

VILLAGE OF BELLAIRE



**AUDITED FINANCIAL STATEMENTS
DECEMBER 31, 2002**



**Auditor of State
Betty Montgomery**

Mayor and Members of City Council
Village of Bellaire

We have reviewed the Independent Auditor's Report of the Village of Bellaire, Belmont County, prepared by Rea & Associates, Inc. for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Bellaire is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 15, 2003

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**VILLAGE OF BELLAIRE
BELMONT COUNTY**

DECEMBER 31, 2002

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

April 15, 2003

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

Independent Auditor's Report

We have audited the accompanying financial statements of the Village of Bellaire (the "Village") as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of the Village of Bellaire as of December 31, 2002, and its combined cash receipts and disbursements, and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the year then ended, on the basis of accounting described in Note 2.

As described in Note 3 to the financial statements, the Village changed their reporting basis from generally accepted accounting principles to the cash basis of accounting as of January 1, 2002. This results in a change in the format and content of the financial statements.

In accordance with *Government Auditing Standards*, we also have issued our report dated April 15, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Rea & Associates, Inc.

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VILLAGE OF BELLAIRE

Combined Statement of Cash Fund Balances - All Fund Types
For the Year Ended December 31, 2002

<u>Treasury</u>	<u>Balance</u>
Cash and Cash Equivalents	\$ 1,095,333
Investments	<u>22,166</u>
Total Treasury Balance	<u>\$ 1,117,499</u>
<u>Fund Type Balances:</u>	
Governmental Funds:	
General Fund	\$ 212,198
Special Revenue Funds	333,468
Capital Projects Funds	51,662
Proprietary Funds:	
Enterprise Funds	391,640
Fiduciary Funds:	
Expendable Trust Funds	18,621
Agency Fund	<u>109,910</u>
Grand Total	<u>\$ 1,117,499</u>

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

VILLAGE OF BELLAIRE

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

For the Year Ended December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Receipts			
Income Taxes	\$ 646,723	\$ 0	\$ 0
Property and Other Taxes	70,805	43,152	0
Charges for Services	225,574	31,046	0
Fines, Licenses and Permits	64,080	0	0
Intergovernmental	481,798	612,368	8,770
Interest	10,901	566	0
Rent	0	0	27,325
Other	46,195	3,711	0
Total Receipts	1,546,076	690,843	36,095
Disbursements			
Current:			
General Government	445,750	2,500	0
Security of Persons and Property	1,056,548	4,372	0
Public Health Services	10,619	12,739	0
Transportation	0	373,051	8,770
Community Environment	3,155	231,632	3,604
Basic Utility	30,678	0	0
Leisure Time Activities	19,400	0	0
Capital Outlay	21,161	0	0
Debt Service:			
Principal Retirement	18,299	143,159	15,000
Interest and Fiscal Charges	4,959	20,198	7,595
Total Disbursements	1,610,569	787,651	34,969
Excess of Receipts Over (Under) Disbursements	(64,493)	(96,808)	1,126
Other Financing Sources			
Proceeds of Notes	0	113,673	0
Proceeds from Sale of Fixed Assets	26,900	0	0
Total Other Financing Sources	26,900	113,673	0
Excess of Receipts and Other Financing Sources Over (Under) Disbursements	(37,593)	16,865	1,126
Fund Cash Balances at Beginning Of Year-Restated	249,791	316,603	50,536
Fund Cash Balance at End of Year	\$ 212,198	\$ 333,468	\$ 51,662

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

<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Expendable Trust</u>	
\$ 0	\$ 646,723
0	113,957
0	256,620
0	64,080
0	1,102,936
0	11,467
0	27,325
0	49,906
0	2,273,014
0	448,250
0	1,060,920
0	23,358
0	381,821
0	238,391
0	30,678
0	19,400
0	21,161
0	176,458
0	32,752
0	2,433,189
0	(160,175)
0	113,673
0	26,900
0	140,573
0	(19,602)
18,621	635,551
\$ 18,621	\$ 615,949

