



Mary Taylor, CPA
Auditor of State

VILLAGE OF LOWELLVILLE
MAHONING COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Lowellville
Mahoning County
P.O. Box 124
Lowellville, Ohio 44436

To the Village 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 an 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 adverse 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.

Mary Taylor

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Auditor of State

February 27, 2009

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lowellville
Mahoning County
P.O. Box 124
Lowellville, Ohio 44436

To the Village Council:

We have audited the accompanying financial statements of the Village of Lowellville, Mahoning County, (the Village) as of and for the years ended December 31, 2007 and 2006. 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.

Except as discussed in paragraph 6, 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code §117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. 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 years ended December 31, 2007 and 2006 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, 2007 and 2006, or its changes in financial position or cash flows, where applicable, for the years then ended.

Sewer billings are processed by a service organization independent of the Village. The Village was not able to provide us with information we requested regarding the design or proper operation of the service organization's internal controls or with certain information regarding charges for services. We were therefore unable to satisfy ourselves as to the proper processing of sewer billings' revenues. Those revenues represent 96% of the operating receipts reported with the enterprise fund types.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to examine certain information regarding sewer billings' receipts reported with the enterprise fund types as described in paragraph three above, 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 Lowellville, Mahoning County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 27, 2009, 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.



Mary Taylor, CPA
Auditor of State

February 27, 2009

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL
FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types				Total (Memorandum Only)
	General Fund	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$107,614	\$22,007	\$4,194		\$133,815
Municipal Income Tax	273,625				273,625
Intergovernmental	40,434	66,477		\$2,050	108,961
Special Assessments				8,777	8,777
Charges for Services	59,800				59,800
Fines, Licenses and Permits	21,742	2,815			24,557
Earnings on Investments	5,700	564			6,264
Miscellaneous	2,600				2,600
Total Cash Receipts	511,515	91,863	4,194	10,827	618,399
Cash Disbursements:					
Current:					
Security of Persons & Property	372,477				372,477
Public Health Services	4,779				4,779
Community Environment	3,817				3,817
Transportation	55,052	92,598			147,650
General Government	169,007	154	86		169,247
Debt Service:					
Principal Payment	10,775		8,781	7,418	26,974
Interest and Fiscal Charges	3,013		780	1,359	5,152
Total Cash Disbursements	618,920	92,752	9,647	8,777	730,096
Total Receipts Over / (Under) Disbursements	(107,405)	(889)	(5,453)	2,050	(111,697)
Other Financing Receipts/(Disbursements):					
Sale of Notes	95,202				95,202
Transfers-In		1,000			1,000
Transfers-Out	(1,000)				(1,000)
Other Financing Uses	(1,474)				(1,474)
Total Other Financing Receipts / Disbursements	92,728	1,000			93,728
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	(14,677)	111	(5,453)	2,050	(17,969)
Fund Cash Balance, January 1, 2007	107,957	20,649	7,662	1,277	137,545
Fund Cash Balance, December 31, 2007	\$93,280	\$20,760	\$2,209	\$3,327	\$119,576

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

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY
FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2007**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$161,599		\$161,599
Fines, Licenses and Permits		\$7,405	7,405
Miscellaneous			
Total Operating Cash Receipts	161,599	7,405	169,004
Operating Cash Disbursements:			
Current:			
Personal Services	56,918		56,918
Employee Fringe Benefits	34,217		34,217
Contractual Services	109,110		109,110
Supplies and Materials	22,505		22,505
Other	99	7,780	7,879
Total Operating Cash Disbursements	222,849	7,780	230,629
Operating Income/(Loss)	(61,250)	(375)	(61,625)
Non-Operating Receipts/Disbursements			
Earnings on Investments	15,927		15,927
Miscellaneous Receipts	127,942		127,942
Capital Outlay	(18,047)		(18,047)
Other Financing Uses	(338)		(338)
Total Non-Operating Receipts/Disbursements	125,484		125,484
Income/(Loss) Before Interfund Transfers	64,234	(375)	63,859
Interfund Transfers			
Transfers-In	9,270		9,270
Transfers-Out	(9,270)		(9,270)
Fund Cash Balance, January 1, 2007	347,344	487	347,831
Fund Cash Balance, December 31, 2007	\$411,578	\$112	\$411,690

