



**Auditor of State
Betty Montgomery**

VILLAGE OF HOLLOWAY
BELMONT COUNTY

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**Auditor of State
Betty Montgomery**

Village of Holloway
Belmont County
P. O. Box 152
Holloway, Ohio 43985

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

November 14, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Holloway
Belmont County
P. O. Box 152
Holloway, Ohio 43985

To the Village Council:

We have audited the accompanying financial statements of the Village of Holloway, Belmont County, Ohio (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.

Except as described in paragraph six, 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.

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 third following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

We were unable to satisfy ourselves as to the completeness of charges for services recorded in the Enterprise Fund Type for the years ended December 31, 2004 and 2003. These utility revenues represent 99 percent and 96 percent of the revenues of the Enterprise Fund Type for the years ended December 31, 2004 and 2003, respectively.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence supporting the completeness and accuracy of charges for services in the Enterprise Funds for 2004 and 2003, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Holloway, Belmont County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

November 14, 2005

**VILLAGE OF HOLLOWAY
BELMONT 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	\$4,747	\$17,133	\$	\$21,880
Intergovernmental Receipts	47,727	28,463	56,075	132,265
Charges for Services		335		335
Fines, Licenses, and Permits	78			78
Earnings on Investments	4,910			4,910
Miscellaneous	3,468			3,468
	<u>60,930</u>	<u>45,931</u>	<u>56,075</u>	<u>162,936</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	10,627	20,327		30,954
Basic Utility Services	3,144			3,144
Transportation	22,069	21,836		43,905
General Government	23,025			23,025
Capital Outlay		4,018	56,075	60,093
	<u>58,865</u>	<u>46,181</u>	<u>56,075</u>	<u>161,121</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>2,065</u>	<u>(250)</u>	<u>0</u>	<u>1,815</u>
Other Financing (Disbursements):				
Other Financing Uses	<u>(251)</u>			<u>(251)</u>
Total Other Financing (Disbursements)	<u>(251)</u>	<u>0</u>	<u>0</u>	<u>(251)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	1,814	(250)	0	1,564
Fund Cash Balances, January 1	<u>15,424</u>	<u>44,761</u>	<u>0</u>	<u>60,185</u>
Fund Cash Balances, December 31	<u>\$17,238</u>	<u>\$44,511</u>	<u>\$0</u>	<u>\$61,749</u>

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

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$62,292
Total Operating Cash Receipts	62,292
Operating Cash Disbursements:	
Personal Services	31,372
Fringe Benefits	6,580
Contractual Services	7,397
Supplies and Materials	8,794
Other	2,851
Capital Outlay	1,758
Total Operating Cash Disbursements	58,752
Operating Income	3,540
Non-Operating Cash Receipts:	
Earnings on Investments	67
Miscellaneous Receipts	3
Other Financing Sources	50
Total Non-Operating Cash Receipts	120
Non-Operating Cash Disbursements:	
Redemption of Principal	5,218
Interest and Other Fiscal Charges	7,933
Total Non-Operating Cash Disbursements	13,151
Net Receipts (Under) Disbursements	(9,491)
Fund Cash Balances, January 1	79,416
Fund Cash Balances, December 31	\$69,925

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

**VILLAGE OF HOLLOWAY
BELMONT 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	\$3,403	\$14,141	\$	\$17,544
Intergovernmental Receipts	49,102	17,865	6,604	73,571
Charges for Services		239		239
Fines, Licenses, and Permits	173			173
Earnings on Investments	3,685			3,685
Miscellaneous	2,991			2,991
	<u>59,354</u>	<u>32,245</u>	<u>6,604</u>	<u>98,203</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	17,252	8,648		25,900
Public Health Services	258			258
Leisure Time Activities	400			400
Transportation	23,838	9,088		32,926
General Government	26,594			26,594
Capital Outlay		1,212	6,604	7,816
	<u>68,342</u>	<u>18,948</u>	<u>6,604</u>	<u>93,894</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(8,988)</u>	<u>13,297</u>	<u>0</u>	<u>4,309</u>
Other Financing Receipts/(Disbursements):				
Advances-In		1,000		1,000
Advances-Out	(1,000)			(1,000)
Other Financing Sources	10			10
	<u>(990)</u>	<u>1,000</u>	<u>0</u>	<u>10</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(9,978)	14,297	0	4,319
Fund Cash Balances, January 1	<u>25,402</u>	<u>30,464</u>	<u>0</u>	<u>55,866</u>
Fund Cash Balances, December 31	<u>\$15,424</u>	<u>\$44,761</u>	<u>\$0</u>	<u>\$60,185</u>

