

VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
REGULAR AUDIT
(December 31, 2004)
SINGLE AUDIT
(December 31, 2003)



Mary Taylor, CPA

Auditor of State

Village Council
Village of Quaker City
230 Main Street
P.O. Box 156
Quaker City, Ohio 43773

We have reviewed the *Independent Auditors' Report* of the Village of Quaker City, Guernsey County, prepared by Jones, Cochenour & Co., 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 Auditors' 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 Auditors' 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 Quaker City is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 7, 2007

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VILLAGE OF QUAKER CITY, GUERNSEY COUNTY

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INDEPENDENT AUDITORS' REPORT

Village of Quaker City
Guernsey County
230 Main Street, Box 43
Quaker City, Ohio 43773

We have audited the accompanying financial statements of Village of Quaker City, Guernsey County, Ohio (the "Village") as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express our opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 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 requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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

much more than an accounting firm

Village of Quaker City
Guernsey County
Independent Auditor's Report
Page 2

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Quaker City as of December 31, 2004 and 2003, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2007 on our consideration of Village of Quaker City, Guernsey County'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Village taken as a whole. The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government and Non-Profit Organizations* 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 presented in all material respects in relation to the financial statements taken as a whole.



Jones, Cochenour & Co.
February 15, 2007

VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2004

| | <u>Governmental Fund Types</u> | | | | Total (Memorandum Only) |
|---|--------------------------------|----------------------------|---------------------|-------------------------|-------------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | | |
| Property tax and other local tax | \$ 7,983 | \$ 5,251 | \$ 6,534 | \$ - | \$ 19,768 |
| Special Assessments | - | - | 7,325 | - | 7,325 |
| Intergovernmental Receipts | 24,896 | 20,692 | 3,068 | 166,115 | 214,771 |
| Charges for services | 4,295 | 22,765 | - | - | 27,060 |
| Earnings on investments | 426 | 394 | - | - | 820 |
| Miscellaneous | 11,136 | 17,307 | - | - | 28,443 |
| Total Cash Receipts | 48,736 | 66,409 | 16,927 | 166,115 | 298,187 |
| Cash Disbursements: | | | | | |
| Security of persons and property | 5,654 | 38,990 | - | - | 44,644 |
| Public health services | 3,898 | - | - | - | 3,898 |
| Leisure time activities | 9,253 | - | - | - | 9,253 |
| Transportation | - | 18,778 | - | - | 18,778 |
| General government | 27,514 | - | - | - | 27,514 |
| Debt Service: | | | | | |
| Principal payments | - | - | 18,391 | - | 18,391 |
| Interest payments | - | - | 1,056 | - | 1,056 |
| Capital outlay | 830 | - | - | 264,479 | 265,309 |
| Total Cash Disbursements | 47,149 | 57,768 | 19,447 | 264,479 | 388,843 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 1,587 | 8,641 | (2,521) | (98,364) | (90,656) |
| Other Financing Receipts and (Disbursements) | | | | | |
| Transfers-in | - | - | - | - | - |
| Transfers-out | - | - | - | - | - |
| Total financing receipts and (disbursements) | - | - | - | - | - |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 1,587 | 8,641 | (2,521) | (98,364) | (90,656) |
| Fund Cash Balances, January 1 | 19,252 | 27,297 | 3,393 | 162,902 | 212,844 |
| Fund Cash Balances, December 31 | \$ 20,839 | \$ 35,938 | \$ 872 | \$ 64,537 | \$ 122,188 |
| Reserves for Encumbrances, December 31 | \$ 3,000 | \$ - | \$ - | \$ - | \$ 3,000 |

