



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

March 13, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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VILLAGE OF SCIO
HARRISON COUNTY

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**Auditor of State
Betty Montgomery**

Village of Scio
Harrison County
306 East Main Street
P O Box 307
Scio, Ohio 43988

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 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

December 5, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Scio
Harrison County
306 East Main Street
P O Box 307
Scio, Ohio 43988

To the Village Council:

We have audited the accompanying financial statements of Village of Scio, Harrison County, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express 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 that 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 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since 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 its cash flows 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 of the Village of Scio, Harrison County, as of December 31, 2004 and 2003, 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 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 December 5, 2006, 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.



Betty Montgomery
Auditor of State

December 5, 2006

VILLAGE OF SCIO
HARRISON 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>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$27,145	\$9,855		\$37,000
Municipal Income Tax	51,031			51,031
Special Assessments				0
Intergovernmental Receipts	20,365	52,779	\$67,036	140,180
Charges for Services		240		240
Fines, Licenses, and Permits	2,076			2,076
Earnings on Investments	1,258			1,258
Miscellaneous	15,202			15,202
Total Cash Receipts	117,077	62,874	67,036	246,987
Cash Disbursements:				
Current:				
Security of Persons and Property	8,717			8,717
Public Health Services	442			442
Leisure Time Activities		3,250		3,250
Transportation		24,637		24,637
General Government	57,942	230		58,172
Capital Outlay	1,750	26,216	68,916	96,882
Total Cash Disbursements	68,851	54,333	68,916	192,100
Total Receipts Over/(Under) Disbursements	48,226	8,541	(1,880)	54,887
Other Financing Receipts and (Disbursements):				
Transfers-In		3,713	31,239	34,952
Advances-In		15,756		15,756
Transfers-Out	(34,952)			(34,952)
Advances-Out	(15,756)			(15,756)
Other Financing Sources	13			13
Other Financing Uses	(2,428)			(2,428)
Total Other Financing Receipts/(Disbursements)	(53,123)	19,469	31,239	(2,415)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(4,897)	28,010	29,359	52,472
Fund Cash Balances, January 1	75,599	17,268	41,727	134,594
Fund Cash Balances, December 31	\$70,702	\$45,278	\$71,086	\$187,066

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

**VILLAGE OF SCIO
HARRISON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$159,772
Miscellaneous	7,111
	166,883
Total Operating Cash Receipts	166,883
Operating Cash Disbursements:	
Personal Services	53,163
Contractual Services	32,399
Supplies and Materials	55,247
	140,809
Total Operating Cash Disbursements	140,809
Operating Income/(Loss)	26,074
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	1,300
	1,300
Total Non-Operating Cash Receipts	1,300
Non-Operating Cash Disbursements:	
Debt Service	25,369
Other Non-Operating Cash Disbursements	200
	25,569
Total Non-Operating Cash Disbursements	25,569
Net Receipts Over/(Under) Disbursements	1,805
Fund Cash Balances, January 1	71,985
Fund Cash Balances, December 31	\$73,790

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

**VILLAGE OF SCIO
HARRISON COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$29,838	\$11,394		\$41,232
Municipal Income Tax	47,901			47,901
Intergovernmental Receipts	23,007	31,468	\$138,700	193,175
Charges for Services		305		305
Fines, Licenses, and Permits	4,702			4,702
Earnings on Investments	1,646			1,646
Miscellaneous	6,598	855		7,453
	<u>113,692</u>	<u>44,022</u>	<u>138,700</u>	<u>296,414</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	32,517	754		33,271
Public Health Services	456			456
Leisure Time Activities		2,934		2,934
Transportation		24,361		24,361
General Government	72,191	688		72,879
Debt Service:				
Principal Payments		6,407	100,000	106,407
Interest Payments		433		433
Capital Outlay	12,996		200,370	213,366
	<u>118,160</u>	<u>35,577</u>	<u>300,370</u>	<u>454,107</u>
Total Cash Disbursements	<u>118,160</u>	<u>35,577</u>	<u>300,370</u>	<u>454,107</u>
Total Receipts Over/(Under) Disbursements	<u>(4,468)</u>	<u>8,445</u>	<u>(161,670)</u>	<u>(157,693)</u>
Other Financing Receipts and (Disbursements):				
Sale of Fixed Assets	1,012			1,012
Sale of Notes			163,120	163,120
Transfers-In			40,277	40,277
Advances-In		5,000		5,000
Transfers-Out	(40,277)			(40,277)
Advances-Out	(5,000)			(5,000)
Other Financing Sources	18,415			18,415
Other Financing Uses	(11,643)			(11,643)
	<u>(37,493)</u>	<u>5,000</u>	<u>203,397</u>	<u>170,904</u>
Total Other Financing Receipts/(Disbursements)	<u>(37,493)</u>	<u>5,000</u>	<u>203,397</u>	<u>170,904</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(41,961)	13,445	41,727	13,211
Fund Cash Balances, January 1	117,560	3,823	-	121,383
Fund Cash Balances, December 31	<u>\$75,599</u>	<u>\$17,268</u>	<u>\$41,727</u>	<u>\$134,594</u>
Reserves for Encumbrances, December 31				<u>\$0</u>