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

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$68,670
Total Operating Cash Receipts	68,670
Operating Cash Disbursements:	
Personal Services	24,386
Fringe Benefits	4,492
Contractual Services	14,108
Supplies and Materials	9,081
Other	288
Total Operating Cash Disbursements	52,355
Operating Income	16,315
Non-Operating Cash Receipts:	
Intergovernmental Receipts	800
Earnings on Investments	1,217
Miscellaneous Receipts	965
Total Non-Operating Cash Receipts	2,982
Non-Operating Cash Disbursements:	
Redemption of Principal	5,218
Interest and Other Fiscal Charges	7,933
Total Non-Operating Cash Disbursements	13,151
Net Receipts Over Disbursements	6,146
Fund Cash Balances, January 1	73,270
Fund Cash Balances, December 31	\$79,416

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

**VILLAGE OF HOLLOWAY
BELMONT 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 Holloway, Belmont County (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water utilities, police services, and fire protection. The Village contracts with the Belmont County Sheriff's department to provide security of persons and property. The Village contracts with the Holloway Volunteer Fire Department to receive fire protection 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 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

The Village values certificates of deposit at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 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.

Fire Department Levy Fund -This fund receives property tax revenues to provide fire protection through the Village's volunteer fire department.

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Project Funds

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:

Retaining Wall Project Fund - This fund receives Issue II grants through the Ohio Public Works Commission and a Community Development Block Grant through the Belmont County Commissioners for the replacement of a street retaining wall.

4. 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:

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

Water System Bond and Interest Fund - This fund receives charges for services from residents for the retirement of the water plant outstanding bond issue.

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.

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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 and 2003 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

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

	2004	2003
Demand deposits	\$119,342	\$127,269
Certificates of deposit	12,332	12,332
Total deposits	\$131,674	\$139,601

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

At December 31, 2004, \$18,596 of deposits were not insured or collateralized, contrary to Ohio law.

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	\$50,403	\$60,930	\$10,527
Special Revenue	21,540	45,931	24,391
Capital Projects	0	56,075	56,075
Enterprise	73,986	62,412	(11,574)
Total	\$145,929	\$225,348	\$79,419

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Actual Expenditures	Variance
General	\$63,947	\$59,116	\$4,831
Special Revenue	60,000	46,181	13,819
Capital Projects	0	56,075	(56,075)
Enterprise	70,157	71,903	(1,746)
Total	<u>\$194,104</u>	<u>\$233,275</u>	<u>(\$39,171)</u>

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$51,211	\$59,364	\$8,153
Special Revenue	27,700	33,245	5,545
Capital Projects	0	6,604	6,604
Enterprise	86,481	71,652	(14,829)
Total	<u>\$165,392</u>	<u>\$170,865</u>	<u>\$5,473</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Actual Expenditures	Variance
General	\$72,692	\$69,342	\$3,350
Special Revenue	38,370	18,948	19,422
Capital Projects	0	6,604	(6,604)
Enterprise	87,410	65,506	21,904
Total	<u>\$198,472</u>	<u>\$160,400</u>	<u>\$38,072</u>

Contrary to Ohio law, budgetary expenditures exceeded the appropriation authority in the following funds as of December 31, 2004:

- Street Construction, Maintenance and Repair Fund
- Fire Department Levy Fund
- Retaining Wall Project Fund
- Water Operating Fund
- Water System Reserve Fund

Contrary to Ohio law, budgetary expenditures exceeded the appropriation authority in the following funds as of December 31, 2003:

- Federal Emergency Management Agency Grant Fund
- Retaining Wall Project Fund

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

4. PROPERTY TAX (Continued)

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.