VILLAGE OF BELLAIRE

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

For the Year Ended December 31, 2002

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating Receipts			
Charges for Services	\$ 1,441,466	\$ 0	\$ 1,441,466
Total Operating Receipts	<u>1,441,466</u>	<u>0</u>	<u>1,441,466</u>
Operating Disbursements			
Personal Services	543,076	0	543,076
Contractual Service	365,296	0	365,296
Materials and Supplies	201,722	0	201,722
Claims and Judgements	32,500	0	32,500
Total Operating Disbursements	<u>1,142,594</u>	<u>0</u>	<u>1,142,594</u>
Operating Income	<u>298,872</u>	<u>0</u>	<u>298,872</u>
Non-Operating Receipts (Disbursements)			
Other non-operating revenues	0	2,096,307	2,096,307
Other non-operating disbursements	(7,200)	(2,106,679)	(2,113,879)
Principal Retirement	(123,347)	0	(123,347)
Interest and Fiscal Charges	(80,232)	0	(80,232)
Total Non-Operating Receipts (Disbursements)	<u>(210,779)</u>	<u>(10,372)</u>	<u>(221,151)</u>
Net Income	88,093	(10,372)	77,721
Fund Cash Balance at Beginning of Year - Restated	<u>303,547</u>	<u>120,282</u>	<u>423,829</u>
Fund Cash Balance at End of Year	<u>\$ 391,640</u>	<u>\$ 109,910</u>	<u>\$ 501,550</u>

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

VILLAGE OF BELLAIRE

Combined Statement of Receipts Budgeted and Actual - All Budgeted Funds
 For the Year Ended December 31, 2002

<u>Fund Types / Funds</u>	<u>Estimated Receipts / Amended Certificate of Estimated Resources</u>	<u>Actual Receipts</u>	<u>Variance Favorable (Unfavorable)</u>
General Fund	\$ 1,476,220	\$ 1,572,976	\$ 96,756
Special Revenue	201,800	804,516	602,716
Capital Projects	24,000	36,095	12,095
Enterprise	<u>1,265,000</u>	<u>1,441,466</u>	<u>176,466</u>
Total All Funds	<u>\$ 2,967,020</u>	<u>\$ 3,855,053</u>	<u>\$ 888,033</u>

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

VILLAGE OF BELLAIRE

Combined Statement of Disbursements and Encumbrances
 Compared with Expenditure Authority - All Budgeted Funds
 For the Year Ended December 31, 2002

<u>Fund Types / Funds</u>	<u>Reserve for Encumbrances as of Dec. 31, 2001</u>	<u>Appropriations for Year Ended Dec. 31, 2002</u>	<u>Total</u>
General Fund	\$ 52,605	\$ 1,675,127	\$ 1,727,732
Special Revenue	2,187	742,894	745,081
Capital Projects	0	26,200	26,200
Enterprise	<u>3,843</u>	<u>1,457,344</u>	<u>1,461,187</u>
Total All Funds	<u>\$ 58,635</u>	<u>\$ 3,901,565</u>	<u>\$ 3,960,200</u>

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

Disbursements for Year Ended Dec. 31, 2002	Reserve for Encumbrances as of Dec. 31, 2002	Total	Variance Favorable (Unfavorable)
\$ 1,610,569	\$ 119,054	\$ 1,729,623	\$ (1,891)
787,654	1,479	789,133	(44,052)
34,969	0	34,969	(8,769)
<u>1,353,373</u>	<u>107,098</u>	<u>1,460,471</u>	<u>716</u>
<u><u>\$ 3,786,565</u></u>	<u><u>\$ 227,631</u></u>	<u><u>\$ 4,014,196</u></u>	<u><u>\$ (53,996)</u></u>

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

NOTE 1 – DESCRIPTION OF THE ENTITY

The Village of Bellaire (the Village) is a body politic, incorporated and established for the purpose of exercising the rights and privileges conveyed to it by the laws of the State of Ohio. The Village is located in Belmont County, in Southeastern Ohio, on the Ohio River. Bellaire was incorporated as a village in 1860. The Village was established as a statutory municipal corporation in 1873. Bellaire has a land area of 1.9 square miles and a 2000 census population of 4,892.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

B. Pooled Cash and Investments

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

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

C. Fund Accounting

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

1. Governmental Fund Types:

General Fund

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds

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

Capital Projects Funds

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

2. Proprietary Fund Type:

Enterprise Funds

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

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

3. Fiduciary Fund Type

Expendable Trust Fund

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

Agency Fund

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

D. Budgetary Process

Budget

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

Estimated Resources

The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to December 31, the Village must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 2002, unencumbered fund balances. However, those fund balances are available for appropriations.

