

Village of Fayetteville

Brown County

Regular Audit

January 1, 2005 Through December 31, 2006

Fiscal Years Audited Under GAGAS: 2006 and 2005

BALESTRA, HARR & SCHERER, CPAs, INC.
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Mary Taylor, CPA

Auditor of State

Members of Council
Village of Fayetteville
81 West Pike Street
Fayetteville, Ohio 45118

We have reviewed the *Independent Auditor's Report* of the Village of Fayetteville, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Fayetteville is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 27, 2007

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**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor’s Report	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances –Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 2006	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances –Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 2005	6
Notes to the Financial Statements	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13
Schedule of Findings and Responses	15
Schedule of Prior Audit Findings	17

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INDEPENDENT AUDITOR'S REPORT

Members of Council
Village of Fayetteville
81 West Pike Street
Fayetteville, Ohio 45118

We have audited the accompanying financial statements of the Village of Fayetteville, Brown County, Ohio, (the Village) as of and for the years ended December 31, 2006 and 2005. 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

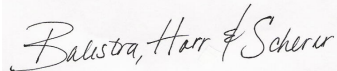
Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. 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 Villages 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 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, 2006 and 2005, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Fayetteville as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. 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 August 24, 2007 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Balestra, Harr & Scherer, CPAs, Inc.

August 24, 2007

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY, OHIO**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 44,021	\$ 11,369	\$ 55,390
Intergovernmental	24,682	24,692	49,374
Charges for Services	1,675	-	1,675
Fines, Licenses, and Permits	64,680	1,380	66,060
Interest	1,663	287	1,950
Miscellaneous	5,034	-	5,034
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	141,755	37,728	179,483
Cash Disbursements:			
Current:			
Security of Persons & Property	79,633	10,339	89,972
Leisure Time Activities	5,077	-	5,077
Community Environment	615	-	615
Transportation	1,375	13,998	15,373
General Government	71,735	4,623	76,358
Debt Service:			
Redemption of Principal	29,177	-	29,177
Interest and Fiscal Charges	1,850	-	1,850
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	189,462	28,960	218,422
Total Cash Receipts Over/(Under) Cash Disbursements	(47,707)	8,768	(38,939)
Other Financing Receipts and (Disbursements):			
Proceeds from Sale of Public Debt:			
Sale of Notes	25,177	-	25,177
Transfers-In	11,593	-	11,593
Transfers-Out	-	(11,593)	(11,593)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	36,770	(11,593)	25,177
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(10,937)	(2,825)	(13,762)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	25,356	21,859	47,215
Fund Cash Balances, December 31	<u>\$ 14,419</u>	<u>\$ 19,034</u>	<u>\$ 33,453</u>

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

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FUDCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 163,537	\$ -	\$ 163,537
Total Operating Cash Receipts	<u>163,537</u>	<u>-</u>	<u>163,537</u>
Operating Cash Disbursements:			
Personal Services	19,647	-	19,647
Employee Fringe Benefits	5,506	-	5,506
Contractual Services	40,483	-	40,483
Supplies & Maintenance	122,789	-	122,789
Other	5,000	-	5,000
Total Operating Cash Disbursements	<u>193,425</u>	<u>-</u>	<u>193,425</u>
Operating Income	<u>(29,888)</u>	<u>-</u>	<u>(29,888)</u>
Non-Operating Cash Receipts:			
Other non-operating receipts	2,959	77,001	79,960
Earnings on Investments	260	-	260
Total Non-Operating Cash Receipts	<u>3,219</u>	<u>77,001</u>	<u>80,220</u>
Non-Operating Cash Disbursements:			
Other non-operating disbursements	<u>-</u>	<u>77,001</u>	<u>77,001</u>
Total Non-Operating Cash Disbursements	<u>-</u>	<u>77,001</u>	<u>77,001</u>
Net Receipts Over/(Under) Disbursements	(26,669)	-	(26,669)
Fund Cash Balances, January 1	<u>86,036</u>	<u>-</u>	<u>86,036</u>
Fund Cash Balances, December 31	<u>\$ 59,367</u>	<u>\$ -</u>	<u>\$ 59,367</u>

