



**Auditor of State
Betty Montgomery**

VILLAGE OF ORWELL
ASHTABULA COUNTY

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**Auditor of State
Betty Montgomery**

Village of Orwell
Ashtabula County
179 West Main Street
PO Box 56
Orwell, Ohio 44084

To the Members of Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

October 13, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Orwell
Ashtabula County
179 West Main Street
PO Box 56
Orwell, Ohio 44084

To the Members of Council:

We have audited the accompanying financial statements of the Village of Orwell, Ashtabula County, (the Village) as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, 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 this 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 of its proprietary funds for the year then ended.

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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 Village of Orwell, Ashtabula County, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the 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 October 13, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the Village's financial statements. The Schedule of Federal Awards Expenditures presents additional information and is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. It is not a required part of the financial statements. We subjected this schedule to the auditing procedures applied in our audit of the Village's financial statements. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Betty Montgomery
Auditor of State

October 13, 2005

**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, 2004**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$93,072	\$118,792	\$4,428		\$216,292
Special Assessments				\$3,158	3,158
Intergovernmental Receipts	30,162	278,144		598,984	907,290
Charges for Services	52,653				52,653
Fines, Licenses, and Permits	3,407	920			4,327
Earnings on Investments	5,848	244		300	6,392
Miscellaneous	27,462	5,250			32,712
	<u>212,604</u>	<u>403,350</u>	<u>4,428</u>	<u>602,442</u>	<u>1,222,824</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	351,614	79,909			431,523
Public Health Services	12,437				12,437
Leisure Time Activities	6,896				6,896
Community Environment	1,641				1,641
Basic Utility Services				156	156
Transportation		113,386			113,386
General Government	645,066		64		645,130
Debt Service:					
Principal Payments				1,760,000	1,760,000
Interest Payments				40,183	40,183
Capital Outlay		31,401	131,105	1,687,216	1,849,722
	<u>1,017,654</u>	<u>224,696</u>	<u>131,169</u>	<u>3,487,555</u>	<u>4,861,074</u>
Total Cash Disbursements	<u>1,017,654</u>	<u>224,696</u>	<u>131,169</u>	<u>3,487,555</u>	<u>4,861,074</u>
Total Receipts Over/(Under) Disbursements	<u>(805,050)</u>	<u>178,654</u>	<u>(126,741)</u>	<u>(2,885,113)</u>	<u>(3,638,250)</u>
Other Financing Receipts and (Disbursements):					
Sale of Bonds or Notes				1,760,000	1,760,000
Sale of Fixed Assets	96,365				96,365
Transfers-In	554,990	70,176	21,600	324,547	971,313
Transfers-Out	(18,000)				(18,000)
Other Sources				864	864
	<u>633,355</u>	<u>70,176</u>	<u>21,600</u>	<u>2,085,411</u>	<u>2,810,542</u>
Total Other Financing Receipts/(Disbursements)	<u>633,355</u>	<u>70,176</u>	<u>21,600</u>	<u>2,085,411</u>	<u>2,810,542</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(171,695)	248,830	(105,141)	(799,702)	(827,708)
Fund Cash Balances, January 1	175,742	(96,432)	144,958	912,305	1,136,573
Fund Cash Balances, December 31	<u>\$4,047</u>	<u>\$152,398</u>	<u>\$39,817</u>	<u>\$112,603</u>	<u>\$308,865</u>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$2,763</u>	<u>\$0</u>	<u>\$23,000</u>	<u>\$25,763</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, 2004**

	<u>Proprietary Fund Types</u>	<u>Fidiciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$753,725	\$0	\$753,725
Miscellaneous	6,262		6,262
Total Operating Cash Receipts	<u>759,987</u>	<u>0</u>	<u>759,987</u>
Operating Cash Disbursements:			
Personal Services	238,336		238,336
Fringe Benefits	50		50
Contractual Services	148,676	40,906	189,582
Supplies and Materials	50,391		50,391
Total Operating Cash Disbursements	<u>437,453</u>	<u>40,906</u>	<u>478,359</u>
Operating Income/(Loss)	<u>322,534</u>	<u>(40,906)</u>	<u>281,628</u>
Non-Operating Cash Receipts:			
Property Tax and Other Local Taxes		972,619	972,619
Other Non-Operating Receipts	40,859		40,859
Total Non-Operating Cash Receipts	<u>40,859</u>	<u>972,619</u>	<u>1,013,478</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	125,374		125,374
Interest	62,603		62,603
Total Non-Operating Cash Disbursements	<u>187,977</u>	<u>0</u>	<u>187,977</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	175,416	931,713	1,107,129
Transfers-In	30,000		30,000
Transfers-Out	(51,600)	(931,713)	(983,313)
Net Receipts Over/(Under) Disbursements	153,816	0	153,816
Fund Cash Balances, January 1	<u>344,054</u>	<u>(101)</u>	<u>343,953</u>
Fund Cash Balances, December 31	<u>\$497,870</u>	<u>(\$101)</u>	<u>\$497,769</u>

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, 2004**

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

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 Funds

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, 2004
(Continued)

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

2. **Special Revenue Funds (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 of 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 funds:

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

Issue II Fund – This fund receives proceeds from a State grant to be used for sewer plant expansion.

