



**Auditor of State
Betty Montgomery**

VILLAGE OF ORWELL
ASHTABULA COUNTY

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**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Orwell
Ashtabula County
179 West Main Street
Orwell, Ohio 44076

To the Village Council:

We have audited the accompanying financial statements of the Village of Orwell (the Village) as of and for the year ended December 31, 2003. 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.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 as of December 31, 2003, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004 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 an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the financial statements of the Village, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information 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 solely for the information and use of the audit committee, management, Village Council, federal awarding agencies and pass through entities, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 8, 2004

VILLAGE OF ORWELL
ASHTABULA COUNTY

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

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$70,660	\$87,593	\$4,401		\$162,654
Special Assessments				3,078	3,078
Intergovernmental Receipts	33,262	95,017			128,279
Charges for Services	46,494				46,494
Fines, Licenses, and Permits	3,832	445			4,277
Earnings on Investments	4,617	182			4,799
Miscellaneous	23,461	11,892		1,095	36,448
Total Cash Receipts	<u>182,326</u>	<u>195,129</u>	<u>4,401</u>	<u>4,173</u>	<u>386,029</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	346,332	88,256			434,588
Public Health Services	7,314				7,314
Leisure Time Activities	14,770				14,770
Community Environment	1,794				1,794
Basic Utility Services				90	90
Transportation	189	114,885			115,074
General Government	574,060		90,819		664,879
Capital Outlay		195,346		961,188	1,156,534
Total Cash Disbursements	<u>944,459</u>	<u>398,487</u>	<u>90,819</u>	<u>961,278</u>	<u>2,395,043</u>
Total Receipts Over/(Under) Disbursements	<u>(762,133)</u>	<u>(203,358)</u>	<u>(86,418)</u>	<u>(957,105)</u>	<u>(2,009,014)</u>
Other Financing Receipts and (Disbursements):					
Sale of Bonds or Notes	140,000			1,760,000	1,900,000
Transfers-In	675,749	38,614	21,600	57,921	793,884
Other Sources				3,633	3,633
Total Other Financing Receipts/(Disbursements)	<u>815,749</u>	<u>38,614</u>	<u>21,600</u>	<u>1,821,554</u>	<u>2,697,517</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	53,616	(164,744)	(64,818)	864,449	688,503
Fund Cash Balances, January 1	122,126	68,312	209,776	47,856	448,070
Fund Cash Balances, December 31	<u><u>\$175,742</u></u>	<u><u>(\$96,432)</u></u>	<u><u>\$144,958</u></u>	<u><u>\$912,305</u></u>	<u><u>\$1,136,573</u></u>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$567,891</u>	<u>\$0</u>	<u>\$24,537</u>	<u>\$592,428</u>

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$669,237		\$669,237
Miscellaneous	27,805		27,805
Total Operating Cash Receipts	697,042		697,042
Operating Cash Disbursements:			
Personal Services	213,818		213,818
Fringe Benefits	46		46
Contractual Services	144,628	15,505	160,133
Supplies and Materials	47,953		47,953
Total Operating Cash Disbursements	406,445	15,505	421,950
Operating Income/(Loss)	290,597	(15,505)	275,092
Non-Operating Cash Receipts:			
Property Tax and Other Local Taxes		787,689	787,689
Other Non-Operating Receipts	40,859		40,859
Total Non-Operating Cash Receipts	40,859	787,689	828,548
Non-Operating Cash Disbursements:			
Debt Service	191,710		191,710
Total Non-Operating Cash Disbursements	191,710		191,710
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	139,746	772,184	911,930
Transfers-In	30,000		30,000
Transfers-Out	(51,600)	(772,285)	(823,885)
Net Receipts Over/(Under) Disbursements	118,146	(101)	118,045
Fund Cash Balances, January 1	225,908		225,908
Fund Cash Balances, December 31	\$344,054	(\$101)	\$343,953

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

VILLAGE OF ORWELL
ASHTABULA COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

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 and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Repurchase agreements are valued at cost.

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 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.

VILLAGE OF ORWELL
ASHTABULA COUNTY

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

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

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

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

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

3. **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 fund:

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

4. **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:

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

5. **Enterprise Funds**

These funds account for operations that are similar to private business enterprises where management intends that the 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.

6. **Agency Funds**

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary fund:

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

VILLAGE OF ORWELL
ASHTABULA COUNTY

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. 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.

2. 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.

3. 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.

A summary of 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 statements.