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

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Local Taxes	\$108,064	\$9,389	\$4,543		\$121,996
Municipal Income Tax	286,801				286,801
Intergovernmental	37,197	86,778		\$3,522	127,497
Charges for Services	42,695				42,695
Fines, Licenses and Permits	33,961	1,881			35,842
Earnings on Investments	3,599	356			3,955
Miscellaneous	1,240	1,607			2,847
Total Cash Receipts	513,557	100,011	4,543	3,522	621,633
Cash Disbursements:					
Current:					
Security of Persons & Property	259,351				259,351
Public Health Services	5,337				5,337
Community Environment	4,205				4,205
Transportation	43,093	87,469			130,562
General Government	171,679	20	67		171,766
Capital Outlay		1,535		3,305	4,840
Debt Service:					
Principal Payment	16,297		4,485		20,782
Interest and Fiscal Charges	1,721		274		1,995
Total Cash Disbursements	501,683	89,024	4,826	3,305	598,838
Total Receipts Over / (Under) Disbursements	11,874	10,987	(283)	217	22,795
Other Financing Receipts/(Disbursements):					
Sale of Notes	19,007				19,007
Transfers-Out	(250)				(250)
Advances-In		710			710
Advances-Out		(710)			(710)
Total Other Financing Receipts / (Disbursements)	18,757				18,757
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	30,631	10,987	(283)	217	41,552
Fund Cash Balance, January 1, 2006	77,326	9,662	7,945	1,060	95,993
Fund Cash Balance, December 31, 2006	\$107,957	\$20,649	\$7,662	\$1,277	\$137,545

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

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY
FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2006**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$469,220		\$469,220
Fines, Licenses and Permits		\$18,035	18,035
Total Operating Cash Receipts	469,220	18,035	487,255
Operating Cash Disbursements:			
Current:			
Personal Services	65,934		65,934
Employee Fringe Benefits	36,163		36,163
Contractual Services	125,797		125,797
Supplies and Materials	23,649		23,649
Other		19,128	19,128
Total Operating Cash Disbursements	251,543	19,128	270,671
Operating Income/(Loss)	217,677	(1,093)	216,584
Non-Operating Receipts/Disbursements			
Earnings on Investments	4,022		4,022
Other Financing Sources	0		0
Miscellaneous Receipts	425,555		425,555
Capital Outlay	(3,116)		(3,116)
Redemption of Principal	(307,272)		(307,272)
Interest and Other Fiscal Charges	(12,379)		(12,379)
Total Non-Operating Receipts/Disbursements	106,810		106,810
Net Receipts Over/(Under) Disbursements	324,487	(1,093)	323,394
Fund Cash Balance, January 1, 2006	22,857	1,580	24,437
Fund Cash Balance, December 31, 2006	\$347,344	\$487	\$347,831

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

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Lowellville, Mahoning County, (the Village) as a body corporate and politic. A publicly elected six-member Council governs the Village. The Village provides sewer utilities and general governmental services including road maintenance, park operations, and police services. 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. Accounting Basis

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Permissive Motor Vehicle - This fund receives motor vehicle tax money for constructing, maintaining and repairing Village streets.

Senior Citizen Transportation - This fund receives intergovernmental grant money to transport the Village's elderly.

3. Debt Service Fund

This fund is used to accumulate resources for the payment of note indebtedness. The Village had the following debt service fund:

Note Retirement - This fund receives property tax money for the payment of various debt instruments.

4. Capital Project Fund

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Recycling Grant Fund - This fund receives grant monies for the promotion of recycling in the community.

5. Enterprise Funds

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

Sewer Operating Fund - This fund receives charges for services from residents to cover sewer service costs.

Sanitary Sewer Bond Fund - This fund receives charges for services from users of the sewer utility for the payment of various debt instruments.

6. Fiduciary Funds

Fiduciary funds include agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund is the Mayor's Court Fund which collects fines and court costs on behalf of the State of Ohio, the Village and other local jurisdictions.

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(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 Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2007 and 2006 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 deposit and investment pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

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

	2007	2006
Demand deposits	\$206,892	(\$6,410)
Public Funds MMA	324,374	308,448
Total deposits	531,266	302,038
Repurchase Agreement	0	183,338
Total investments	0	183,338
Total deposits and investments	\$531,266	\$485,376

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or 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 2007 and 2006 follow:

2007 Budgeted vs. Actual Receipts				
Fund Type		Budgeted	Actual	Variance
		Receipts	Receipts	
General		\$548,630	\$606,717	\$58,087
Special Revenue		105,365	92,863	(12,502)
Debt Service		4,424	4,194	(230)
Capital Projects		10,827	10,827	
Enterprise		497,319	314,738	(182,581)
Total		\$1,166,565	\$1,029,339	(\$137,226)

2007 Budgeted vs. Actual Budgetary Basis Expenditures				
Fund Type		Appropriation	Budgetary	Variance
		Authority	Expenditures	
General		\$623,232	\$621,394	\$1,838
Special Revenue		120,548	92,752	27,796
Debt Service		12,086	9,647	2,439
Capital Projects		10,052	8,777	1,275
Enterprise		843,126	250,504	592,622
Total		\$1,609,044	\$983,074	\$625,970

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. BUDGETARY ACTIVITY - (Continued)