Appropriations

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

Encumbrances

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

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

E. Property, Plant and Equipment

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

F. Total Columns on General Purpose 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 – CHANGE IN ACCOUNTING PRINCIPLE

During 2002, the Village changed from the accrual basis to the cash basis of accounting. The Village changed from City status to Village status effective January 1, 2002, which no longer required them to report on an accrual basis. The financial statements for 2001 have been retroactively restated for the change, which effectively eliminated balance sheet accruals. Fund balances have been adjusted for the effect of the retroactive application of the new method.

Fund Types	Reported Balances at 12/31/01	Change in Reporting Basis Adjustments	Restated Cash Balances 1/1/2002
General Fund	\$ 518,117	\$ (268,326)	\$ 249,791
Special Revenue Fund	358,154	(41,551)	316,603
Capital Projects Fund	50,536	0	50,536
Expendable Trust Fund	19,493	(872)	18,621
Enterprise Fund	345,132	(41,585)	303,547
Agency Fund	0	120,282	120,282
Total	<u>\$ 1,291,432</u>	<u>\$ (232,052)</u>	<u>\$ 1,059,380</u>

NOTE 4 – EQUITY IN POOLED CASH AND INVESTMENTS

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

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

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

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

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

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations as described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
- f. The State Treasury Assets Reserve of Ohio (STAR Ohio).

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

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

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

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

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

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

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

Deposits: At year-end, the carrying amount of the Village's deposits was \$317,830, and the bank balance was \$345,655. Of the bank balance:

1. \$122,166 was covered by federal depository insurance.
2. \$223,489 was uninsured and uncollateralized. Although the collateral for the securities was held by the pledging financial institution's trust department in the Village's name and all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the Village to a successful claim by the FDIC.

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

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

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$ 799,444	\$ 799,444	\$ 799,444

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

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 1,095,333	\$ 22,166
Repurchase Agreement	(799,444)	799,444
Certificates of deposit with maturities of greater than three months	22,166	(22,166)
Cash on Hand	(225)	(225)
GASB Statement 3	\$ 317,830	\$ 799,444

NOTE 5 – PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property, and tangible personal (used in business) property located in the Village. Real property taxes were levied after October 1, 1999 on the assessed value as of January 1, 2001, the lien date, and were collected in 2002. Assessed values for real property are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes received in 2002 attached as a lien on December 31, 2000, were levied after October 1, 2001 and are collected with real property taxes. Public utility property taxes are assessed on tangible personal property at 88% of true value. 2002 tangible personal property taxes are levied after October 1, 2001, on the value listed as of December 31, 2001 and are collected in 2002. Tangible personal property assessments are 25% of true value.

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

The assessed value upon which the 2001 taxes were collected was \$33,103,810. Real estate represented 78% (\$25,904,960) of this total, tangible personal property represented 12% (\$3,870,930), and public utilities tangible personal property represented 10% (\$3,327,920). The full tax rate for all Village operations applied to taxable property for the year ended December 31, 2002 was \$5.60 per \$1,000 of assessed valuation.

Real and public utility property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

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

The County Treasurer collects property taxes on behalf of all taxing districts within the County. The County Auditor periodically remits to the taxing districts their portions of the taxes collected.

NOTE 6 - INCOME TAX

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

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

Income tax proceeds are to be used to pay the cost of administering the tax, general fund operations, maintenance of equipment, new equipment, extension and enlargement of municipal services and facilities, and capital improvements as determined by Village Council. In 2002 the proceeds were allocated to the General Fund. Income tax cash collections for 2002 were \$625,682.

NOTE 7 - RISK MANAGEMENT

The Village belongs to the Public Entities Pool of Ohio ("PEP"), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles. There was no reduction in insurance coverage from coverage in the prior year. Also, insurance was sufficient to cover settlements in 2000, 2001 and 2002.