Public utilities are also taxed on personal and real property located within the Village.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2004, was as follows:

	Principal	Interest Rate
Mortgage Revenue Bonds	\$165,608	4.50%
Litigation Settlement	3,000	0%
Total	\$168,608	

The Mortgage Revenue Bonds were issued for the construction of a new water plant. The bonds are being paid in annual installments of \$13,151, including interest, over a twenty-five year period. The bonds will be paid from revenues derived by the Village from the operation of the water system. While the Village has made the required payments, it has not complied with all requirements of the mortgage revenue bond covenant.

The Village reached a settlement regarding litigation to which it was a defendant. The settlement required a payment of \$15,000 on February 26, 2000, and seven annual installments of \$1,000 each, which began in the year 2001 and will end in the year 2007.

Amortization of the above debt, including interest, follows:

Year ending December 31:	Mortgage Revenue Bonds	Litigation Settlement
2005	\$13,151	\$1,000
2006	13,151	1,000
2007	13,151	1,000
2008	13,151	
2009	13,151	
2010 - 2014	65,754	
2015 - 2019	65,754	
2020 - 2023	52,594	
Total	\$249,857	\$3,000

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

6. RETIREMENT SYSTEMS

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

Some of the Village's elected officials contribute to Social Security. This plan provides retirement benefits, including survivors and disability benefits, to participants. Employees contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participant's gross salaries. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village also provides medical insurance for an employee.

8. CONTINGENT LIABILITIES

The Village is a defendant in a lawsuit. Although management cannot presently determine the outcome of this suit, they believe the resolution of this matter will not materially adversely affect the Village's financial condition.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



**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 Holloway
Belmont County
P. O. Box 152
Holloway, Ohio 43985

To the Village Council:

We have audited the financial statements of the Village of Holloway, Belmont County, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated November 14, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We also were unable to satisfy ourselves as to the completeness of charges for services receipts in the Enterprise Fund. Except as described in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2004-007 through 2004-011.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-007 listed above to be a material weakness. In a separate letter to the Village's management dated November 14, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance 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 November 14, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

November 14, 2005

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(C) states that no subdivision is to expend money except by a proper warrant drawn against an appropriate fund.

The 2004 Village financial records reflected several payments for items such as a tank level indicator, newspaper ads, supplies, health insurance and lab testing were posted to the Water Deposit Fund in the amount of \$4,978. None of these items related to water deposits. These payments should have been charged to the Water Operating Fund.

The 2003 Village financial records reflected a check for the Village police protection paid, in part, from the Street Construction, Maintenance, and Repair Fund in the amount of \$1,004 and the Street Light Levy Fund in the amount of \$451. The remainder of the payment was paid appropriately from the General Fund; therefore, the \$1,455 should have been charged to the General Fund.

The Village Clerk/Treasurer has posted these adjustments to the Village records and therefore, these adjustments are reflected in the accompanying financial statements.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. Code Section 135.18(A) requires that the treasurer of a political subdivision must require the depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities, among others.

At December 31, 2004, the deposits in the bank exceeded the pledged collateral provided by the bank and the Federal Deposit Insurance Corporation coverage by \$18,596.

We recommend the Village Clerk/Treasurer obtain copies of collateral amounts pledged by the bank, at least quarterly, and monitor the checking and investment balances to ensure adequate collateral is maintained.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Rev. Code Section 733.28 states, in part, that the village clerk shall keep the books of the village, exhibit accurate statements of all monies received and expended, of all property owned by the village and the income derived there from, and of all taxes and assessments. Ohio Rev. Code Section 5705.09(F) provides that each subdivision is required to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Ohio Rev. Code Section 5705.36(A)(3) allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount included in an official certificate. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.40 provides that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of

**VILLAGE OF HOLLOWAY
BELMONT COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-003 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 733.28 (Continued)

the law as are used in making the original appropriation. Auditor of State Audit Bulletins 2000-008 and 2002-004 provide the recommended accounting treatment for on-behalf-of grants and loans.