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

**VILLAGE OF SCIO
HARRISON COUNTY**

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

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$153,144
Total Operating Cash Receipts	153,144
Operating Cash Disbursements:	
Personal Services and Fringe Benefits	59,910
Travel Transportation	598
Contractual Services	24,400
Supplies and Materials	45,472
Total Operating Cash Disbursements	130,380
Operating Income/(Loss)	22,764
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	550
Total Non-Operating Cash Receipts	550
Non-Operating Cash Disbursements:	
Debt Service	23,205
Other Non-Operating Cash Disbursements	150
Total Non-Operating Cash Disbursements	23,355
Net Receipts Over/(Under) Disbursements	(41)
Fund Cash Balances, January 1	72,026
Fund Cash Balances, December 31	\$71,985

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

**VILLAGE OF SCIO
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

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 Scio, Harrison County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government, including water and sewer utilities, street repair and maintenance, and park operations. The Village contracts with the Scio Volunteer Fire Department to provide fire protection services. The Village also contracts with the Harrison County Sheriff's Office to provide police protection within the Village.

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

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit 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 Fund

These funds 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 Fund:

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

**VILLAGE OF SCIO
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

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

Income Tax Permanent Improvement Fund - This fund receives income tax receipts for major capital projects.

4. Enterprise Fund

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:

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. 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 commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2004 budgetary activity appears in Note 3.

**VILLAGE OF SCIO
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH

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

	2004	2003
Demand deposits	\$207,549	\$153,765
Certificates of deposit	53,307	52,814
Total deposits	\$260,856	\$206,579

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$109,500	\$117,090	\$7,590
Special Revenue	33,345	66,587	33,242
Capital Projects	0	98,275	98,275
Enterprise	168,750	168,183	(567)
Total	\$311,595	\$450,135	\$138,540

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$172,500	\$106,231	\$66,269
Special Revenue	50,000	54,333	(4,333)
Capital Projects	0	68,916	(68,916)
Enterprise	270,000	166,378	103,622
Total	\$492,500	\$395,858	\$96,642

**VILLAGE OF SCIO
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$111,055	\$133,119	\$22,064
Special Revenue	36,666	44,022	7,356
Capital Projects	0	342,097	342,097
Enterprise	173,930	153,694	(20,236)
Total	\$321,651	\$672,932	\$351,281

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$234,705	\$170,080	\$64,625
Special Revenue	36,001	35,577	424
Capital Projects	0	370	(370)
Enterprise	245,955	153,735	92,220
Total	\$516,661	\$359,762	\$156,899

Contrary to Ohio Revised Code Section 5705.39, in 2004, appropriations exceeded estimated resources in the State Highway Fund, the Park Fund, the Water Operating Fund and the Sewer Water Operating Fund by \$315, \$897, \$8,739 and \$19,179, respectively.