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

Casualty Insurance

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

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

Property Insurance

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and retained earnings at December 31, 2001 (the latest information available):

	<u>2001</u>	<u>2000</u>
<u>Casualty Coverage</u>		
Assets	\$19,358,458	\$17,112,129
Liabilities	<u>8,827,588</u>	<u>7,715,035</u>
Retained Earnings	<u>\$10,530,870</u>	<u>\$9,397,094</u>
<u>Property Coverage</u>		
Assets	\$1,890,323	\$1,575,614
Liabilities	<u>469,100</u>	<u>281,561</u>
Retained Earnings	<u>\$1,421,223</u>	<u>\$1,294,053</u>

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

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

NOTE 8 – LONG TERM OBLIGATIONS

Changes in long-term obligations of the Village during the year ended December 31, 2002 consisted of the following:

	Restated Outstanding 12/31/2001	Additions	Reductions	Outstanding 12/31/2002
<u>Enterprise Funds Obligations</u>				
<i>Mortgage Revenue Bonds:</i>				
Water System - 5-6.875%	\$ 960,000	\$ 0	\$ (85,000)	\$ 875,000
<i>General Obligation Bonds:</i>				
Sanitary Sewer Bond - 5%	337,700	0	(6,200)	331,500
<i>Installment Notes:</i>				
Water Plant Improvement - 6.5%	58,823	0	(20,363)	38,460
Garbage Truck - 6.5%	11,784	0	(11,784)	0
<i>Claims and Judgments</i>	32,500	0	(32,500)	0
Total Enterprise Fund Obligations	1,400,807	0	(155,847)	1,244,960
<u>Governmental Funds Obligations:</u>				
<i>Installment Notes:</i>				
Fire Equipment - 6.50%	51,912	0	(14,901)	37,011
Ambulance - 6.50%	12,578	0	(12,578)	0
Downtown Revitalization - 6.69%	120,000	0	(15,000)	105,000
Total installment notes	184,490	0	(42,479)	142,011
Police & Fire Pension - 4.25%	378,968	0	(5,279)	373,689
<i>Capital Leases:</i>				
Ambulance Lease	69,895	0	(15,026)	54,869
Total Governmental Funds Obligations:	633,353	0	(62,784)	570,569
Grand Total	\$ 2,034,160	\$ 0	\$ (218,631)	\$ 1,815,529

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

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

The Village's overall legal debt margin was \$3,475,900 at December 31, 2002.

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

NOTE 9 - CAPITAL LEASES

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

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of December 31, 2002:

<u>Year</u>	<u>Ambulance</u>
2003	\$ 19,933
2004	19,933
2005	<u>19,933</u>
Total payment requirements	59,799
Less: interest	<u>(9,837)</u>
Present value of minimum lease payments	<u><u>\$ 49,962</u></u>

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

NOTE 10 - SHORT-TERM OBLIGATIONS

Changes in note debt fund liabilities of the Village during the year ended December 31, 2001 consisted of the following:

	Outstanding 12/31/2001	Additions	Reductions	Outstanding 12/31/2002
<u>Special Revenue Funds:</u>				
Special Revenue Funds:				
State Highway Fund				
State Route 149 - 6.25%	\$ 0	\$ 113,673	\$ (113,673)	\$ 0

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

These loans are a non-revolving line of credit in the amount of \$100,000 and \$350,000. The \$100,000 loan was repaid in 2001. The \$350,000 line of credit will mature on June 10, 2003. The unused line of credit at year end is \$108,245. Principal will be due at the close of the State Route 149 project.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

Year	Enterprise			Governmental Fund Types		Total
	General Obligation Bonds	Mortgage Revenue Bonds	Installment Notes	Installment Notes	Police and Fire Pension	
2003	\$ 23,075	\$ 143,363	\$ 23,588	\$ 39,413	\$ 21,330	\$ 250,769
2004	23,050	142,963	17,679	38,440	21,330	243,462
2005	23,010	142,262	0	37,467	21,330	224,069
2006	23,055	141,138	0	23,110	21,330	208,633
2007	23,080	139,706	0	17,676	21,330	201,792
2008-2012	115,270	421,550	0	32,432	106,649	675,901
2012-2017	115,165	0	0	0	106,648	221,813
2018-2022	115,365	0	0	0	106,649	222,014
2023-2027	115,570	0	0	0	106,648	222,218
2028-2032	23,100	0	0	0	106,649	129,749
2033-2036	0	0	0	0	52,363	52,363
	\$ 599,740	\$ 1,130,982	\$ 41,267	\$ 188,538	\$ 692,256	\$ 2,652,783

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

NOTE 11 – PENSION OBLIGATIONS

A. Public Employees Retirement System

The Village contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established and amended by state statute per Chapter 145 of the Ohio Revised Code. The PERS issues a stand-alone, publicly available annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5% of their annual covered salary. The Village is required to contribute 13.55%. The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The Village's required contribution to PERS for the year ending December 31, 2001 was \$99,343. 100% has been contributed for 2002.

