	0	0	10,196
Earnings on Investments	19,630	1,253	0	0	20,883
Miscellaneous	9,400	600	0	0	10,000
<b>Total Cash Receipts</b>	<b>1,150,221</b>	<b>260,801</b>	<b>0</b>	<b>576,763</b>	<b>1,987,785</b>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	386,068	105,233	0	0	491,301
Public Health Services	17,716	0	0	0	17,716
Leisure Time Activities	10,697	0	0	0	10,697
Community Environment	2,250	0	0	0	2,250
Basic Utility Services	0	0	0	300	300
Transportation	6,088	183,660	0	0	189,748
General Government	608,001	0	0	0	608,001
Debt Service:					
Principal Payments	0	0	5,399	0	5,399
Interest Payments	0	0	256	0	256
Capital Outlay	0	108,326	15,000	420,714	544,040
<b>Total Cash Disbursements</b>	<b>1,030,820</b>	<b>397,219</b>	<b>20,655</b>	<b>421,014</b>	<b>1,869,708</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>119,401</b>	<b>(136,418)</b>	<b>(20,655)</b>	<b>155,749</b>	<b>118,077</b>
<b>Other Financing Receipts and (Disbursements):</b>					
Proceeds of Notes	90,000	0	0	0	90,000
Proceeds of OWDA Loans	0	0	0	15,097	15,097
Proceeds of OPWC Loans	0	0	0	111,391	111,391
Transfers-In	0	0	30,000	0	30,000
Transfers-Out	(101)	0	-0	0	(101)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>89,899</b>	<b>0</b>	<b>30,000</b>	<b>126,488</b>	<b>246,387</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>209,300</b>	<b>(136,418)</b>	<b>9,345</b>	<b>282,237</b>	<b>364,464</b>
<b>Fund Cash Balances, January 1 (Restated - See Note 10)</b>	<b>173,308</b>	<b>(48,997)</b>	<b>72,845</b>	<b>(273,978)</b>	<b>(76,822)</b>
<b>Fund Cash Balances, December 31</b>	<b>\$382,608</b>	<b>(\$185,415)</b>	<b>\$82,190</b>	<b>\$8,259</b>	<b>\$287,642</b>
<b>Reserved for Encumbrances, December 31</b>	<b>\$2,702</b>	<b>\$9,370</b>	<b>\$0</b>	<b>\$2,700</b>	<b>\$14,772</b>

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

**VILLAGE OF ORWELL  
ASHTABULA 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, 2006**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$853,030	\$0	\$853,030
<b>Operating Cash Disbursements:</b>			
Personal Services	242,334	0	242,334
Contractual Services	172,457	28,712	201,169
Supplies and Materials	84,896	0	84,896
Total Operating Cash Disbursements	499,687	28,712	528,399
Operating Income/(Loss)	353,343	(28,712)	324,631
<b>Non-Operating Cash Receipts:</b>			
Property Tax and Other Local Taxes	0	28,712	28,712
Other Non-Operating Receipts	46,279	0	46,279
Total Non-Operating Cash Receipts	46,279	28,712	74,991
<b>Non-Operating Cash Disbursements:</b>			
Debt Service:			
Principal	141,931	0	141,931
Interest	126,207	0	126,207
Total Non-Operating Cash Disbursements	268,138	0	268,138
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	131,484	0	131,484
Transfers-In	30,000	101	30,101
Transfers-Out	(60,000)	0	(60,000)
Net Receipts Over/(Under) Disbursements	101,484	101	101,585
Fund Cash Balances, January 1	465,664	(101)	465,563
<b>Fund Cash Balances, December 31</b>	<b>\$567,148</b>	<b>\$0</b>	<b>\$567,148</b>
Reserved for Encumbrances, December 31	\$31,167	\$0	\$31,167

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

**Village of Orwell**  
Ashtabula County  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

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**NOTE 1 – DESCRIPTION OF THE ENTITY**

The Village of Orwell, Ashtabula County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six member Council. The Village provides water and sewer utilities, park operations and police. The Village appropriates general 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.

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

The most significant of the Village's accounting policies are described below.