See notes to financial statements

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN FUND CASH BALANCES
 PROPRIETARY FUND TYPES
 For the Year Ended December 31, 2004**

| | Proprietary Fund Type |
|---|----------------------------------|
| | Enterprise |
| Cash Receipts: | |
| Charges for services | \$ 128,920 |
| Operating Cash Disbursements: | |
| Personal services | 22,435 |
| Fringe benefits | 3,260 |
| Contractual services | 66,356 |
| Supplies and materials | 38,438 |
| Other | 779 |
| Capital outlay | 139,655 |
| Total Operating Cash Disbursements | 270,923 |
| Operating Income/(Loss) | (142,003) |
| Non-Operating Cash Receipts: | |
| Property tax and other local tax | 3,903 |
| Intergovernmental Receipts | 627 |
| Special Assessments | 600 |
| Proceeds from notes and bonds | 149,140 |
| Other non-operating receipts | 3,970 |
| Total Non-Operating Cash Receipts | 158,240 |
| Non-Operating Cash Disbursements: | |
| Other non-operating disbursements | 5,108 |
| Net Receipts Over/(Under) Cash Disbursements | 11,129 |
| Fund Cash Balances, January 1 | 51,357 |
| Fund Cash Balances, December 31 | \$ 62,486 |
| Reserve for Encumbrances, December 31 | \$ - |

See notes to financial statements

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN FUND CASH BALANCES
 GOVERNMENTAL FUND TYPES
 For the Year Ended December 31, 2003**

| | Governmental Fund Types | | | | Total (Memorandum Only) |
|---|-------------------------|--------------------|-------------------------|----------------------------|-------------------------------|
| | General | Special Revenue | Debt Service Revenue | Capital Project Revenue | |
| Cash Receipts: | | | | | |
| Property tax and other local tax | \$ 7,430 | \$ 5,005 | \$ 6,536 | \$ - | \$ 18,971 |
| Intergovernmental Receipts | 34,382 | 14,514 | 15,813 | 522,610 | 587,319 |
| Charges for services | 250 | 15,822 | - | - | 16,072 |
| Earnings on investments | 457 | 534 | - | - | 991 |
| Miscellaneous | 140 | 2,415 | - | - | 2,555 |
| Total Cash Receipts | 42,659 | 38,290 | 22,349 | 522,610 | 625,908 |
| Cash Disbursements: | | | | | |
| Current | | | | | |
| Security of persons and property | 5,705 | 32,529 | - | - | 38,234 |
| Public health services | 3,510 | - | - | - | 3,510 |
| Leisure time activities | 9,566 | - | - | - | 9,566 |
| Transportation | - | 18,557 | - | - | 18,557 |
| General government | 19,359 | - | - | - | 19,359 |
| Debt Service: | | | | | |
| Principal payments | - | - | 18,091 | - | 18,091 |
| Interest payments | - | - | 1,508 | - | 1,508 |
| Capital outlay | - | - | - | 359,708 | 359,708 |
| Total Cash Disbursements | 38,140 | 51,086 | 19,599 | 359,708 | 468,533 |
| Total Cash Receipts Over/(Under) Cash Disbursements | 4,519 | (12,796) | 2,750 | 162,902 | 157,375 |
| Other Financing Receipts and (Disbursements) | | | | | |
| Transfers-in | - | - | 510 | - | 510 |
| Transfers-out | (510) | - | - | - | (510) |
| Total financing receipts and (disbursements) | (510) | - | 510 | - | - |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 4,009 | (12,796) | 3,260 | 162,902 | 157,375 |
| Fund Cash Balances, January 1 | 15,243 | 40,093 | 133 | - | 55,469 |
| Fund Cash Balances, December 31 | \$ 19,252 | \$ 27,297 | \$ 3,393 | \$ 162,902 | \$ 212,844 |
| Reserves for Encumbrances, December 31 | \$ - | \$ - | \$ - | \$ - | \$ - |

See notes to financial statements

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN FUND CASH BALANCES
 PROPRIETARY FUND TYPES
 For the Year Ended December 31, 2003**

| | Proprietary Fund Type |
|---|----------------------------------|
| | Enterprise |
| Cash Receipts: | |
| Charges for services | \$ 138,293 |
| Operating Cash Disbursements: | |
| Personal services | 28,657 |
| Fringe benefits | 4,244 |
| Contractual services | 67,586 |
| Supplies and materials | 17,026 |
| Other | 3,355 |
| Total Operating Cash Disbursements | 120,868 |
| Operating Income/(Loss) | 17,425 |
| Non-Operating Cash Receipts: | |
| Property tax and other local tax | 4,126 |
| Intergovernmental Receipts | 2,474 |
| Special Assessments | 55,400 |
| Other non-operating receipts | 2,223 |
| Total Non-Operating Cash Receipts | 64,223 |
| Non-Operating Cash Disbursements: | |
| Principal payment | (50,000) |
| Other non-operating disbursements | (24,964) |
| Total Non-Operating Cash Receipts | (74,964) |
| Net Receipts Over/(Under) Cash Disbursements | 6,684 |
| Before Interfund Transfers and Advances | |
| Transfers-in | - |
| Transfers-out | - |
| Fund Cash Balances, January 1 | 44,673 |
| Fund Cash Balances, December 31 | \$ 51,357 |
| Reserves for Encumbrances, December 31 | \$ 164,356 |