2006 Budgeted vs. Actual Receipts				
Fund Type		Budgeted Receipts	Actual Receipts	Variance
General		\$537,947	\$532,564	(\$5,383)
Special Revenue		105,521	100,011	(5,510)
Debt Service		5,153	4,543	(610)
Capital Projects		40,499	3,522	(36,977)
Enterprise		1,196,880	898,797	(298,083)
Total		<u>\$1,886,000</u>	<u>\$1,539,437</u>	<u>(\$346,563)</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures				
Fund Type		Appropriation Authority	Budgetary Expenditures	Variance
General		\$549,986	\$501,933	\$48,053
Special Revenue		105,147	89,024	16,123
Debt Service		5,023	4,826	197
Capital Projects		18,532	3,305	15,227
Enterprise		582,143	574,310	7,833
Total		<u>\$1,260,830</u>	<u>\$1,173,398</u>	<u>\$87,432</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. DEBT

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority (OWDA) Loan	\$60,550	2.00%
Police Cruiser Note	12,952	5.25%
Fire Equipment Note	86,565	5.00%
	\$160,067	

The Ohio Water Development Authority (OWDA) Loan relates to sewer plant improvements mandated by the Ohio Environmental Protection Agency. The OWDA has approved \$171,352 for this project. The loan will be repaid in semiannual installments of \$4,388 including interest, over 15 - 25 years.

In exchange for treating its leachate, Allied Waste Industries (AWIN) has agreed to pay all the debt service on the OWDA Loan. AWIN's parent company has guaranteed such debt service payments.

The Police Cruiser Note was issued in 2006 to finance the purchase of a police cruiser. The Police Cruiser Note is collateralized by the Village's taxing authority. The Fire Equipment Note was issued in 2007 to purchase various pieces of equipment for the volunteer fire department. The Fire Equipment Note is collateralized by the Village's taxing authority.

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

	OWDA Loan	Police Cruiser 2006	Fire Equipment
Year Ending December 31			
2008	\$8,777	\$7,030	\$15,075
2009	8,777	7,030	15,075
2010	8,777		15,075
2011	8,777		15,075
2012	8,777		15,075
Subsequent	21,941		27,181
	\$65,826	\$14,060	\$102,556

**VILLAGE OF LOWELLVILLE
MAHONING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OP&F participants contributed 10% of their wages and the Village contributed to OP&F an amount equal to 19.5% of the participants' wages. For 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85% and 13.7%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

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.

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Mary Taylor, CPA

Auditor of State

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

Village of Lowellville
Mahoning County
P.O. Box 124
Lowellville, Ohio 44436

To the Village Council:

We have audited the financial statements of the Village of Lowellville, Mahoning County, (the Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated February 27, 2009, 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 noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We also qualified our opinion relating to operating receipts reported in the enterprise fund types. 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2007-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above, finding 2007-001, is also a material weakness.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the Village Council and other elected or appointed officials. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

February 27, 2009

VILLAGE OF LOWELLVILLE
MAHONING COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006

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

FINDING NUMBER 2007-001

Material Weakness / Significant Deficiency

Sewer Billings and Collections

The Village has delegated the processing of sewer billings and collections, which is a significant accounting function, to a third party administrator, Aqua Utility Services. The following internal control weaknesses were noted with regard to the processing of sewer billings and collections:

- A. Aqua Utility Services provides monthly billing and collection reports to the Village. While these reports are agreed to the remittances by the Clerk/Treasurer, this review is not documented and the accuracy of the report is not verified by any Village personnel to monitor whether sewer usage is being properly billed and collected.
- B. The Village has not established procedures to determine whether the service organization has sufficient controls in place and that such controls are operating effectively to reduce the risk that sewer billings and collections have been completely and accurately processed in accordance with the contract between the Village and Aqua Utility Services.

The Village was not able to provide us with evidence we requested regarding the design and proper operation of the service organization's internal controls or with certain information regarding sewer billing receipts. We were therefore unable to satisfy ourselves as to the proper processing of sewer bills and collections.

These conditions may not assure the completeness and accuracy of sewer billings and collections processed by the third party administrator.

Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS 70 should provide the Village with reasonable assurance that water and sewer billings and collections conform to the contract.

We recommend the Village request a Type Two SAS 70 or Agreed Upon Procedures report in its contract with Aqua Utility Services. The Village should review the SAS 70 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standing with the Accountancy Board of the respective state. In addition, if agreed upon procedures are to be done, the Auditor of State's SAS 70 Coordinator should be consulted prior to entering into a contract for these services.

In addition, we recommend the Village request standing data from the service organization, including the names and addresses of the people being billed. The Village should assign personnel to review the standing data to ensure residents of the Village that should be charged for sewer usage are being charged. The Village should also request billing information from the service organization to ensure correct rates are being applied and are being calculated properly according to usage.

We did not receive a response from Officials to this finding.



Mary Taylor, CPA
Auditor of State

VILLAGE OF LOWELLVILLE

MAHONING 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
APRIL 7, 2009**