**A. Basis of Accounting**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. 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 adequately disclose material matters the Auditor of State prescribes.

**B. Cash and Investments**

Investment procedures are restricted by the provisions of the Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest earned is recognized and recorded when received.

Repurchase agreements are valued at cost.

**C. Fund Accounting**

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

***General Fund***

The General Fund is the general operating fund and is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

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Ashtabula County  
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December 31, 2006 and December 31, 2005

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***Special Revenue Funds***

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 disbursements for specified 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.

*Street Levy Fund* – This fund receives Real Estate tax monies to maintain the street lights within the Village limits.

*Fire Levy Fund* – This fund receives Real Estate tax monies to help maintain the fire department.

***Debt Service Funds***

These funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs. According to the government accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For the purpose of this report, these funds have been classified into the proper groups if practical. The Village had the following significant debt service fund:

*Sewer Bonded Debt Fund* – This fund receives assessments of citizens of the Village. Proceeds are used for sewer plant improvements.

***Capital Projects Funds***

Capital projects 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 and Trust Funds). The Village had the following significant capital projects funds:

*Permanent Improvement Fund* – This fund receives local income tax monies used for various improvements in the Village.

*USDA Grant Fund* – This fund receives proceeds from a Federal grant to be used for sewer plant expansion.

***Enterprise Funds***

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. The Village had the following significant enterprise funds:

**Village of Orwell**  
Ashtabula County  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

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

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

***Agency Funds***

Agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Village had the following significant agency fund:

*Income Tax Fund* – This fund receives proceeds from the Village local income tax and distributes these proceeds to the various funds according to Village ordinance.

**D. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

***Tax 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 period January 1 to December 31 of the following year. All funds, except certain agency funds, are legally required to be budgeted. The expressed purpose of the tax budget is to reflect the need for existing (or increased) tax rates. The Village filed tax budgets with the Ashtabula County Auditor in 2006 and 2005.

***Estimated Resources***

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. 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. Further amendments may be made during the year if the Village determines that receipts collected will be greater than or less than the prior estimates and the County Budget Commission find the revised estimates to be reasonable.

**Village of Orwell**  
Ashtabula County  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

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Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from a fund during the ensuing 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. Budgeted receipts as shown in the accompanying financial statements do not include January 1, 2006 or

January 1, 2005 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 or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

***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 expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each 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 year and need not be re-appropriated. The Village did not encumber all commitments as required by Ohio law.

A summary of 2006 and 2005 budgetary activity appears in Note 4.

**E. Property, Plant and Equipment**

Capital assets are not capitalized in any of the Village's funds. Instead, capital acquisition and construction costs are reflected as expenditures in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded by the Village.

**F. Intergovernmental Revenues**

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursable basis are recorded when received in accordance with the Village's cash basis method of accounting.

**G. Unpaid Vacation and Sick Leave**

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting described in Note 2.

**Village of Orwell**  
Ashtabula County  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

**H. Total Columns on 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**

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

	2006	2005
Demand Deposits	\$265,711	\$388,153
Investments - Repurchase Agreements	589,079	588
<b>Total Deposits and Investments</b>	<b>\$854,790</b>	<b>\$388,741</b>

**Deposits** – Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution’s public entity deposit pool.

**Investments** - The Village's financial institution transfers securities to the Village’s agent to collateralize repurchase agreements. The securities are not in the Village’s name.

**NOTE 4 - BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2006 and December 31, 2005 follow:

2006 Budgeted vs. Actual Receipts				2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Receipts	Actual Receipts	Variance	Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$983,200	\$1,240,221	\$257,021	General	\$996,735	\$1,033,623	(\$36,888)
Special Revenue	751,800	260,801	(490,999)	Special Revenue	722,530	406,588	315,942
Debt Service	25,000	30,000	5,000	Debt Service	101,845	20,655	81,190
Capital Projects	495,097	703,251	208,154	Capital Projects	844,805	423,714	421,091
Enterprise	916,000	929,309	13,309	Enterprise	1,306,865	858,991	447,874
Fiduciary	29,855	28,812	(1,043)	Fiduciary	899,898	28,712	871,186
<b>Total</b>	<b>\$3,200,952</b>	<b>\$3,192,394</b>	<b>(\$8,558)</b>	<b>Total</b>	<b>\$4,872,678</b>	<b>\$2,772,283</b>	<b>\$2,100,395</b>

**Village of Orwell**  
**Ashtabula County**  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

Ohio Revised Code Section 5705.41(B) prohibits expenditures to be made unless they have been properly appropriated. During 2006, the Village had two funds where expenditures exceeded appropriations.