During 2004 and 2003, Ohio Public Works Commission grant transactions in the amount of \$35,575 and \$6,604, respectively, were not recorded on the Village's accounting records or financial statements. During 2004, Community Development Block Grant transactions of \$20,500 were also not recorded on the Village's accounting records or financial statements. In accordance with Auditor of State Bulletins 2000-008 and 2002-004, both the revenue and expenditure activity of the grants should have been included. The Village failed to certify available resources to the County budget commission, and account for all appropriations to and from each appropriations fund. This resulted in the understatement of budgetary revenue and expenditure activity for the projects.

Adjustments were made to the accompanying financial statements to properly reflect this activity.

We recommend the Village follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the Village receives notice that it has been approved for funding by a State or Federal agency, it should review the reporting requirements established by Auditor of State Bulletins 2002-004 and 2000-008, create the required fund(s), certify the available resources to the County budget commission, amend its appropriations measure to account for the grant funds, and when notified that funds have been expended on its behalf, make memo entries to post the revenues and expenditures to the Village's books.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated.

At December 31, 2004, the following funds reflected expenditures exceeding appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Street Construction, Maintenance and Repair Fund	\$10,500	\$21,508	(\$11,008)
Fire Department Levy Fund	8,635	11,275	(2,640)
Retaining Wall Project Fund	0	56,075	(56,075)
Water Operating Fund	45,740	54,750	(9,010)
Water System Reserve Fund	0	7,933	(7,933)

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-004 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(B) (Continued)

At December 31, 2003, the following funds reflected expenditures exceeding appropriations:

Fund	Appropriations	Expenditures	Variance
Federal Emergency Management Agency Grant Fund	\$0	\$1,212	(\$1,212)
Retaining Wall Project Fund	0	6,604	(6,604)

We recommend the Village Clerk/Treasurer monitor all fund expenditures at the legal level of control to ensure expenditures remain within their respective budgeted amounts. The Village Clerk/Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Village Clerk/Treasurer may request Village Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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 Ohio Rev. Code Sections 5705.41(D) (1) and 5705.41 (D) (3), respectively:

Then and Now Certificate - If the fiscal officer can certify that both at the time the contract or order was made and at the time that he/she is completing his/her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003), may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-005 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D) (Continued)

Blanket Certificate – Fiscal officers may prepare “blanket” certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current year. The blanket certificate 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. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

26 percent of the tested obligations in 2004 and 10 percent of the tested obligations in 2003 paid by the Village did not have a statement attached indicating the purchase was lawfully appropriated or in the process of collection to the credit of an appropriate fund, and free from any previous encumbrance, prior to the obligation being incurred, and there was no evidence of a “Then and Now” certificate being used by the Village Clerk/Treasurer. 23 percent of the 2003 tested obligations paid by the Village were charged to super blanket certificates which were not issued for recurring and reasonably predictable expenditures.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Village Clerk/Treasurer certify that the funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, “then and now” certification should be used. Super blanket certificates should only be issued for recurring and reasonably predictable expenditures.

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

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-006

Noncompliance Citation

Section 10 of the Indenture of Mortgage between the Village and the United States Department of Agriculture Rural Development, signed September 18, 1977, contained covenants requiring, in part, the following:

- Equal monthly payments shall be made from the Water Operating Account to the Water System Revenue Bond and Interest Payment Account (Bond Payment Account) in an amount sufficient to provide payment for the interest and next ensuing principal maturity.
- Equal monthly payments shall be made from the Water Operating Account to the Water System Reserve Account until the balance of the Reserve Account is equal to 10% of the original Revenue Bonds. These monthly payments shall be made at the rate of 1/120th of the required reserve (\$162.50).
- A Surplus Fund shall be established, and into this fund the excess revenues available in the Water Operating Fund shall be transferred annually.