B. Ohio Police and Fire and Pension Fund

The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while the Village is required to contribute 19.5% and 24.0%, respectively, for police officers and firefighters. The Village's contributions to OP&F for the year ending December 31, 2002 were \$122,349. 100% has been contributed for 2002.

NOTE 12 – POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

PERS also provides postemployment health care benefits to age and service retirees thereon with ten (10) or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants, and health care coverage for disability recipients. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care which is considered an Other Postemployment Benefit (OPEB). The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund postretirement health care through their contributions to PERS. Of the 13.55% employer contribution rate for the Village, 5.0% was used to fund health care for the year 2002, which amounted to \$36,658. Through the contributions of employers and the investment earnings thereon, the amount allocated to retiree health care is expected to be sufficient to maintain the program indefinitely.

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

As of December 31, 2001 (the latest information available), the unaudited estimated net assets available for future OPEB payments were \$11.6 billion and the number of active contributing participants in OPEB was 402,041.

B. Ohio Police and Fire Pension Fund

OP&F provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen (18) whether or not the child is attending school or under the age of twenty-two (22) if attending school full-time or on a two-thirds (2/3) basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24.0% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing the OP&F's Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. The amount of the employer's contribution used to fund postemployment benefits was \$44,463 in 2002. The OP&F total health care expense for the year ending December 31, 2001, the date of the latest actuarial valuation available, was \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 13 – JOINTLY GOVERNED ORGANIZATION

- A. Eastern Ohio Regional Transit Authority was established to provide transportation to the residents of the Ohio Valley and is statutorily created as a separate and distinct political subdivision of the State. The Authority is operated by a board of directors that is appointed by the nine Mayors of the municipalities served by the Authority. The Village did not contribute any amounts to the Authority during 2002. The continued existence of the Authority is not dependent on the Village's continued participation and no equity interest exists. The Authority has not outstanding debt for which the Village of Bellaire is responsible.

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

- B. Ohio Mid-Eastern Governments Association (OMEGA) is a ten county regional council of governments comprised of Belmont, Carroll, Coshocton, Columbiana, Guernsey, Harrison, Holmes, Jefferson, Muskingum, and Tuscarawas counties. OMEGA was formed to aid and assist the participating counties and political subdivisions within the counties in the application for Appalachian Regional Commission and Economic Development grant monies. OMEGA is governed by a sixteen member executive board comprised of members appointed from each participating county and cities within each county. Village membership is voluntary. The Mayor of the Village of Bellaire serves as the Village's representative on the board. The board has total control over budgeting, personnel, and financial matters. Each member currently pays a per capita membership fee based upon the most recent United States census. During 2002, OMEGA received \$0 from the Village of Bellaire for an annual fee. The continued existence of OMEGA is not dependent on the Village's continued participation and no equity interest exists. OMEGA has no outstanding debt.
- C. Jefferson-Belmont Joint Solid Waste Authority is established by State statutes and is operated to provide solid waste services to Jefferson and Belmont counties. The Authority is governed by a fourteen member board of directors of which the Mayor of the Village of Bellaire is a member. The Authority is not dependent on the Village of Bellaire for its continued existence, no debt exists, and the Village does not maintain an equity interest. The Village does not make any monetary contributions to the Authority.
- D. Bel-O-Mar Regional Council is operated as a non-profit organization formed to provide planning and administrative services to all local governments in a four county region comprised of Belmont County, Ohio and three counties in West Virginia. The governing board is comprised of 58 officials from the four county service area of which three members and one alternate member are appointed by Belmont County and one member is appointed by each local government within Belmont County. The Mayor of the Village of Bellaire serves as the Village's representative on the board. The Council is not dependent upon the Village of Bellaire for its continued existence, no debt exists, and the Village does not maintain an equity interest. During 2002, Bel-O-Mar Regional Council received annual fees of \$1,370.
- E. Belmont County Sewer Authority is established by Ohio Revised Code Section 6119, serving the municipalities of Bellaire, Brookside, Bridgeport and Martins Ferry. The Authority is operated by a four-member Board of Trustees. One member is appointed by the Mayor of Bellaire. The Authority is not dependent on the Village of Bellaire for its continued existence and the Village does not maintain an equity interest. The Village does not make any monetary contributions to the Authority.