Ohio Revised Code Section 5705.10 states that money paid into a fund must be used only for the purposes for which such fund has been established. During 2006, four funds of the Village had negative fund balances indicating monies from other funds were used to cover the expenditures of these funds.

Ohio Revised Code Section 5705.41(D) requires expenditures are only to be made if the Clerk/Treasurer certifies the availability of funds prior to the obligation being made. During 2006, various expenditures were made without prior certification of the fiscal officer being made.

2005 Budgeted vs. Actual Receipts				2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Receipts	Actual Receipts	Variance	Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$922,000	\$920,448	(\$1,552)	General	\$866,061	\$786,964	\$79,097
Special Revenue	274,500	258,561	(15,939)	Special Revenue	370,159	475,877	(105,718)
Debt Service	30,000	33,028	3,028	Debt Service	64,816	0	64,816
Capital Projects	189,000	291,730	102,730	Capital Projects	398,774	644,646	(245,872)
Enterprise	836,900	844,245	7,345	Enterprise	1,334,775	880,651	454,124
Fiduciary	21,814	22,803	989	Fiduciary	927,000	22,803	904,197
<b>Total</b>	<b>\$2,274,214</b>	<b>\$2,370,815</b>	<b>\$96,601</b>	<b>Total</b>	<b>\$3,961,585</b>	<b>\$2,810,941</b>	<b>\$1,150,644</b>

Ohio Revised Code Section 5705.41(B) prohibits expenditures to be made unless they have been properly appropriated. During 2005, the Village had four funds where expenditures exceeded appropriations.

Ohio Revised Code Section 5705.10 states that money paid into a fund must be used only for the purposes for which such fund has been established. During 2005, five funds of the Village had negative fund balances indicating monies from other funds were used to cover the expenditures of these funds.

Ohio Revised Code Section 5705.41(D) requires expenditures are only to be made if the Clerk/Treasurer certifies the availability of funds prior to the obligation being made. During 2005, various expenditures were made without prior certification of the fiscal officer being made.

**NOTE 5 - PROPERTY TAX**

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

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

**Village of Orwell**  
Ashtabula County  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

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

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

**NOTE 6 - DEBT**

Debt outstanding at December 31, 2006 and December 31, 2005 was as follows:

Issue	Interest Rate	Principal Outstanding December 31, 2006	Principal Outstanding December 31, 2005
<b>General Obligation Bonds:</b>			
1999 Waterworks G.O. Bonds	5.00-5.15%	\$150,000	\$220,000
2004 Ohio WWTP Improvement G.O. Bonds	1.90%	1,723,400	1,740,500
<b>General Obligation Notes:</b>			
2006 General Obligation Bond Anticipation	5.00%	90,000	0
<b>Ohio Water Development Authority Loans:</b>			
Sewer Plant Enlargement	7.54%	170,552	201,528
Iron Removal Project	6.32%	362,048	385,903
Industrial Park Infrastructure	3.00%	16,348	1,764
<b>Ohio Public Works Commission Loans:</b>			
East Main Street Water Main Replacement	0.00%	71,250	0
Phase II Water Main Replacement	0.00%	35,481	0
<b>Capital Leases:</b>			
Fire Truck	6.07%	0	23,350
Police Cruiser	5.20%	0	1,728
Ohio Rail Development Commission	0.00%	2,429	2,952
2006 Fire Truck	4.89%	280,000	0
2006 SCMR Trucks	4.85%	77,372	0
Total		<u>\$2,978,880</u>	<u>\$2,577,725</u>

The 1999 general obligation waterworks bonds were issued in 1998 for the purpose of improving the waterworks system of the Village. The general obligation bonds are collateralized by the Village water receipts and collections from user fees from the Kennametal Corporation.