We noted the following instances of noncompliance:

- Although the required debt payments were made in both years, equal monthly payments were not made during 2004 or 2003 from the Water Operating Fund to the Water System Bond and Interest Fund. During 2004, three unequal payments totaling \$827 were noted. During 2003, four monthly payments of \$435 and one additional payment of \$662 was noted
- Equal monthly payments were not made during 2004 or 2003 from the Water Operating Fund to the Water System Reserve Fund in the amount prescribed by the Indenture of Mortgage. During 2004, one lump sum payment of \$1,627 was noted. During 2003, three monthly payments of \$662 were noted.
- A Surplus Fund has not been established; therefore, the excess revenues of the Water Operating Fund were not transferred annually for 2004 and 2003. We estimate that \$10,002 in excess revenues should have been transferred to the Surplus Fund during the period.

We recommend the Village allocate the required amounts from the Water Operating Fund to both the Water System Bond and Interest Fund and the Water System Reserve Fund as required by the Indenture of Mortgage. We also recommend the Village establish a Surplus Fund and make annual transfers of excess revenues from the Water Operating Fund.

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-007

Material Weakness

All local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village deposited the water user charges into its corporate checking account; however, deposit slips did not detail which customer accounts were included in the deposit. Additionally, customer payment stubs did not reflect the date paid, were bundled by month rather than by deposit, and utility records did not reflect payment dates. Records to reconcile customer payments with deposits were not always available.

As a result, we were unable to satisfy ourselves as to the completeness of charges for services receipts in the Enterprise Fund.

We recommend the Village either prepare detailed deposit slips reflecting each customer's payment or develop a separate record providing such information. We further recommend that customer payment stubs be bundled by deposit date, with a calculator tape or other supporting document attached, which will provide agreement between the deposit amount and the amount posted to customer accounts.

FINDING NUMBER 2004-008

Reportable Condition

Ohio Admin. Code Section 117-9-01(B) states village receipts are typically classified by fund and source and lists the typical source classifications of receipts for villages. In addition, Ohio Admin. Code Section 117-9-01(C) states village disbursements are typically classified by fund, program and object. Appendix A-1 of the Village Officer's Handbook also defines the numeric revenue and expenditure codes in detail for Villages.

Receipts were not always posted into an accurate fund and/or receipt line item classifications based on the source of the receipt. Expenditures were not always posted into an accurate fund and/or expenditure line item classifications based on the purpose of the expenditure. As a result, several adjusting and reclassification entries were prepared to post these revenues and expenditures into the correct funds and classifications. **(See Finding No. 2004-001)** This situation could also result in inaccurate financial information being distributed to Village officials.

We recommend the Village Clerk/Treasurer consult Ohio Administrative Code Section 117-9-01 and/or the Village Officer's Handbook, to help ensure receipts and expenditures are posted to the appropriate funds and receipt or expenditure classifications and accurate financial statements are prepared.

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-009

Reportable Condition

All local public offices should maintain or provide payroll records including: payroll journal that records, assembles and classifies by pay period the name of the employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments and information by employee, regarding leave balances and usage.

During the review of the Village's payroll system, we noted the following conditions:

- Salaries and rates of pay for Village Council, Village Board of Public Affairs, Village Clerk/Treasurer, Village Mayor, and Village employees were not approved by Village Council in the minutes for 2003. Although amounts were approved for most of these positions in 2004, several individuals appeared to receive wage increases which were not formally documented in the minute record.
- While leave was tracked in the computer system, Village Council did not approve accrual rates for sick or vacation leave, nor was there a policy in place documenting eligibility for leave. Additionally, no source documentation existed showing date, type, and amount of leave taken by employees, nor did Village Council approve such in the minute record.