See notes to financial statements

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization Description

The Village of Quaker City, Guernsey County (the "Village") is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, park operations, street maintenance, fire protection services and ambulance services.

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

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.

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:

a. 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.

b. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Fire Levy Fund – This fund receives tax monies assessed and levied on general assessed valuation of real and personal property. These taxes are used for the volunteer fire department and emergency squad.

c. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant Debt Service Funds:

Bond Retirement Fund – This fund receives tax levy monies to retire the fire truck general obligation bonds.

Note Retirement Fund – This fund receives gasoline tax and motor vehicle tax money to retire general obligation equipment notes.

Debt Retirement Fund – This fund receives local government distribution tax money to retire an obligation to GMAC Financing.

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting - Continued

d. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Street Capital Projects Fund – This fund receives money from the Guernsey County Engineer for the improvement or construction of Village roads.

e. Enterprise Funds

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

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

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

Debt Service Fund – This fund receives proceeds from funding sources for enterprise activity projects and repayments of debt activity are through this fund.

Budgetary Process

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

a. Appropriations

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

b. Estimated Resources

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

c. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include items that should have been encumbered.

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

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 statements.

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accumulated Leave

In certain circumstances, such as upon leaving employment employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

Basis of Federal Awards Expenditures

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2004 | 2003 |
|-------------------------|------------|------------|
| Demand deposits | \$ 184,674 | \$ 255,602 |
| Certificates of deposit | - | 8,599 |
| Total deposits | \$ 184,674 | \$ 264,201 |

Deposits : Deposits are either insured by the Federal Deposit Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

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 | \$ 33,299 | \$ 48,736 | \$ 15,437 |
| Special Revenue | 47,868 | 66,409 | 18,541 |
| Debt Service | 16,053 | 16,927 | 874 |
| Capital Projects | 350,491 | 166,115 | (184,376) |
| Enterprise | 150,633 | 287,160 | 136,527 |
| Total | \$ 598,344 | \$ 585,347 | \$ (12,997) |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 72,388 | \$ 50,149 | \$ 22,239 |
| Special Revenue | 88,321 | 57,768 | 30,553 |
| Debt Service | 20,319 | 19,447 | 872 |
| Capital Projects | 497,555 | 264,479 | 233,076 |
| Enterprise | 267,036 | 276,031 | (8,995) |
| Total | \$ 945,619 | \$ 667,874 | \$ 277,745 |

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
NOTES TO FINANCIAL STATEMENTS**

3. BUDGETARY ACTIVITY - CONTINUED

| 2003 Budgeted vs. Actual Receipts | | | |
|--|------------------------------|------------------------|---------------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 45,159 | \$ 42,659 | \$ (2,500) |
| Special Revenue | 37,141 | 38,290 | 1,149 |
| Debt Service | 21,118 | 22,859 | 1,741 |
| Capital Projects | - | 522,610 | 522,610 |
| Enterprise | 1,058,828 | 202,516 | (856,312) |
| Total | \$ 1,162,246 | \$ 828,934 | \$ (333,312) |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|------------------------------------|-----------------------------------|-------------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 47,424 | \$ 38,650 | \$ 8,774 |
| Special Revenue | 72,411 | 51,086 | 21,325 |
| Debt Service | 21,761 | 19,599 | 2,162 |
| Capital Projects | 883,000 | 359,708 | 523,292 |
| Enterprise | 235,807 | 360,188 | (124,381) |
| Total | \$ 1,260,403 | \$ 829,231 | \$ 431,172 |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Enterprise Improvement Fund by \$139,655, for the year ended December 31, 2004. For the year ended December 31, 2003, expenditures exceeded appropriations in the Enterprise Debt Service and Enterprise Improvement Fund by \$43,837 and \$164,356, respectively.