The 2004 Ohio WWTP general obligation bonds were issued in 2004 to fund a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The general obligation bonds are collateralized by the Village sewer receipts and collections from user fees from the Kennametal Corporation.

The 2006 general obligation bond anticipation note was issued in anticipation of bonds for the purpose of resurfacing streets within the Village. The note is collateralized by the Village's taxing authority.

**Village of Orwell**  
**Ashtabula County**  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

The Ohio Water Development Authority (OWDA) sewer enlargement plant loan relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved a loan in the amount of \$469,263 to the Village for this project. The loan will be repaid in semiannual installments including interest, over 20 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Village has also entered into OWDA loans for an iron removal project and industrial park infrastructure improvements. The loan for industrial park infrastructure was not finalized as of December 31, 2005, but was completed during 2006. These loans will be repaid in semiannual installments including interest, over 20 years.

The Ohio Public Works Commission (OPWC) Phase I and Phase II East Main Street water main replacement loans were entered into in 2006 and will be repaid in semiannual installments, interest free, over twenty years.

The Village has entered into capital lease agreements to purchase fire trucks, police cruisers, and street vehicles and also to access railroad pipe line crossings with the Ohio Rail Development Commission. These leases are backed by the Village's taxing authority.

Remaining principal and interest payments of all outstanding obligations at December 31, 2006 and December 31, 2005 are as follows:

December 31, 2006								
	General Obligation Bonds		OWDA Loans		OPWC Loans	Capital Leases		
	Principal	Interest	Principal	Interest	Principal	Principal	Interest	Totals
2007	\$87,900	\$84,990	\$60,186	\$36,220	\$5,570	\$45,051	\$16,404	\$336,321
2008	98,800	80,456	64,345	32,060	5,570	49,369	14,408	345,008
2009	19,500	75,902	68,798	27,607	5,570	51,809	11,974	261,160
2010	20,500	75,024	73,562	22,841	5,570	28,398	9,945	235,840
2011	21,400	74,102	55,573	17,747	5,570	27,378	8,660	210,430
2012-2016	122,100	355,189	203,796	46,381	27,850	157,796	21,838	934,950
2017-2021	152,300	262,835	22,688	1,434	27,850	0	0	467,107
2022-2026	189,700	348,423	0	0	23,181	0	0	561,304
2027-2031	236,700	240,899	0	0	0	0	0	477,599
2032-2036	294,600	182,656	0	0	0	0	0	477,256
2037-2041	367,300	110,129	0	0	0	0	0	477,429
2042-2046	262,600	23,978	0	0	0	0	0	286,578
<b>Total</b>	<b>\$1,873,400</b>	<b>\$1,914,583</b>	<b>\$548,948</b>	<b>\$184,290</b>	<b>\$106,731</b>	<b>\$359,801</b>	<b>\$83,229</b>	<b>\$5,070,982</b>

**Village of Orwell**  
**Ashtabula County**  
Notes to the Financial Statements  
December 31, 2006 and December 31, 2005

December 31, 2005

	General Obligation Bonds		OWDA Loans		Capital Leases		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2006	87,100	\$89,479	\$54,831	\$39,584	\$25,601	\$1,218	\$297,813
2007	87,900	84,990	58,675	35,741	273	0	267,579
2008	98,800	80,457	62,788	31,626	281	0	273,952
2009	19,500	75,902	67,194	27,221	290	0	190,107
2010	20,500	75,024	71,910	22,503	299	0	190,236
2011-2015	116,900	360,452	205,318	58,986	1,286	0	742,942
2016-2020	145,700	331,678	66,715	5,651	0	0	549,744
2021-2025	181,500	294,306	0	0	0	0	475,806
2026-2030	226,500	251,091	0	0	0	0	477,591
2031-2035	282,000	195,347	0	0	0	0	477,347
2036-2040	351,400	125,943	0	0	0	0	477,343
2041-2045	342,700	39,393	0	0	0	0	382,093
Total	<u>\$1,960,500</u>	<u>\$2,004,062</u>	<u>\$587,431</u>	<u>\$221,312</u>	<u>\$28,030</u>	<u>\$1,218</u>	<u>\$4,802,553</u>