Also, the Village did not comply with Ohio Revised Code Section 5705.41(B), in that during 2003, expenditures exceeded appropriations in the Street Construction, Maintenance and Repair Fund and the Main Street Water Project Fund by \$2,946 and \$300,370, respectively. And during, 2004, expenditures exceeded appropriations in the Main Street Water Project Fund, the Permissive Motor Vehicle License Fund, the Federal Emergency Management Fund and the Block Grant Waterline Fund by \$20,416, \$1,790, \$26,216 and \$48,500, respectively.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the November 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.

**VILLAGE OF SCIO
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1% 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:

	Principal	Interest Rate
Ohio Public Works	\$25,175	0.00%
General Obligation Bond Anticipation Note	4,614	4.75%
Lift Station Loan	10,000	5.50%
Ohio Water Development Authority Loan - # 3093	6,233	6.04%
Ohio Water Development Authority Loan - # 3882	99,283	2.00%
Ohio Water Development Authority Loan - # 2107	49,535	6.32%
Total	\$194,840	

The Ohio Public Works Commission (OPWC) loan # CN32A was used by the water and sewer department for various improvement projects. This loan was issued on November 1, 1999 for \$34,724 and is due on July 1, 2019. The loan will be repaid in semiannual installments of \$868. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt requirements.

The proceeds of the general obligation bond anticipation note were used to purchase a 2002 Chevy Truck to be used by all departments. This note was issued on May 28, 2002 for \$11,600 and is due on May 28, 2006. The note will be paid in semiannual payments of \$1,609.21 and is collateralized by the full faith and credit of the Village.

The Lift Station loan was used to replace the Village lift station. The original loan was issued on November 15, 1996 for \$50,000 and was due on December 31, 2001. This note matured on December 31, 2001 with a balloon balance of \$25,000 plus unpaid accrued interest. At that time, National City Bank repriced this loan based on the prevailing rates at that time and prepared a modification and extension of the note. The new maturity date is December 31, 2006 and it will be repaid in quarterly payments of \$1,250 plus interest and is collateralized by the full faith and credit of the Village and property tax receipts.

The Ohio Water Development Authority (OWDA) loans relate to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semiannual installments. OWDA # 3093 loan was issued on February 29, 1996 for \$25,000 and is due on January 1, 2007. OWDA # 2107 loan was issued on January 13, 1997 for \$60,000 and is due on January 1, 2022. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

**VILLAGE OF SCIO
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

6. DEBT (Continued)

The Ohio Water Development Authority (OWDA) loan # 3882 relates to the West Main Street Waterline Replacement Project. The loan was issued in 2003 in the amount of \$105,822.07 plus capitalized interest of 20.92, a total of \$105,842.99. The loan is for 20 years at a 2% interest rate. The loan will be repaid in semiannual installments of \$3,224. The loan is collateralized by utility receipts and the full faith and credit of the Village.

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

Year ending December 31:	OPWC Loan CN32A	Water Sewer Truck Loan	Lift Station Loan	OWDA Loan # 3093	OWDA Loan # 3882	OWDA Loan # 2107
2005	1,736	3,219	5,548	3,411	6,447	4,837
2006	1,736	1,609	5,239	3,411	6,447	4,837
2007	1,736				6,447	4,837
2008	1,736				6,447	4,837
2009	1,736				6,447	4,837
Subsequent	16,495				87,035	58,044
Total	\$25,175	\$4,828	\$10,787	\$6,822	\$119,270	\$82,229

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OPFPF). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPFPF and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OPFPF participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2004 to the Ohio Public Employees Retirement System (OPERS). At December 31, 2004, the Village had not paid \$3,225 of the employer's share to the Ohio Police and Fire Pension Fund (OPFPF) and accrued interest and penalties were \$153,473. While still under audit, OPFPF forgave all accrued interest and penalties.

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 SCIO
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

9. COMPLIANCE

In accordance with Ohio Revised Code Section 117.28, a finding for recovery is issued against the former Village Clerk for overpayment of compensation.

Contrary to Ohio Revised Code Section 733.28, the Village Clerk did not keep accurate records of all Village accounts and contrary Ohio Revised Code Sections 733.43 and 733.44, the Village Treasurer did not keep accurate records of all Village accounts.