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

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, 2004
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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. The Village did not encumber all commitments required by Ohio law.

A summary of 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2004
Demand deposits	<u>\$344,634</u>
Investments - Repurchase agreement	<u>462,000</u>
Total deposits and investments	<u><u>\$806,634</u></u>

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS- (Continued)

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

Investments: The Villages financial institution transfer's securities to the Village's agent to collateralizing repurchase agreements. The securities are not in the Village's name.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2004 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,058,076	\$863,959	(\$194,117)
Special Revenue	408,478	473,526	65,048
Debt Service	26,100	26,028	(72)
Capital Projects	915,848	2,687,853	1,772,005
Enterprise	875,858	830,846	(45,012)
Fiduciary	800,000	972,619	172,619
Total	\$4,084,360	\$5,854,831	\$1,770,471

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,830,638	\$1,035,654	\$1,794,984
Special Revenue	290,310	227,459	62,851
Debt Service	171,057	131,169	39,888
Capital Projects	1,937,173	3,510,555	(1,573,382)
Enterprise	1,219,912	677,030	542,882
Fiduciary	800,000	972,619	(172,619)
Total	\$7,249,090	\$6,554,486	\$694,604

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

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

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, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
G.O Anticipation Note	\$1,760,000	4.50%
Ohio Water Development Authority Loan	659,179	6.32-10.54%
Waterworks GO Bonds	290,000	6.00%
Capital Lease Fire Truck	44,943	6.07%
Capital Lease Computer Equipment	6,402	0.00%
Capital Lease Police Cruiser	10,040	5.20%
Total	<u>\$2,770,564</u>	

The Ohio Water Development Authority (OWDA) loan and General Obligation Anticipation Notes relate 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. The G.O. Anticipation Note is collateralized by the Village's taxing authority.

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 user fees from Kennametal Corporation.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

6. DEBT – (Continued)

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

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loans	General Obligation Bonds	Capital Lease Fire Truck	General Obligation Anticipation Notes	Capital Lease Computer Equipment	Capital Lease Police Cruiser
2005	\$95,060	\$74,354	\$24,537	\$1,835,511	\$6,402	\$6,881
2006	95,060	81,156	24,537			5,161
2007	95,060	77,437				
2008	95,060	73,709				
2009	95,060					
Subsequent	909,662					
Total	<u>\$1,384,962</u>	<u>\$306,656</u>	<u>\$49,074</u>	<u>\$1,835,511</u>	<u>\$6,402</u>	<u>\$12,042</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 2004, 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 2004. The Village has paid all contributions required through December 31, 2004.

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

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

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	\$598,984	\$1,529,969
Total Expenditures of Federal Awards			\$598,984	\$1,529,969

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, 2004**

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**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Orwell
Ashtabula County
179 West Main Street
PO Box 56
Orwell, Ohio 44084

To the Members of Council:

We have audited the financial statements of the Village of Orwell, Ashtabula County, (the Village) as of and for the year ended December 31, 2004, and have issued our report thereon dated October 13, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated October 13, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 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 2004-001 through 2004-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 13, 2005.

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We intend this report solely for the information and use of the management, Members of Council, and federal awarding agencies and pass-through entities. It is not intended for 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 13, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO IT'S MAJOR FEDERAL PROGRAM AND ON 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, 2004. 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, 2004.

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 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 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 timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Village's management in a separate letter dated October 13, 2005.

This report is intended for the information and use of 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 13, 2005

VILLAGE OF ORWELL
ASHTABULA COUNTY

DECEMBER 31, 2004

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

VILLAGE OF ORWELL
ASHTABULA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004

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

NONCOMPLIANCE CITATIONS

FINDING NUMBER 2004-001

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, 2004:

Fund	Total Carryover Encumbrances & Appropriations	Total Budgetary Expenditures & Encumbrances	Unfavorable Variance
Income Tax Fund	\$800,000	\$972,619	(\$172,619)
USDA Federal Grant Fund	\$1,583,195	\$3,312,968	(\$1,729,773)
Wellfield Improvement Fund	\$0	\$76,240	(\$76,240)

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

FINDING NUMBER 2004-002

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, 2004, the fund balances in the Wellfield Improvement Fund and the Income Tax Fund were (\$303,408) and (\$101), respectively, indicating the Village used monies from other funds to pay the obligations of these funds, which is a violation of this Section.

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

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

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**NONCOMPLIANCE CITATIONS
(Continued)**

FINDING NUMBER 2004-003

1. Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made “then” at the time that he is completing his certification “now”, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not always encumber funds at the time of the commitment. We noted 43% of the expenditures tested were not properly encumbered. Incurring obligations prior to the fiscal officer’s certification could result in the Village spending more than appropriated.

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

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

3. FINDINGS FOR FEDERAL AWARDS

None

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Ohio Revised Code Section 5705.41 (B)	No	Partially Corrected - Reported as Finding 2004-01
2003-002	Ohio Revised Code Section 5705.10	No	Partially Corrected - Reported as Finding 2004-02
2003-003	Ohio Revised Code Section 5705.41 (D)	No	Partially Corrected - Reported as Finding 2004-03
2003-004	Ohio Revised Code Section 135.14	Yes	
2003-005	Ohio Revised Code Section 135.14(O)	Yes	



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 10, 2005**