**NOTE 7 - LOCAL INCOME TAX**

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

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

**NOTE 8 - RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles; and
- Errors and omissions

**NOTE 9 - RETIREMENT SYSTEMS**

The Village's law enforcement officers and firefighters belong to the Ohio Police and Fire Pension Funds (OP&F). Other full time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost sharing, multiple employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**Village of Orwell**  
**Ashtabula County**  
**Notes to the Financial Statements**  
**December 31, 2006 and December 31, 2005**

Contribution rates are also prescribed by the Ohio Revised Code. For 2006 and 2005, OP&F participants contributed 3.5 percent of their wages and the Village had a “pickup” of 6.5 percent of the participant wages. The Village contributed an amount equal to 19.5 percent of police participant and 24 percent of fire participant wages. OPERS members contributed 9.0 percent and 8.5 percent of their gross wages in 2006 and 2005, respectively. The Village contributed an amount equal to 13.70 percent and 13.55 percent of the participant’s gross salaries in 2006 and 2005, respectively. The Village has paid all required contributions through December 31, 2006.

**NOTE 10 – RESTATEMENT OF CASH BALANCES**

At the end of 2006, the Village had cash balances in the Issue II special revenue fund and the Waste Water Treatment Plant expansion project and Ohio Water Development Authority capital projects funds. Since the project was completed in 2006, the balance in these funds should have been \$0 at December 31. The reason for these balances was incorrect postings of cash receipts in prior years.

This restatement had the following effect on cash as it was previously reported.

	General Fund	Special Revenue	Debt Service	Capital Projects	Total
Cash Balance 12/31/05	\$146,759	(\$58,267)	\$72,845	(\$238,159)	(\$76,822)
Adjustments	26,549	9,270	0	(35,819)	0
Adjusted Cash January 1, 2006	<u>\$173,308</u>	<u>(\$48,997)</u>	<u>\$72,845</u>	<u>(\$273,978)</u>	<u>(\$76,822)</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

Village of Orwell  
Ashtabula County  
179 West Main Street  
P.O. Box 56  
Orwell, Ohio 44084

We have audited the financial statements of the Village of Orwell, (the Village) as of and for the years ended December 31, 2005 and 2006, and have issued our report thereon dated July 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

In a separate letter to the Village's management dated July 18, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

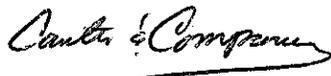
### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standard* which are described in the accompanying schedule of findings as items 2005-001 through 2006-003.

We also noted certain immaterial matters that we reported to management of the Village, in a separate letter dated July 18, 2007.

This report is intended solely for the information and use of the Members of Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Canter & Company



Youngstown, Ohio

July 18, 2007

**VILLAGE OF ORWELL  
ASHTABULA COUNTY  
DECEMBER 31, 2005**

**SCHEDULE OF FINDINGS**

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

**Finding # 2005-001**

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. The legal level of budgetary control for the Village is the level at which the Village Council adopts the original appropriation measure. For the Village of Orwell the legal level of control is at the fund/function/object level.

Expenditures exceeded appropriations in the following funds as of December 31, 2005:

Fund	Total Carryover Encumbrances & Appropriations	Total Budgetary Expenditures & Encumbrances	Unfavorable Variance
ODOD	\$0	\$251,534	(\$251,534)
OWDA	0	21,894	(21,894)
EDA	0	292,692	(292,692)
Wellfield Improvement Fund	(263,407)	82,941	(346,348)
Income Tax Fund	927,000	928,989	(1,989)

The Village Council should monitor expenditures throughout the year at the budgetary level of control, and if necessary, make amendments to them, in order to ensure that they do not exceed appropriations that have been approved. All funds should have a Certificate of Amended Resources passed by the Budget Commission and corresponding appropriations made before any expenditure is approved for payment.

**Finding #2005-002**

**Ohio Revised Code § 5705.10** states that money that is paid into a fund, must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenditures of another fund.