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 reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
NOTES TO FINANCIAL STATEMENTS**

5. DEBT

Debt outstanding at December 31, 2003 and December 31, 2004 was as follows:

| | 12/31/2003 | 12/31/2004 | Interest Rate |
|----------------------------------|-------------------------|--------------------------|---------------|
| | <u>Principal</u> | <u>Principal</u> | |
| General obligation bonds | \$ 17,900 | \$ 12,200 | 4.875% |
| Village capital improvement fund | - | 149,140 | 0.00% |
| General obligation notes | 4,634 | - | 3.95% |
| Promissary note | 8,791 | 734 | 0.00% |
| TOTAL | <u><u>\$ 31,325</u></u> | <u><u>\$ 162,074</u></u> | |

The Village issued \$51,000 in General Obligation Bonds through the United States Department of Agriculture (USDA) on September 11, 1996 to purchase a fire truck and related equipment. The bonds are being repaid annually, in varying amounts, over ten years at an interest rate of 4.875%. The general revenues of the Village have been pledged as the source of repayment.

A promissory note was issued on November 15, 2001 to finance the purchase of a new truck to be used for Village road maintenance. This note was issued through General Motors Acceptance Corporation (GMAC) Financing and the terms were 0% financing for 36 months. The note is collateralized by the truck that was purchased by the Village with the note proceeds.

The Village issued \$13,900 in General Obligation Road Equipment Notes on December 10, 2001 for the purchase of a backhoe. The notes are being repaid in annual installments of \$4,633 plus interest at the rate of 3.95% over three years. The note was paid off in 2004. The general revenues of the Village have been pledged as the source of repayment.

A \$50,000 Village Capital Improvement Fund (VCIF) loan was issued to the Village under the Ohio Water Development Authority on June 25, 2002 and relates to the Barnesville water line expansion project. The loan was repaid in 2003. During 2004 a loan was issued by OPWC for the same water line project. The amount received in 2004 was \$149,140 and in 2005 the amount recorded was \$26,782 for a total loan balance of \$175,922 to be amortized over 20 years at 0% rate. The first payment is due July 1, 2005 in the amount of \$4,398. The loan is collateralized by water receipts.

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

| | OPWC | USDA General Obligation Fire Truck and Related Equipment Bonds | GMAC Promissory Note |
|--------------------------|--------------------------|---|----------------------------|
| Year ending December 31: | | | |
| 2005 | \$ 7,457 | \$ 6,495 | \$ 734 |
| 2006 | 7,457 | 6,607 | - |
| 2007 | 7,457 | - | - |
| 2008 | 7,457 | - | - |
| 2009 | 7,457 | - | - |
| 2010 and thereafter | 111,855 | - | - |
| TOTAL | <u><u>\$ 149,140</u></u> | <u><u>\$ 13,102</u></u> | <u><u>\$ 734</u></u> |

**VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
NOTES TO FINANCIAL STATEMENTS**

6. RETIREMENT SYSTEM AND SOCIAL SECURITY BENEFIT PROGRAM

The Village's employees and certain elected officials 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 2004 and 2003. The Village has paid all contributions required through December 31, 2004.

The elected officials who are not a member of PERS contribute to Social Security. The contribution rate of these officials is 6.2% of their gross salary. As required, the Village matches the 6.2% contribution to Social Security. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Errors and omissions;
- Inland Marine;
- Flood Insurance;
- Bonding; and
- Public Officials Liability.

8. VILLAGE OF SALESVILLE

Commencing in 2002, the Village has entered into an agreement with the Village of Salesville to collect an additional \$4 per month from each Village of Salesville water customer on behalf of the Village of Salesville. The extra \$4 fee collected by the Village of Quaker City is remitted to the Village of Salesville on a semiannual basis. The Village of Salesville uses these funds to make payments on debt that was incurred to connect to the Village of Quaker City's water line. This procedure was implemented during 2002 and will continue for a total of twenty years. This activity is reflected in the accompanying financial statements within the enterprise fund type as other non-operating receipts and other non-operating disbursements.