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

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 39,472	\$ 11,285	\$ 50,757
Intergovernmental	13,875	27,949	41,824
Charges for Services	5,890	-	5,890
Fines, Licenses, and Permits	80,377	6,460	86,837
Interest	1,195	337	1,532
Miscellaneous	8,461	-	8,461
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	149,270	46,031	195,301
Cash Disbursements:			
Current:			
Security of Persons & Property	71,537	15,783	87,320
Leisure Time Activities	4,881	-	4,881
Community Environment	673	-	673
Transportation	-	29,823	29,823
General Government	92,197	50	92,247
Debt Service:			
Redemption of Principal	8,050	-	8,050
Interest and Fiscal Charges	455	-	455
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	177,793	45,656	223,449
Total Cash Receipts Over/(Under) Cash Disbursements	(28,523)	375	(28,148)
Other Financing Receipts and (Disbursements):			
Proceeds from Sale of Public Debt:			
Sale of Notes	29,060	-	29,060
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	29,060	-	29,060
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	537	375	912
Fund Cash Balances, January 1	24,819	21,484	46,303
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Fund Cash Balances, December 31	\$ 25,356	\$ 21,859	\$ 47,215

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

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND SIMILAR FUDCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$ 164,791	\$ -	\$ 164,791
Total Operating Cash Receipts	<u>164,791</u>	<u>-</u>	<u>164,791</u>
Operating Cash Disbursements:			
Personal Services	23,250	-	23,250
Employee Fringe Benefits	5,694	-	5,694
Contractual Services	27,679	-	27,679
Supplies & Maintenance	113,763	-	113,763
Total Operating Cash Disbursements	<u>170,386</u>	<u>-</u>	<u>170,386</u>
Operating Income	<u>(5,595)</u>	<u>-</u>	<u>(5,595)</u>
Non-Operating Cash Receipts:			
Other non-operating receipts	-	107,045	107,045
Loan Proceeds	2,793	-	2,793
Total Non-Operating Cash Receipts	2,793	107,045	109,838
Non-Operating Cash Disbursements:			
Other non-operating disbursements	-	107,045	107,045
Total Non-Operating Cash Disbursements	<u>-</u>	<u>107,045</u>	<u>107,045</u>
Net Receipts Over/(Under) Disbursements	(2,802)	-	(2,802)
Fund Cash Balances, January 1	<u>88,838</u>	<u>-</u>	<u>88,838</u>
Fund Cash Balances, December 31	<u>\$ 86,036</u>	<u>\$ -</u>	<u>\$ 86,036</u>

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

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Fayetteville, Brown 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 utilities, street maintenance and repair and police services.

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 Deposits

During fiscal years 2006 and 2005, the Village funds were in an interest bearing checking account.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

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

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (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.

Police Fund – This fund receives money to provide police protection for Village residents.

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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 Fund:

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

4. Fiduciary Funds-

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

Mayor's Court – This fund collects and distributes court fines to the Village and the State.

E. Budgetary Process

The Ohio Revised Code requires the Village to budget annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, 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 re-appropriated.

A summary of 2006 and 2005 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 vacation and sick leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2006	2005
Total deposits	\$92,820	\$133,251

Deposits: Contrary to Ohio Law the Village's deposits exceeded the amounts insured by the Federal Depository Insurance Corporation in 2005 and was not collateralized by the financial institution. All deposits in 2006 were insured by Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts

Fund	Budgeted Receipts	Actual Receipts	Variance
General	\$ 161,814	\$ 178,525	\$ 16,711
Special Revenue	41,700	37,728	(3,972)
Enterprise	165,000	166,756	1,756
Total	\$ 368,514	\$ 383,009	\$ 14,495

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 186,798	\$ 189,462	\$ (2,664)
Special Revenue	63,557	40,553	23,004
Enterprise	190,290	193,425	(3,135)
Total	\$ 440,645	\$ 423,440	\$ 17,205