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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 Scio
Harrison County
306 East Main Street
P O Box 307
Scio, Ohio 43988

To the Village Council:

We have audited the financial statements of Village of Scio, Harrison County, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated December 5, 2006, 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 in order 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 December 5, 2006, 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 or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-006. In a separate letter to the Village's management dated December 5, 2006, we reported other matters related to noncompliance we deemed immaterial.

Village of Scio
Harrison County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the management and Council. 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

December 5, 2006

**VILLAGE OF SCIO
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Finding for Recovery

The Village Council approved the Village Clerk's salary at \$523.39 per month beginning January 1, 2000 and the Village water helper's salary at \$90.00 per month beginning January 1, 2000. At January 1, 2000, the duties of the Village Clerk and the Village water helper were performed by the same person until a motion was passed by Village Council on October 24, 2002 to have another Village employee perform the duties of the water helper for a salary of \$70.00 per month.

The Village Clerk continued to receive \$523.39 per month, the Village Clerk's approved salary, plus \$20.00 per month, the portion of the water helper's salary that did not follow the water helper's position, and the extra \$20.00 per month was never approved to be a part of the Village Clerk's monthly salary. The Village Clerk, Zelma Brooks, was paid the higher unapproved rate from January 20, 2003 through August 30, 2004. As a result, an overpayment of \$385.81 occurred.

Description	Amount Approved	Amount Paid	Overpayment
Served as Village Clerk 1/20/03 – 12/31/03	\$5,909.25	\$6,135.06	\$(225.81)
Served as Village Clerk 1/1/04 – 8/30/04	\$4,187.12	\$4,347.12	\$(160.00)
Total	\$10,096.37	\$10,482.18	\$(385.81)

In accordance with the foregoing facts, and pursuant to Ohio Revised Code §117.28, a finding for recovery for public money illegally expended has been issued against Zelma Brooks in the amount of \$385.81 and in favor of the Village's General Fund.

Officials' Response

The Village Council voted to forgive the repayment of these funds to the Village in light of the additional and extraordinary services that had been provided by Ms. Brooks to the Village during the time that she served as Village Clerk and for which she was never compensated.

FINDING NUMBER 2004-002

Non Compliance Citation

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

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.

**FINDING NUMBER 2004-002
(Continued)**

- 1. Then and Now Certificate** – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003) the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council if such expenditure is otherwise valid.

- 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 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 extent beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The Village did not properly certify or record the amount against the applicable appropriation accounts for 93% of tested 2003 expenditures and 100% of tested 2004 expenditures. The Village did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending in negative cash balances. 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, the Clerk should certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

The Village should certify purchases to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires authorizing disbursements. The Clerk should sign the certification at the time the Village incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Clerk should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2004-003

Non Compliance Citation

Ohio Revised Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Official Certificates of Estimated Resources. This section also states that no appropriation measure shall become effective until the county auditor files with the taxing authority a certificate that the total appropriations from each fund does not exceed the total estimated revenue.

Appropriations exceeded the amount certified as available by the budget commission in the following funds during 2004:

Fund	Total Resources	Appropriations	Variance
State Highway Fund	\$4,385	\$4,700	(\$315)
Park Fund	5,203	6,100	(897)
Water Operating Fund	93,941	102,680	(8,739)
Sewer Operating Fund	134,841	154,020	(19,179)

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash fund balances. The Village Clerk should compare appropriations to estimated resources and if adequate resources are available for additional appropriations, the Village should request an amended certificate of estimated resources from the budget commission. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by the Village Council to reduce the appropriations.

FINDING NUMBER 2004-004

Non Compliance Citation

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making expenditures unless it has been properly appropriated. The following funds had disbursements which exceeded appropriations during 2003 and during 2004:

Funds (2003)	Appropriations	Expenditures	Amount of Variance
Street Construction Maintenance & Repair Fund-	\$17,389	\$20,335	(\$2,946)
Main Street Water Project Fund-	0	300,370	(300,370)

Funds (2004)	Appropriations	Expenditures	Amount of Variance
Main Street Water Project Fund	\$0	\$20,416	(\$20,416)
Permissive Motor Vehicle License Tax Fund	0	1,790	(1,790)
Federal Emergency Management Agency Fund	0	26,216	(26,216)
Block Grant Waterline Fund	0	48,500	(48,500)

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary. Failure to limit expenditures to appropriated levels could result in overspending and/or deficit balances.