At December 31, 2005, the fund balances in the OWDA Fund and the EDA Fund were (\$21,894) and (\$292,692), respectively, indicating the Village used monies from other funds to pay the obligations of these funds, which is a violation of this Section.

The Clerk/Treasurer should monitor fund balances of all funds throughout the year. Necessary transfers/advances should be approved by Council and reported in a timely manner in order to avoid negative fund balances.

**Finding #2005-003**

**Ohio Revised Code § 5705.41(D)** states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account.

There are several exceptions to the standard requirement state above that 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" at the time that they are completing their certification "now", sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$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 the Village.

2. Blanket Certificate: Fiscal officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by 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: Fiscal officers may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund 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 fiscal year or, in the case of counties, beyond the quarterly spending plan established by the county commissioners. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

The Village did not always encumber funds at the time of the commitment. We noted 80% of the expenditures tested were not properly encumbered. Incurring obligations prior to the fiscal officer's certification could result in the Village spending more than appropriated.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Village. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment and only when the requirements of 5705.41(D) are satisfied.

When prior certification is not possible, the "then and now" certification should be used. Also the fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**VILLAGE OF ORWELL  
ASHTABULA COUNTY  
DECEMBER 31, 2006**

**SCHEDULE OF FINDINGS**

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

**Finding # 2006-001**

**Ohio Revised Code § 5705.41(B)** prohibits a subdivision from making an expenditure unless it has been properly appropriated. The legal level of budgetary control for the Village is the level at which the Village Council adopts the original appropriation measure. For the Village of Orwell the legal level of control is at the fund/function/object level.

Expenditures exceeded appropriations in the following funds as of December 31, 2006:

Fund	Total Carryover Encumbrances & Appropriations	Total Budgetary Expenditures & Encumbrances	Unfavorable Variance
General	\$996,735	\$1,038,753	(\$42,018)
Wellfield Improvement Fund	(305,489)	79,389	(384,878)
Income Tax Fund	899,899	1,043,804	(143,905)

The Village Council should monitor expenditures throughout the year at the budgetary level of control, and if necessary, make amendments to them, in order to ensure that they do not exceed appropriations that have been approved. All funds should have a Certificate of Amended Resources passed by the Budget Commission and corresponding appropriations made before any expenditure is approved for payment.

**Finding #2006-002**

**Ohio Revised Code § 5705.10** states that money that is paid into a fund, must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenditures of another fund.

At December 31, 2006, the fund balance in the EDA Fund was (\$400,000), respectively, indicating the Village used monies from other funds to pay the obligations of these funds, which is a violation of this Section.

The Clerk/Treasurer should monitor fund balances of all funds throughout the year. Necessary transfers/advances should be approved by Council and reported in a timely manner in order to avoid negative fund balances.

**Finding #2006-003**

**Ohio Revised Code § 5705.41(D)** states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. The amount so certified shall be recorded against the applicable appropriation account.

There are several exceptions to the standard requirement state above that 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" at the time that they are completing their certification "now", sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$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 the Village.

2. Blanket Certificate: Fiscal officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by 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: Fiscal officers may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund 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 fiscal year or, in the case of counties, beyond the quarterly spending plan established by the county commissioners. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

The Village did not always encumber funds at the time of the commitment. We noted 80% of the expenditures tested were not properly encumbered. Incurring obligations prior to the fiscal officer's certification could result in the Village spending more than appropriated.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to obligation by the Village. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment and only when the requirements of 5705.41(D) are satisfied.

When prior certification is not possible, the "then and now" certification should be used. Also the fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**VILLAGE OF ORWELL  
ASHTABULA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2006**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2004-001	Ohio Revised Code Section 5705.41(B)	No	Not Corrected Reported As Finding 2005-001 and 2006-001
2004-002	Ohio Revised Code Section 5705.10	No	Not Corrected Reported As Finding 2005-002 and 2006-002
2004-003	Ohio Revised Code Section 5705.41(D)	No	Not Corrected Reported As Finding 2005-003 and 2006-003



**Mary Taylor, CPA**  
Auditor of State

VILLAGE OF ORWELL

ASHTABULA COUNTY

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 11, 2007