VILLAGE OF BELLAIRE, OHIO

**Notes to the Financial Statements
December 31, 2002**

NOTE 14 – CONTINGENCIES

A. Grants:

The Village received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with term and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the Village at December 31, 2002.

B. Litigation:

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

NOTE 15 – LEGAL COMPLIANCE

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

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

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

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

NOTE 16 – DEBT SERVICE TRUSTED FUNDS

The Water Plant Expansion trust agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The village has established this fund. At December 31, 2002, the custodian held \$ 205,912 in village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

April 15, 2003

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

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

We have audited the financial statements of the Village of Bellaire (the "Village") as of and for the year ended December 31, 2002, and have issued our report thereon dated April 15, 2003. As described in Note 3 to the financial statements, the Village changed its reporting basis from generally accepted accounting principles to the cash basis of accounting as of January 1, 2002. This results in a change in the format and content of the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings as items 2002-001 through 2002-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated April 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-005 to 2002-010.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-005 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Village in a separate letter dated April 15, 2003.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

April 15, 2003

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

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of the Village of Bellaire (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 are applicable to its major federal programs for the year ended December 31, 2002. The Village's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its 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 State, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as 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 Bellaire complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the Village 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 have a direct and material effect on a major federal program in order 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 matter involving the internal control over compliance and its operation that we consider to be 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 the applicable requirements of laws, regulations, contract and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2002-010.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards - Non-GAAP Budgetary Basis

We have audited the financial statements of the Village of Bellaire as of and for the year ended December 31, 2002, and have issued our report thereon dated April 15, 2003. As described in Note 3 to the financial statements, the Village changed its reporting basis from generally accepted accounting principles to the cash basis of accounting as of January 1, 2002. This results in a change in the format and content of the financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

Rea & Associates, Inc.

**VILLAGE OF BELLAIRE
BELMONT COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	<u>Federal CFDA #</u>	<u>Pass-Through Grantor's Number</u>	<u>Program Award Amount</u>	<u>2002 Expenditures</u>
US DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD):				
(Passed through Ohio Department of Development):				
Community Development Block Grant	14.228	A-C-99-091-1 A-C-01-091-1	\$ 600,000 196,000	\$ 9,926 <u>69,123</u> 79,049
(Passed through Belmont County):				
Community Development Block Grant	14.228	B-F-00-007-01 B-F-01-007-01	39,000 41,000	31,772 <u>40,851</u> <u>72,623</u>
Total CFDA #14.228				151,672
(Passed through Ohio Department of Development):				
Home Investment Partnerships Program	14.239	A-C-01-091-2	304,000	<u>146,198</u>
Total US Department of Housing and Urban Development Programs				297,870
US DEPARTMENT OF TRANSPORTATION:				
(Passed through Ohio Department of Transportation)				
Highway Planning and Construction	20.205	511970PE	443,390	<u>113,673</u>
Total US Department of Transportation				<u>113,673</u>
Total Expenditures of Federal Awards				<u><u>\$ 411,543</u></u>

The notes to the Schedule of Expenditures of Federal Awards are an intergral part of this statement.

VILLAGE OF BELLAIRE
BELMONT COUNTY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B: COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM (CDBG)
REVOLVING LOAN PROGRAM

The Village has established a revolving loan program to provide low-interest loans to eligible persons to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the Village passed through the Ohio Department of Development. The initial loan of the money was recorded as a disbursement on the Schedule of Federal Awards Expenditures. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the schedule.

These loans are collateralized by mortgages on the property. At December 31, 2002, the gross amount of loans outstanding under this program was \$20,724.

NOTE C: 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.

NOTE D: AMOUNTS REFUNDED

The total expenditures for CDBG grant number A-C-99-091-1 includes \$355 refund to the Ohio Department of Development after the grant completion date.