9. CONTINGENT LIABILITIES/ SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

10. LEGAL COMPLIANCE

Pursuant to Section 117.11(A) of the Revised Code, we performed tests of compliance with provisions of local, state and/or federal laws, as applicable. The auditor's report on the Village's compliance with the Ohio Revised Code and internal control structure comments are included in this report under a separate part of this presentation.

VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
For the Year Ended December 31, 2003

| FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title | Federal CFDA Number | Pass-Through Entity Number | Disbursements |
|---|------------------------------------|---|--------------------------|
| <u>UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u> | | | |
| <i>Passed through the Ohio Department of Development</i> | | | |
| Community Development Block Grants | 14.228 | C-W-02-302-1 | <u>\$ 319,718</u> |
| Total Federal Awards Expenditures | | | <u><u>\$ 319,718</u></u> |



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

Village of Quaker City
Guernsey County
230 Main Street, Box 43
Quaker City, Ohio 43773

We have audited the financial statements of Village of Quaker City, Guernsey County (the "Village") as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated February 15, 2007, 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 Village of Quaker City, Guernsey County'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 an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider 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 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 2004-4124-001 through 2004-4124-006.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

We also noted other matters involving internal controls over financial reporting that we have reported to management in a separate letter dated February 15, 2007.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Quaker City, Guernsey County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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 and other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-4124-001 through 2004-4124-003.

We also noted other immaterial matters of noncompliance that we have reported to management of the Village in a separate letter dated February 15, 2007.

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

A handwritten signature in cursive script that reads "Jones, Cochenour & Co.".

Jones, Cochenour & Co.
February 15, 2007



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Village of Quaker City
Guernsey County
230 Main Street, Box 43
Quaker City, Ohio 43773

Compliance

We have audited the compliance of Village of Quaker City, Guernsey County (the "Village"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended December 31, 2003. The summary of auditors' results section of the accompanying schedule of findings identifies the Village's major federal program. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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, Village of Quaker City, Guernsey County, compiled in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

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

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We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Village of Quaker City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-4124-006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be 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 reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

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

A handwritten signature in black ink that reads "Jones, Cochenour & Co." with a stylized flourish at the end.

Jones, Cochenour & Co.
February 15, 2007

VILLAGE OF QUAKER CITY, GUERNSEY COUNTY

SCHEDULE OF FINDINGS

| |
|--|
| 1. SUMMARY OF AUDITORS' RESULTS |
|--|

| | | |
|---------------------|---|---|
| (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)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | Yes |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | Yes |
| (d)(1)(vii) | Major Programs (list): | 14.228 Community Development Block Grant |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$300,000 |
| (d)(1)(ix) | Low Risk Auditee? | No |

**2. VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED BE TO REPORTED IN ACCORDANCE WITH GAGAS**

| | |
|-----------------------|----------------------|
| Finding Number | 2004-4124-001 |
|-----------------------|----------------------|

1. NONCOMPLIANCE CITATION AND MATERIAL WEAKNESS

Ohio revised code § 5705.36 (A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. ORC § 5705.36 (A)(3) provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

During 2003, the Village had actual revenues in the Street Construction and Enterprise Debt Service Funds which exceeded budgeted revenues by \$2,683 and \$40,704, respectively. The Village did not get increased amended certificates, but did expend a significant portion of these excess revenues. There were no negative fund balances.

We recommend the Village monitor budgeted versus actual receipts more carefully. When the Village anticipates appropriating and/or expending additional revenue, an amended certificate of estimated resources should be obtained to comply with this statute.

AUDITEE RESPONSE:

The Village Clerk-Treasurer will strive to monitor this activity more closely and obtain amendments when necessary.

| | |
|-----------------------|----------------------|
| Finding Number | 2004-4124-002 |
|-----------------------|----------------------|

2. NONCOMPLIANCE CITATION AND MATERIAL WEAKNESS

Ohio revised code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

The following scheduled compare approved appropriations to actual expenditures for 2004 and 2003.

