

Village of Otway

Scioto County

Regular Audit

January 1, 2003 Through December 31, 2004

Fiscal Years Audited Under GAGAS: 2004 & 2003

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**Auditor of State
Betty Montgomery**

Village Council
Village of Otway
6864 State Route 73
Otway, OH 45657

We have reviewed the *Independent Auditor's Report* of the Village of Otway, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2003 through December 31, 2004. 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.

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 Auditor's 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 Auditor's 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 Otway is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 10, 2006

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VILLAGE OF OTWAY
SCIOTO COUNTY

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INDEPENDENT AUDITOR'S REPORT

Village of Otway
Scioto County
6864 State Route 73
Otway, Ohio 45657

We have audited the accompanying financial statements of the Village of Otway, Scioto County, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village of Otway'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 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 that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 1, the government 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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards require 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 Villages 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 are materially misstated under 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 paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004 and 2003, or its changes in financial position of 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 of the Village of Otway, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion & Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion & 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 February 27, 2006 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.



Balestra, Harr & Scherer, CPAs, Inc.

February 27, 2006

**VILLAGE OF OTWAY
SCIOTO COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 4,056	\$ 4,124	\$ 8,180
Intergovernmental	2,068	6,235	8,303
Charges for Services	0	31,367	31,367
Fines, Licenses, and Permits	40	0	40
Earnings on Investments	93	334	427
Miscellaneous	9,906	2,575	12,481
	<u>16,163</u>	<u>44,635</u>	<u>60,798</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	2,642	9,676	12,318
Community Environment	0	1,547	1,547
Basic Utility Services	266	7,795	8,061
Transportation	0	11,600	11,600
General Government	6,897	4,015	10,912
Debt Service:			
Principal Payments	0	6,425	6,425
Interest Payments	0	807	807
Capital Outlay	0	44,015	44,015
	<u>9,805</u>	<u>85,880</u>	<u>95,685</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>6,358</u>	<u>(41,245)</u>	<u>(34,887)</u>
Other Financing Sources (Uses):			
Proceeds of Notes	<u>0</u>	<u>39,015</u>	<u>39,015</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>39,015</u>	<u>39,015</u>
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Uses	6,358	(2,230)	4,128
Fund Cash Balances, January 1	<u>453</u>	<u>26,272</u>	<u>26,725</u>
Fund Cash Balances, December 31	<u><u>\$ 6,811</u></u>	<u><u>\$ 24,042</u></u>	<u><u>\$ 30,853</u></u>

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

**VILLAGE OF OTWAY
SCIOTO COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 4,613	\$ 3,847	\$ 8,460
Intergovernmental	2,112	12,749	14,861
Charges for Services	0	27,054	27,054
Fines, Licenses, and Permits	180	0	180
Earnings on Investments	137	0	137
Miscellaneous	1,075	575	1,650
	<u>8,117</u>	<u>44,225</u>	<u>52,342</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	2,735	6,516	9,251
Public Health Services	441	0	441
Community Environment	0	468	468
Basic Utility Services	162	10,722	10,884
Transportation	0	8,596	8,596
General Government	5,907	5,444	11,351
Debt Service:			
Principal Payments	0	6,180	6,180
Interest Payments	0	718	718
	<u>9,245</u>	<u>38,644</u>	<u>47,889</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(1,128)</u>	<u>5,581</u>	<u>4,453</u>
Fund Cash Balances, January 1	<u>1,581</u>	<u>20,691</u>	<u>22,272</u>
Fund Cash Balances, December 31	<u>\$ 453</u>	<u>\$ 26,272</u>	<u>\$ 26,725</u>

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

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Otway, Scioto 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 and a publicly elected Village Clerk and Mayor. The Village provides street and state highway maintenance and fire protection.

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

B. Basis of Accounting

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

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

C. Cash

The Village invests all available funds of the Village in an interest-bearing checking account and a savings account.

D. 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:

1. General Fund

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

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

Street Construction, Repair and Maintenance Fund- This Fund receives gasoline tax and motor vehicle license tax money for street construction, maintenance and repair in the Village.

VILLAGE OF OTWAY
SCIOTO COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. **Fund Accounting (Continued)**

2. **Special Revenue Funds (Continued)**

Community Building Fund – This fund receives money for rental of the gymnasium and storage units at the Community Building for maintaining and repairing Village property.

Volunteer Fire Department Fund – This fund receives property tax money for fire protection in the Village.