FINDING NUMBER 2004-005

Non Compliance Citation

Ohio Revised Code Section 733.28 requires that the “village clerk shall keep the books of the village, exhibit accurate statements of all moneys received and expended, of all property owned by the village and the income derived therefore, and of all taxes and assessments.”

The Clerk failed to keep accurate records. There were errors made in posting intergovernmental revenue, tax revenue, miscellaneous revenue, interest revenue, note proceeds, debt payments, transfers in and out and other disbursements. During 2004, 35% of the receipts and 29% of the disbursements were misclassified. During 2003, 62% of the receipts and 67% of the disbursements were misclassified. The accompanying financial statements reflect classifications to correct these misclassifications.

Failure to post all financial activity to the Village ledgers resulted in several errors on the Village's annual financial statements. As a result, the Village's ledgers were not an accurate reflection of all financial activities.

The Clerk should record all financial activity for the Village in the receipt ledger, appropriation ledger and cash journal, as appropriate, so that accurate statements of all moneys received and expended can be prepared. Periodically, financial reports including all activity of the Village should be submitted to council for review. Adjustments to properly reflect activity of all funds were made by the Village and are included in the financial statements.

FINDING NUMBER 2004-006

Non Compliance Citation

Ohio Revised Code Section 733.43 states that the village treasurer must keep accurate account of all money received by the treasurer, showing the amount thereof, the time received, from whom, and on what account received and all disbursements made by the treasurer, showing the amount thereof, the time made, to whom, and on what account paid. The treasurer shall so arrange their books so that the amount received and paid on account of separate funds, or specified appropriations, shall be exhibited in separate accounts.

Ohio Revised Code Section 733.44 states that the village treasurer shall demand and receive from the county treasurer, taxes levied and assessments made and certified to the county auditor by the village's council, moneys from persons authorized to collect or required to pay them, accruing to the village from any judgments, fines, penalties, forfeitures, licenses and debts due the municipal corporation. Such funds shall be disbursed by the treasurer on the order of any person authorized by law or ordinance to issue orders therefore. The books must provide separate accounts for each fund and each appropriation. The treasurer and clerk should maintain the same accounts, since they must be reconciled.

There were several discrepancies between the actual transactions and the amounts posted to the Village's ledgers. During 2004, 35% of receipts and 29% of the disbursements were misclassified. During 2003, 62% of the receipts and 67% of the disbursements were misclassified. The Treasurer could not account for the discrepancies noted as most of the Treasurer's duties, which include depositing, disbursing and recording, were performed by the Village Clerk. The accompanying financial statements reflect classifications to correct these misstatements.

The powers and duties of the Village Treasurer have been established by statute and should be applied to the Village's procedures. The statutes provide segregation of duties between the treasurer and the clerk and state that the treasurer and the clerk should maintain the same records since they must be reconciled.

Officials' Response

We did not receive a response from Officials to findings numbered 2004-002 through 2004-006 reported above.

**VILLAGE OF SCIO
HARRISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	ORC Section 117.28 A Finding for Recovery was issued against Becky Craig in the amount of \$135.00 and in favor of the Village Water and Sewer Funds.	Yes	
2002-002	ORC Section 5705.39 Appropriations exceeded the total estimated revenue available for expenditures.	No	Repeated as Finding # 2004-003
2002-003	ORC Section 5705.36 Estimated resources exceeded actual receipts in a few funds during 2001 and 2002.	No	Partially corrected, see management letter
2002-004	ORC Section 5705.41 (D) Disbursements were not properly certified.	No	Repeated as Finding # 2004-002.
2002-005	ORC Section 733.28 The Clerk failed to keep accurate records for the Village.	No	Repeated as Finding # 2004-005
2002-006	ORC Section 733.43 The Treasurer should reconcile her records to the Clerk's records of the Village.	No	Repeated as Finding #2004-2006
2002-007	ORC Sections 145 and 742 The Village failed to pay the proper amount to OPERS and OPFPF for employee and employer withholdings.	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF SCIO

HARRISON 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
MARCH 20, 2007**