G. 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.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

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:

	2003
Demand deposits	\$460,430
Investments:	
Repurchase agreement	1,020,096
Total deposits and investments	\$1,480,526

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

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

3. BUDGETARY ACTIVITY

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

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,063,206	\$944,459	\$118,747
Special Revenue	244,772	966,378	(721,606)
Debt Service	21,600	90,819	(69,219)
Capital Projects	413,150	985,815	(572,665)
Enterprise	818,934	649,755	169,179
Fiduciary	800,000	787,790	12,210
Total	\$3,361,662	\$4,425,016	(\$1,063,354)

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,810,012	\$998,075	(\$811,937)
Special Revenue	112,792	233,743	120,951
Debt Service	154,037	26,001	(128,036)
Capital Projects	(4,471)	1,825,727	1,830,198
Enterprise	201,310	767,901	566,591
Fiduciary	800,000	787,689	(12,311)
Total	\$3,073,680	\$4,639,136	\$1,565,456

Ohio Revised Code § 5705.41 (B) prohibits expenditures to be made unless they have been properly appropriated. The Village had four funds that expenditures exceed appropriations.

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Ohio Revised Code § 5705.41 (D) requires expenditures are only to be made if the Clerk/Treasurer certifies the availability of funds prior to the obligation being made. Various expenditures were made without this certification being made prior to the purchase commitment being made.

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 payments, the first half is due December 31. The second half payment is due the following June 20.

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. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$724,553	6.32-10.54%
Waterworks GO Bonds	350,000	6.00%
Capital Lease Fire Truck	65,504	6.05%
Capital Lease Fire Truck	2,755	6.50%
Capital Lease Police Cruiser	5,660	6.50%
Capital Lease Computer Equipment	16,005	0.00%
Capital Lease Police Cruiser	14,892	5.20%
Total	<u>\$1,179,369</u>	

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$1,282,809 in loans to the Village for this project. The loans will be repaid in semiannual installments including interest, over 20 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

6. Debt (Continue)

The General Obligation Bonds were issued in 1998 for the purpose of improving the waterworks system of the Village. The General Obligation Bonds are collateralized by the Village water receipts and collections from Kennametal Corporation.

The Village entered into capital leases to purchase Village vehicles in 1997, 2001 and 2003 and computer equipment. The leases are backed by the Village's taxing authority.

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

Year ending December 31:	OWDA Loans	General Obligation Bonds	Capital Lease Fire Trucks	Capital Lease Police Cruisers	Capital Lease Computer Equipment
2004	\$114,389	\$77,531	\$27,337	\$12,660	\$9,603
2005	95,060	74,354	24,537	7,000	6,402
2006	95,060	81,156	24,537	5,250	
2007	95,060	77,437			
2008	95,060	73,709			
Subsequent	1,004,722				
Total	<u>\$1,499,351</u>	<u>\$384,187</u>	<u>\$76,411</u>	<u>\$24,910</u>	<u>\$16,005</u>

7. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003, OP&F participants contributed 3.5 of their wages and the Village had a "pickup" of 6.5% of the participant wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2003. The Village has paid all contributions required through December 31, 2003.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

9. LEGAL COMPLIANCE

Pursuant to Section 117.11(A) of the Revised Code, the Auditor of State performed tests of compliance with various provisions of local, state, and/or federal laws, as appropriate. The following non-compliance issues were noted:

1. Ohio Revised Code § 135.14 states that the Clerk/Treasurer upon authorization of the governing board may invest part or all of the interim monies in an eligible investment. Monies were invested without the authorization of Council or approval of the Clerk/Treasurer.
2. Ohio Revised Code § 135.14 (O) states that no Clerk/Treasurer or Village Council is permitted to make an investment unless there is on file with the Auditor of State an Investment Policy that permits such investment. The Village made a specific type of investment not covered by their policy without modifying their Investment Policy or filing it with the Auditor of State.

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VILLAGE OF ORWELL
ASHTABULA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Direct Program:</i>				
Water and Waste Disposal for Rural Communities	NA	10.760	\$1,760,000	\$891,469
Total Expenditures of Federal Awards			\$1,760,000	\$891,469

The accompanying notes to this schedule is an integral part of this schedule.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B -- MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Orwell
Ashtabula County
179 West Main Street
Orwell, Ohio 44076

To the Village Council:

We have audited the accompanying financial statements of the Village of Orwell (the Village), Ashtabula County, as of and for the year ended December 31, 2003, and have issued our report thereon dated October 8, 2004. 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* which are described in the accompanying schedule of findings as items 2003-001 through 2002-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 8, 2004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated October 8, 2004.