December 31, 2004:

| | <u>Approved Appropriations</u> | <u>Expenditures</u> | <u>Variance</u> |
|-----------------------------|------------------------------------|---------------------|---------------------|
| Enterprise Debt Service | \$ 31,127 | \$ 74,964 | \$ (43,837) |
| Enterprise Improvement Fund | - | 164,356 | (164,356) |
| TOTAL | <u>\$ 31,127</u> | <u>\$ 239,320</u> | <u>\$ (208,193)</u> |

December 31, 2003:

| | <u>Approved Appropriations</u> | <u>Expenditures</u> | <u>Variance</u> |
|-----------------------------|------------------------------------|---------------------|-----------------|
| Enterprise Improvement Fund | \$ - | \$ 139,655 | \$ (139,655) |

We recommend the Village Council and the Clerk-Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations. Once Council has adopted additional appropriations, the County Budget Commission (County Auditor) should certify that appropriations do not exceed estimated resources. The Clerk-Treasurer should not make any expenditure unless appropriations are available.

AUDITEE RESPONSE:

The Village Clerk-Treasurer will monitor this more closely and adopt additional appropriations when needed.

**2. VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED BE TO REPORTED IN ACCORDANCE WITH GAGAS**

| | |
|-----------------------|----------------------|
| Finding Number | 2004-4124-003 |
|-----------------------|----------------------|

3. NONCOMPLIANCE CITATION AND MATERIAL WEAKNESS

Ohio Rev. Code § 5705.41 (D)(1) states that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision (Village Clerk-Treasurer) that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriated fund free from any previous encumbrances. This certificate need be signed only by the fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides “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, both at the time the contract or order was made and at the time he is completing his certification, a sufficient sum was appropriated and free of any previous payment of the amount due upon such contract or order by resolution, the Village can authorize the drawing of a warrant for the amount due. The Village has 30 days from the receipt of such certificate, to approve payment by ordinance or resolution.

- B. **If the amount involved is less than one thousand dollars (which was increased to \$3,000 on April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the taxing authority, upon completion of the then and now certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village**

The Village includes certification language as part of its purchase order. However, the Clerk-Treasurer’s prior certification was not obtained for 15% of the expenditures tested in 2004 and 41% of the expenditures tested in 2003 and the aforementioned exceptions were not followed.

We recommend the Village personnel obtain proper certification from the Clerk-Treasurer prior to incurring any obligations on behalf of the Village.

AUDITEE RESPONSE:

The Clerk-Treasurer will monitor this more closely and strive to assure that all expenditures are certified.

| | |
|-----------------------|----------------------|
| Finding Number | 2004-4124-004 |
|-----------------------|----------------------|

4. REPORTABLE CONDITION AND MATERIAL WEAKNESS

During 2003, the Village Clerk-Treasurer did not properly post the budgeted receipts to the accounting system. Variances existed between the amounts on the certificates of estimated resources and the amounts posted to the accounting system as follows:

| | Budgeted Reciepts per the UAN system | Budgeted Reciepts per the Final Certificate of Estimated Resources | Variance |
|------------------------------------|--|---|-------------|
| General Fund | \$29,855 | \$45,159 | \$15,304 |
| Debt Service Fund | \$21,628 | \$21,118 | (\$510) |
| Capital Project | \$883,000 | \$0 | (\$883,000) |
| Enterprise Debt Service | \$30,000 | \$14,696 | (\$15,304) |
| Enterprise Improvement Fund | \$0 | \$883,000 | \$883,000 |

Because the information entered into the accounting system was inaccurate, the Village management was unable to effectively monitor budget versus actual activity during the year 2003. It was necessary to make audit adjustments to the 2003 budgetary activity as reported in the notes to the financial statements in order to present the certified amount of estimated receipts.

**2. VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED BE TO REPORTED IN ACCORDANCE WITH GAGAS**

| | |
|-----------------------|----------------------|
| Finding Number | 2004-4124-004 |
|-----------------------|----------------------|

4. REPORTABLE CONDITION AND MATERIAL WEAKNESS - Continued

We recommend the Clerk- Treasurer record estimated receipts directly from the certificate of estimated resources and any amendments thereto. This would ensure useful comparisons of estimated to actual receipts would be made throughout the year and help indicate when an increased or decreased amended certificate should be obtained.