VILLAGE OF BELLAIRE
BELMONT COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002

1. SUMMARY OF AUDITOR'S RESULTS

A-133 Ref.
.505(d)

(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(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 non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any reportable conditions reported for major programs which were not considered to be material?	Yes
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510(a) of Circular A-133?	Yes
(d) (1) (vii)	Major Programs (list):	Community Development Block Grant Program CFDA # 14.228 Home Investment Partnership Program CFDA # 14.239
(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**

Material Noncompliance

FINDING NUMBER	2002 – 001
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*Ohio Rev. Code Section 5705.09 state that each subdivision is to establish a special fund for each class of revenue derived from a source other than the general property tax, which the law requires to be used for a particular purpose.

VILLAGE OF BELLAIRE
BELMONT COUNTY

SCHEDULE OF FINDINGS
(CONTINUED)
DECEMBER 31, 2002

The Village received Ohio Public Works Commission-Issue II funding and did not record the activity on their accounting records, or establish a separate fund.

We recommend the Village establish the above funds and record all activity associated with these monies on the Village ledgers in accordance with Auditor of the State Bulletin #2002-004. The activities not recorded and correcting entries have been made to the financial statements.

FINDING NUMBER	2002 – 002
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*Ohio Rev. Code Section 5705.41(B) states that no subdivision is to expend money unless it has been appropriated. The following funds had expenditures exceeding appropriations:

General Fund	\$ 1,892
<u>Special Revenue Funds:</u>	
CDBG Fund	48,827
<u>Capital Projects Funds:</u>	
Issue II Fund	8,770
<u>Enterprise Funds:</u>	
Water Fund	3,725

FINDING NUMBER	2002 – 003
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*Ohio Rev. Code Section 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund, free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

VILLAGE OF BELLAIRE
BELMONT COUNTY

SCHEDULE OF FINDINGS
(CONTINUED)
DECEMBER 31, 2002

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

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of council upon the completion of a "then and now" certificate, if such expenditure is otherwise valid.

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

FINDING NUMBER	2002 – 004
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Ohio Rev. Code Section 5705.36 states amended certificates of estimated resources should be obtained upon determination by the fiscal officer, the revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. The Village did not include revenues for the State Route 149 Fund and CDBG/Home Fund in their estimated resources. General Fund and Parking Lot Fund actual revenues did exceed estimated revenues, however, sufficient amended certificates were not obtained. All of these funds had expenditures for 2002. Because an amended certificate was not obtained, it caused the appropriations in these funds to exceed estimated resources.

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

Material Control Weaknesses

FINDING NUMBER	2002 – 005
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* Expenditure Procedures

The Village does not have formal policies and procedures established for the expenditure function. As a result we noted several instances of inconsistencies in the payments tested. There were several items where the invoice was either not attached or did not equal the amount of the check. Payments were made from vendor statements rather than the original invoices in several instances. In all 51 payments tested the Purchase Order was not attached to the voucher package. No evidence was attached indicating that the goods were received by the ordering department. There was no evidence attached that indicated the invoice was reviewed by anyone other than the person paying the bill.

VILLAGE OF BELLAIRE
BELMONT COUNTY

SCHEDULE OF FINDINGS
(CONTINUED)
DECEMBER 31, 2002

We recommend that the following procedure be implemented:

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

Reportable Conditions

FINDING NUMBER	2002 – 006
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*Accounting and Personnel Policies

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

We recommend the Village adopt accounting policies, personnel policies, and job descriptions for Village officials and employees which are not addressed by union contracts. This will establish procedural guidelines, help serve as a deterrent to possible unethical behavior by employees and officials and convey management's position regarding procedures and behavior.

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

FINDING NUMBER	2002 – 007
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*Segregation of Duties

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

VILLAGE OF BELLAIRE
BELMONT COUNTY

SCHEDULE OF FINDINGS
(CONTINUED)
DECEMBER 31, 2002

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

FINDING NUMBER	2002 – 008
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* Financial Accountability

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

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

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

FINDING NUMBER	2002 – 009
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* Audit Committee

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

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

VILLAGE OF BELLAIRE
BELMONT COUNTY

SCHEDULE OF FINDINGS
(CONTINUED)
DECEMBER 31, 2002

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Reportable Conditions

FINDING NUMBER	2002 – 010
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Management Review of Chip Program Accounting