Village of Orwell
Ashtabula County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 8, 2004



Auditor of State Betty Montgomery

REPORT OF INDEPENDENT ACCOUNTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO IT'S MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Village of Orwell
Ashtabula County
179 West Main Street
Orwell, Ohio 44076

To the Village Council:

Compliance

We have audited the compliance of Village of Orwell, (the Village), Ashtabula County, 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 program for the year ended December 31, 2003. The Village of Orwell's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Village of Orwell's management. Our responsibility is to express an opinion on Village of Orwell'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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about Village of Orwell'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 Village of Orwell's compliance with those requirements.

In our opinion, Village of Orwell 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, 2003.

Internal Control Over Compliance

The management of the Village of Orwell 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 of Orwell'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 8, 2004

VILLAGE OF ORWELL
ASHTABULA COUNTY

DECEMBER 31, 2003

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505

1. SUMMARY OF AUDITOR'S RESULTS

(d)(i)	Type of Financial Statement opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(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 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?	No
(d)(1)(vii)	Major Programs (list):	Water and Waste Disposal for Rural Communities – CFDA 10.760
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

Noncompliance Citations

FINDING NUMBER 2003-001

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

Expenditures exceeded appropriations in the following funds as of December 31, 2003:

Fund	Total Carryover Encumbrances & Appropriations	Total Budgetary Expenditures & Encumbrances	Unfavorable Variance
Issue II	\$0	\$763,237	(\$763,237)
Sewer Bond Fund	\$21,600	\$90,819	(69,219)
USDA Federal Grant Fund	\$210,000	\$891,469	(\$681,469)
Wellfield Improvement Fund	\$0	\$79,349	(\$79,349)

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003
(Continued)**

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

FINDING NUMBER 2003-002

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

At December 31, 2003, the fund balances in the Wellfield Improvement Fund were (\$268,027) and the State Issue II fund was (\$1,050,000), indicating a violation of this section of code.

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

FINDING NUMBER 2003-003

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

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, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village 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, if such expenditure is otherwise valid.

B. If the amount involved is less than one thousand dollars the fiscal officer may issue a warrant upon completing a then and now certificate, but may authorize it to be paid without affirmation of the Village Council. (Effective April 7, 2003 the threshold was raised to \$3,000).

Proper certification was not obtained in 75% of the expenditures tested.

Unless the certification meets one of the two above exceptions, the Clerk/Treasurer should certify funds before Village monies are obligated using a regular, blanket or super blanket certificate (as further permitted by ORC 5705.41(D)). This certificate should be signed by the Clerk/Treasurer.

FINDING NUMBER 2003-004

Ohio Revised Code § 135.14: states that a Clerk/Treasurer with the authorization of the governing board may invest any part or all interim moneys in any eligible investment. This section also requires the Clerk/Treasurer to determine the period and type of investment and is responsible for the safekeeping of all documents evidencing the acquired investment.

In 2003 the Village's Finance Committee invested \$1,760,000 in Federal National Mortgage Discount Notes without the approval of the Village's Clerk/Treasurer or the authorization (resolution) of the Village's Council, which is in violation of the above statute.

We recommend that no investment be instituted without proper approval of Council and by the Clerk/Treasurer. A Council approved Resolution should be enacted when any investment is to be made that requires moving of monies from the normal type of investment transactions that the Village uses on a daily basis, and noted in the Minutes. Signed copies of investment documents between the authorized Village officials, especially the Clerk/Treasurer, and the banking institute should be on file providing documentation of approval. Any securities purchased are to be issued to a designated payee or to the order of a designated payee, and that designate of the Village is the Clerk/Treasurer.

FINDING NUMBER 2003-005

Ohio Revised Code § 135.14(O) states no Clerk/Treasurer or Village Council is permitted to make an investment or deposit under this section, unless there is on file with the Auditor of State a written Investment Policy approved by the Treasurer or Governing Board. The Policy shall require that all entities conducting investment business with the Treasurer or Governing Board shall sign the Investment Policy of the Village. All brokers, dealers, and financial institutions executing transactions initiated by the Clerk/Treasurer or Village Council, having read the Policy's contents, shall sign the Investment Policy, thereby acknowledging their comprehension and receipt.

The Village invested \$1,760,000 in Federal National Mortgage Discount Notes without updating their approved Investment Policy with the Auditor of State contrary to the above statute.

3. FINDINGS FOR FEDERAL AWARDS

None

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Ohio Revised Code Section 5705.41 (B)	NO	Partially Corrected - Reported as 2003-01
2002-002	Ohio Revised Code Section 5705.10	NO	Partially Corrected - Reported as 2003-02
2002-003	Ohio Revised Code Section 5705.41 (D)	NO	Partially Corrected - Reported as 2003-03



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VILLAGE OF ORWELL

ASHTABULA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2004**