2005 Budgeted vs. Actual Receipts

Fund	Budgeted Receipts	Actual Receipts	Variance
General	\$ 177,522	\$ 178,330	\$ 808
Special Revenue	45,100	46,031	931
Enterprise	155,000	167,584	12,584
Total	\$ 377,622	\$ 391,945	\$ 14,323

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

3. BUDGETARY ACTIVITY (Continued)

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 188,562	\$ 177,793	\$ 10,769
Special Revenue	66,584	45,656	20,928
Enterprise	243,689	170,386	73,303
Total	\$ 498,835	\$ 393,835	\$ 105,000

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding 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. 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. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Police Cruiser Note	6,000	5.50%
Snow Removal Equipment Note	<u>19,060</u>	8.25%
Total	<u>\$25,060</u>	

The Snow Removal Equipment Note was issued to purchase needed dump truck in the original amount of \$21,097 on August 5, 2005. The outstanding balance of the note was refinanced on September 15, 2006 at 8.25% interest. The note had a balance of \$19,107 as of December 31, 2006.

The Police Cruiser Acquisition Note was originally issued in 2004 to purchase a needed police cruiser in the amount of \$8,050. The outstanding balance of the note was refinanced on February 11, 2005 and on March 2, 2006 at 4.25% and 5.50% interest. The note had a balance of \$6,070 as of December 31, 2006.

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

5. DEBT (Continued)

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

Year ending December 31:	Police Cruiser Acquisition Note	Snow Removal Equipment Note
2007	\$ 6,404	\$ 20,683
Total	\$ 6,404	\$ 20,683

6. RETIREMENT SYSTEMS

Some Village Council members have elected to belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2006 and 2005, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. OPERS members contributed 9% and 8.5% of their wages in 2006 and 2005, respectively. The Village contributed an amount equal to 13.70% and 13.55% of participants' gross salaries for 2006 and 2005, respectively. The Village has paid all contributions required through December 31, 2006.

7. RISK POOL MEMBERSHIP

The Village belongs to the Ohio Government Risk Management Plan, (the "Plan"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Pool provides a program of property and casualty insurance for its members. The Plan pays judgments, settlements, and other expenses resulting for covered claims that exceed the member deductibles.

Casualty excess-of-loss contracts at December 31, 2006 and 2005 generally protect against individual losses exceeding \$125,000.

Property coverage contracts protect against losses, subject to a deductible of \$50,000, limited to an annual aggregate loss of the greater of \$300,000 or 1% of total coverage.

The Plan cedes reinsures or excess reinsures. The Plan is contingently liable should any reinsure become unable to meet its obligations under the reinsurance agreements.

The Plan's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Assets	\$9,620,148	\$8,219,430
Liabilities	3,329,620	2,748,639
Members' Equity	\$6,290,528	\$5,470,791

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

8. SUBSEQUENT EVENT

A 100,000 gallon water tower was donated to the Village by Western Water in 2007. Pittsburg Tank and Tower Co. is furnishing all labor, materials, equipment and insurance to dismantle and transport the tank from its present site to the new site in the Village. They will re-erect and paint the tower. The cost to Pittsburg Tower to move the tower to the Village site and re-erect and paint the tower is \$247,000. Blanchester Fencing was contracted to build chain link fence around both the new and existing water towers for \$6,220. The Village issued \$275,000 in OWDA loans to fund the project.

9. TRANSFERS

In 2006, there was a transfer from the Computer Fund to the General Fund for \$7,443 and from the Cruiser Fund to the General Fund for \$4,150. Both of these transfers were a result of the Computer and Cruiser Funds being dissolved in 2006. All transfers of the village were in compliance with the Ohio Revised Code.

BALESTRA, HARR & SCHERER CPAs, INC.

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Village of Fayetteville
Brown County
81 West Pike Street
Fayetteville, Ohio 45118

We have audited the accompanying financial statements of the Village of Fayetteville, (the Village), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 24, 2007, wherein we noted the Village follows the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion 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 to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, 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 generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as item 2005/2006-003 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do believe that the significant deficiency 2005/2006-003 described above is a material weakness.