E. **Budgetary Process**

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

1. **Appropriations**

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

2. **Estimated Resources**

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

3. **Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. **Property, Plant and Equipment**

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

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2004
Demand deposits	\$26,725	\$31,377

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,695	\$16,163	\$6,468
Special Revenue	37,744	83,650	45,906
Total	\$47,439	\$99,813	\$52,374

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$10,148	\$9,805	\$343
Special Revenue	55,157	85,356	(30,199)
Total	\$65,305	\$95,161	(\$29,856)

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,319	\$8,117	(\$1,202)
Special Revenue	32,890	44,225	11,335
Total	\$42,209	\$52,342	\$10,133

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$10,819	\$9,245	\$1,574
Special Revenue	41,135	38,644	2,491
Total	\$51,954	\$47,889	\$4,065

Contrary to Ohio Law, expenditures exceeded appropriations in the Fire Fund in 2004.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Fire Truck Note	\$39,015	3.86%
Fire Station Bond Anticipation Note	3,969	5.63%

The Fire Station Bond Anticipation Note was issued to finance the purchase of a building for the fire department to be used for Village fire protection. The full faith and credit of the Village have been pledged to repay this debt.

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

<u>Year ending December 31:</u>	<u>Bond Anticipation Note</u>
2005	\$4,192
Total	\$4,192

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT (Continued)

The Fire Truck Note was issued to finance the purchase of a Fire Truck for the fire department to be used for Village fire protection. The full faith and credit of the Village have been pledged to repay this debt.

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

<u>Year ending December 31:</u>	<u>Fire Truck Note</u>
2005	\$8,743
2006	8,743
2007	8,743
2008	8,743
2009	8,743
Total	<u>\$43,715</u>

6. RETIREMENT SYSTEMS

The Village's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2004. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- General liability and casualty
- Vehicles

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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*

Members of Council
Village of Otway
Scioto County
6864 State Route 73
Otway, Ohio 45657

We have audited the financial statements of Village of Otway, Scioto County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated February, 27, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-003.

We noted certain matters that we reported to management of the Village in a separate letter dated February 27, 2006.

Village of Otway
Scioto County

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
Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

February 27, 2006

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

FINDING NUMBER 2004-001

Noncompliance Citation – Contract Compliance

During testing of the Village's compliance with ORC 715.18, it was noted that the Village didn't competitively bid the purchase of a fire truck for \$44,000 purchased in 2004 and financed through Oak Hill Banks. The fire truck was not purchased through the Ohio Department of Administrative Services.

Ohio Revised Code Section 715.18 states that contracts that exceed \$25,000 to be competitive bidding procedures require that a contract be entered into in writing with the lowest and best bidder after advertisement of the proposal for bids for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the municipality.

The Village failed to competitively bid the purchase of a fire truck purchased for \$44,000 and was noncompliant with requirements of Ohio Revised Code Section 715.18.

We recommend the Village competitively bid all purchases meeting the threshold requirement not purchased through the Ohio Department of Administrative Services or in which an emergency is not declared.

FINDING NUMBER 2004-002

Noncompliance Citation – Failure to obtain amended certificate of estimated resource

During a testing of debt, it was noted that the Village failed to obtain an amended certificate of estimated resources after the Village acquired new debt to purchase fire truck. Ohio Revised Code Section 5705.36 states " In order to facilitate repayment of debt, at the time the notes or bonds are issued, the subdivision requests from the county budget commission an amended certificate of estimated resources. The new certificate should contain an increase in the estimate of bond retirement fund receipts equal to the amount which will be allocated to this fund for the repayment of the notes or bonds, including interest. In addition, the amount of the general fund (or other appropriate fund) estimate should be reduced by the amount of the interest generated by the issuance of the notes or bonds.

The Village failed to obtain an amended certificate of estimated resources from the county budget commission and the Village was in violation of Ohio Revised Code Section 5705.36.

We recommend the Village to obtain an amended certificate of estimated resources from the county budget commission after acquiring new debt.

FINDING NUMBER 2004-003

Noncompliance Citation - Expenditures exceeded Appropriations

Ohio Rev. Code, Section 5705.41 (B), states " No subdivision is to expend money unless it has been appropriated.

<u>Year</u>	<u>Fund</u>	<u>Appropriation Authority</u>	<u>Expenditure</u>	<u>Variance</u>
2004	Fire	36,750	67,632	(30,882)

The Clerk may request the Village Council to amend the appropriation resolution when deemed appropriate.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDITDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-001	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for not properly certifying the availability of funds.	Yes	
2000-002	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B) for expending money without the benefit of appropriations.	No	Repeated as Finding Number 2004-003



**Auditor of State
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VILLAGE OF OTWAY

SCIOTO 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
MAY 4, 2006**