AUDITEE RESPONSE:

The Village Clerk-Treasurer will monitor the estimated receipts versus the actual activity and make adjustments when necessary.

| | |
|-----------------------|----------------------|
| Finding Number | 2004-4124-005 |
|-----------------------|----------------------|

5. REPORTABLE CONDITION AND MATERIAL WEAKNESS

Testing of the Village expenditures revealed that neither the Village Council nor the Village Board of Public Affairs routinely signed vouchers approving disbursement transactions and some of the documentation/invoices were missing. The Clerk-Treasurer was solely responsible for preparing vouchers, purchase orders and checks for the disbursement of funds.

Without a routine review and approval of these Village documents by Village Council and/or the Board of Public Affairs, errors or irregularities could occur and remain undetected by management.

We recommend the Village Council and the Board of Public Affairs review and approve (sign) all voucher packets, which include original invoices, purchase orders and duplicate check documentation. Village Council and the Board of Public Affairs may consider setting a maximum amount for which purchase orders can be issued without the prior approval of Council and/or the Board.

AUDITEE RESPONSE:

The Village Clerk-Treasurer will monitor this more closely and make sure all transactions have adequate documentation.

| | |
|-----------------------|----------------------|
| Finding Number | 2004-4124-006 |
|-----------------------|----------------------|

6. REPORTABLE CONDITION AND MATERIAL WEAKNESS

Testing of the Village’s receipts and expenditures of a major water project for the Village was difficult to test due to various funding sources being utilized and the manner in which the reimbursements were being requested by the Village. Initially our testing of receipts and expenditures revealed that there was a discrepancy between the amount of funds received and the funds expended for the water project. The major funding sources were contacted and it was communicated to us that the project files were closed and that the funding sources were satisfied with the project costs and documentation provided to their agency.

We recommend in the future that the Village create a better tracking mechanism for the receipts and expenditures of the projects. We recommend a project file that maintains copies of the invoices for each reimbursement and copies of the requests for funds. These should be filed in a logical manner for future testing of the receipts and expenditures of any projects the Village encounters.

AUDITEE RESPONSE:

The Village Clerk and Board will work more closely with the project managers on any future projects for the Village. Project files will be maintained to collect all documentation related to any future projects.

**3. VILLAGE OF QUAKER CITY, GUERNSEY COUNTY
FINDINGS RELATED TO FEDERAL PROGRAM**

Yes- same as Finding Number 2004-4124-006.

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

SCHEDULE OF PRIOR AUDIT FINDINGS

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid ; Explain: |
|----------------------------|--|-------------------------|---|
| 2002-001 | Ohio Rev. Code §731.14 | Yes | Corrected –no issue located for 2003, 2004. |
| 2002-002 | Ohio Rev. Code §5705.10 –Revenue from specific source | Yes | Corrected |
| 2002-003 | Ohio Rev. Code §5705.36, Budgeted vs. Actual receipts | No | Not Corrected – Reissued as finding 2004-4124-001. |
| 2000-31030-001 2002-004 | Ohio Rev. Code §5705.41(B) | No | Not Corrected – Reissued as finding 2004-4124-002 |
| 2002-005 | Ohio Rev. Code §5705.40 | Yes | Corrected |
| 2000-31030-002 2002-006 | Ohio Rev. Code §5705.41(D) | No | Not Corrected – Reissued as finding 2004-4124-003 |
| 2002-007 | Interest earning issue | Yes | No problems noted for 2003, and 2004 |
| 2002-008 | Interest paid | Yes | No problems noted for 2003, and 2004 |
| 2002-009 | Budgetary receipts to UAN | No | Not Corrected – Reissued as finding 2004-4124-004 |
| 2002-010 | Village Expenditures | No | Not Corrected – Reissued as finding 2004-4124-005 |

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

CORRECTIVE ACTION PLAN

In regards to the finding 2004-4124-006, the Village has read the auditors' recommendation and will maintain a separate project file for sufficient documentation and better filing of the receipts and expenditures for future Village projects. The Village Council and the Clerk-Treasurer will allot specific time at the Council meetings to discuss any ongoing projects. They will also meet with the project manager on a more consistent basis to understand the status of the projects and to ensure proper documentation of the activity.



Mary Taylor, CPA
Auditor of State

VILLAGE OF QUAKER CITY

GUERNSEY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 21, 2007