Village of Fayetteville

Brown County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2005/2006-001 and 2005/2006-002.

We also noted certain matters that we reported to management of the Village in a separate letter dated August 24, 2007.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and members of the Village Council and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

August 24, 2007

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005**

FINDING NUMBER 2005/2006-001

Noncompliance Citation

During test work on Charges for Services we noted that the utility clerk is only making deposits once a week.

Ohio Revised Code Section 9.38 requires public money to be deposited with the fiscal officer of the public office *or* to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it.

The Village should make deposits daily. If the daily receipts do not exceed \$1000 and the receipts can be safeguarded then the Village may adopt a policy allowing the official to hold the monies past the next business day but no later than three business days.

Client Response:

Deposits will be made within 3 days unless it totals \$1,000 and then it will be made immediately.

FINDING NUMBER 2005/2006-002

Noncompliance Citation

The treasurer of a political subdivision must require the depository to provide security equal to the funds on deposit at all times. Security may consist of federal deposit insurance, surety company bonds, or pledged securities. [Section 135.18]. In lieu of the specific pledging requirements of Section 135.18, a public depository at its option may pledge a single pool of eligible securities to secure the repayment of all its public deposits not otherwise secured, provided that at all times the total market value of the securities so pledged is at least equal to one hundred five per cent of its total public deposits to be secured by the pooled securities, including the portion of these deposits covered by any federal deposit insurance. During test work of the Village's compliance with laws and regulations over deposits, it was found that the Village's depository did not have pledged or pooled securities equal to the funds on deposit at all times. At December 31, 2005, the Village had \$33,251 in excess of FDIC coverage which was not otherwise secured as required by the Ohio Revised Code.

The Village should assure with its depository that in the case of financial failure by the depository, Village funds in excess of FDIC would be secured.

Client Response:

The Village will assure that Village funds not covered by FDIC will be secured.

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005
(CONTINUED)**

FINDING NUMBER 2005/2006-003

Material Weakness - Monitoring of Financial Activity

We noted several instances in which transactions were not posted to correct line items or not recorded in the Village's financial records. Inaccurate or incomplete posting of transactions impedes the ability of the Council to accurately assess the financial status of the Village. Examples of such deficiencies were noted as follows:

- Certain intergovernmental revenues were recorded as tax revenues by the Village Clerk. \$2,083 in the General Fund in 2005 and \$451 in the Special Revenue Funds in 2005.
- Debt refinancing activities were not recorded in the General fund. For 2005, related unrecorded debt principal payments were \$8,050, unrecorded general government expenses of \$10, and unrecorded note proceeds were \$8,060. For 2006, related unrecorded debt principal payments were \$25,177, and unrecorded note proceeds were \$25,177.
- Mayor's Court financial transactions were not presented in the financial statements presented for audit. 2005 unrecorded disbursements were \$107,045 and unrecorded receipts were \$107,045. 2006 unrecorded disbursements were \$77,001 and unrecorded receipts were \$77,001.

The accompanying financial statements have been adjusted to properly reflect the above transactions.

The aforementioned errors were the result of a lack of controls over the financial reporting.

The Fiscal Officer should attend training on the Uniform Accounting Network and the AoS basis of accounting followed by the Village. The Clerk should follow the Uniform Accounting Network manual when posting all transactions. Further, the Village should adopt policies and procedures including a final review of the financial statements by the Fiscal Officer and Council to ensure that errors and omissions are timely identified and corrected.

Client Response:

The UAN manual will be used when needed and errors will be corrected. The Council will review financial statements to ensure errors are identified.

**VILLAGE OF FAYETTEVILLE
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Noncompliance citation - ORC 5705.41 (D) Then and Now Certificates	Yes	
2004-002	Reportable Condition - Utility accounting records	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF FAYETTEVILLE

BROWN 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
OCTOBER 9, 2007**