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

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

* Also reported in the prior audit schedule of findings

VILLAGE OF BELLAIRE
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-001	A noncompliance citation was issued under Ohio Rev. Code Section 5705.09 for failure to establish Issue II and CDBG funds.	No	Not corrected; The Issue II fund was not established and no activity was posted.
2001-002	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41 (B) for expenditures exceeding appropriations in various funds.	No	Partially Corrected: Village made an attempt at year end to review funds to determine sufficient appropriations, however, four funds were found in violation In 2002.
2001-003	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) stating that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Not corrected; Expenditures of money were still processed without prior certification from the fiscal officer that the necessary appropriations were available before the expenditure occurred.
2001-004	Expenditure procedures – Need to prepare complete expenditure packages; obtain prior certification; obtain supervisory signatures on the invoices indicating items received; use requisition forms.	No	Not corrected; The City has not taken steps toward correcting the expenditure function.

VILLAGE OF BELLAIRE

SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2001-005	Accounting and personnel policies – Need to adopt accounting policies, personnel policies, job descriptions for non-union employees.	No	Not corrected; The City has taken no steps toward developing accounting policies, job descriptions and personnel policies.
2001-006	Segregation of Duties – The City Auditor’s office, Mayor’s office, Income Tax office, and Utility Department office each have one employee performing all functions of the office, including receipting, depositing, reconciling, billing, and posting of applicable ledgers. City management provided very limited monitoring of these offices.	No	Partially corrected; The Board of Public Affairs has taken a very active role in monitoring day-to-day activities in the Utility Billing Department
2001-007	Financial accountability – Department supervisors should obtain and review financial ledgers pertaining to department on a monthly basis.	No	Not corrected; Service departments do not review said ledgers.
2001-008	Audit Committee – The City has no Audit Committee to review and assure audit findings are properly addressed.	No	Not corrected; The City has not established an Audit Committee.
2001-009	Cost Allocation Plan – Cost Allocation Plan was not formally adopted by Council.	Yes	
2001-010	The City Auditor’s computer generated cash fund balance reports need adjusted and reconciled to the bank.	Yes	

VILLAGE OF BELLAIRE
BELMONT COUNTY

CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315(c)
FOR THE YEAR ENDED DECEMBER 31, 2002

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-001	The Village plans to create an Issue II Fund, Capital Projects Fund Type and to account for all grant activity within this fund, including budgetary information.	06/30/03	Thomas Sable, Village Clerk
2002-002	The Village plans to monitor and review budgetary information to ensure that expenditures plus encumbrances do not exceed appropriations.	06/30/03	Thomas Sable, Village Clerk
2002-003	The Village Clerk plans to implement procedures to ensure that purchase orders provide for the fiscal officer's certification of available funds and to ensure that funds be certified and encumbered prior to incurring obligations.	12/31/03	Thomas Sable, Village Clerk
2002-004	The Village Clerk plans to advise the County Auditor and obtain an amended certificate of estimated resources when additional revenues are received.	12/31/03	Thomas Sable, Village Clerk
2002-005	The Village Clerk plans to implement procedures to assure all payments for goods and services include a complete voucher package, including approvals by department heads.	12/31/03	Thomas Sable, Village Clerk
2002-006	The Village reverted to a Village effective January 1, 2002 and plans to review job descriptions and try to formalize them. Also, the Village Clerk plans to establish some formal accounting procedures for the Clerk's Office.	12/31/03	Thomas Sable, Village Clerk
2002-007	The Village plans to establish control procedures to ensure that oversight monitoring is performed for procedures performed by those departments with only one employee.	12/31/03	Thomas Sable, Village Clerk

VILLAGE OF BELLAIRE
 BELMONT COUNTY

CORRECTIVE ACTION PLAN (CONTINUED)
 OMB CIRCULAR A-133 § .315(c)
 FOR THE YEAR ENDED DECEMBER 31, 2002

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2002-008	The Village Clerk plans to give the Service Department copies of their respective appropriation ledger to review on a monthly basis.	12/31/03	Thomas Sable, Village Clerk
2002-009	The Village Clerk plans to address the need for an Audit Committee to the Mayor and Village Council in an effort to start the creation of an Audit Committee.	12/31/03	Thomas Sable, Village Clerk
2002-010	The Village Clerk plans to implement a review process by reconciling the Village records to Bel-O-Mar records on a monthly basis.	12/31/03	Thomas Sable, Village Clerk



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VILLAGE OF BELLAIRE

BELMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 9, 2003**