These conditions could result in Village officials/employees being compensated incorrectly, incorrect compensated leave being taken by the employee and/or incorrect payment of accumulated leave to the employee upon termination of employment. Furthermore, the lack of vacation and sick leave records did not allow us to determine compliance with certain requirements.

We recommend the Village formally approve all rates of pay in the minute record, including raises approved during the year. We further recommend the Village utilize leave forms for employees taking leave. These forms should indicate the type of leave and the number of hours taken, and should be signed by the employee and supervisory personnel, Village Council, or their designee. Village Council should also adopt a policy concerning the amount of leave accrued, eligibility for such leave, carry-over of leave balances, and eligibility of payment for leave upon employment termination.

FINDING NUMBER 2004-010

Reportable Condition

The Village should address reconciling items on its monthly bank reconciliations in a timely manner.

Monthly bank reconciliations contained "Other Adjusting Factors" which were not explained and supported. As a result, the Village's bank balances did not reconcile to the fund balances per the Village's books. Reconciled fund balances are reflected in the accompanying financial statements.

We recommend the Village Clerk/Treasurer continue preparing monthly bank reconciliations and to explain and provide supporting documentation for any "Other Adjusting Factors" on the reconciliations. In addition, the Village Clerk/Treasurer should present these monthly bank reconciliations to Village Council for their review and approval.

**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-011

Reportable Condition

The management of each local public office is responsible for the five assertions underlying the information in the public office's financial statements (Existence/Occurrence, Completeness, Rights & Obligations, Valuation/Allocation, and Presentation & Disclosure). To achieve these assertions, management should consider the following internal controls:

- Ensuring that all transactions are properly authorized in accordance with management's policies;
- Ensuring that accounting records are properly designed;
- Ensuring adequate security of assets and records;
- Planning for adequate segregation of duties or compensating controls;
- Verifying the existence and valuation of assets and periodically reconcile them to the accounting records;
- Performing analytical procedures to determine the reasonableness of financial data; and
- Ensuring the collection and compilation of the data needed for the timely preparation of financial statements.

In order to facilitate efficient operation of the Village, Village Council needs to receive detailed financial information to review and approve on a regular basis. However, Village Council did not receive monthly financial reports from the Village Clerk/Treasurer for its review and approval on a regular basis. As a result, errors could and did occur that were not detected in a timely manner and Village Council's decisions could be made based on false assumptions that result in Village financial hardships.

We recommend Village Council require the Village Clerk/Treasurer provide financial information, including financial statements, bank reconciliations, budgetary comparisons, and ledgers on a monthly basis for its review. We further recommend Village Council document their approval of such information through the use of signatures, initials, or other means.

**VILLAGE OF HOLLOWAY
BELMONT 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	Ohio Rev. Code Sections 135.18 and 135.181 requires all public funds on deposit with a financial institution to be collateralized.	No	Not corrected; Reissued as Finding Number 2004-002.
2002-002	Ohio Rev. Code Section 149.351(A) states that all public records shall not be damaged or disposed of, except as provided by law.	Yes	N/A.
2002-003	Ohio Rev. Code Section 5705.39 requires that appropriations shall not exceed the total certified resources available.	Yes	N/A.
2002-004	Ohio Rev. Code Section 5705.40 states that appropriations may be amended or supplemented. Appropriations approved by Village Council did not always agree to amounts in the computer system.	No	Partially corrected; Reissued as a recommendation in the management letter.
2002-005	Indenture Of Mortgage requires monthly revenue allocations from the Water Operating Fund to the Bond Payment Account and the Reserve Account and also the establishment of a Surplus Fund.	No	Not corrected; Reissued as Finding Number 2004-006.
2002-006	Payroll System – unapproved salaries and pay rates and a lack of timecards, personnel files, withholding forms, leave forms and no established leave policy.	No	Not corrected; Reissued as Finding Number 2004-009.
2002-007	Posting of Receipts – amounts were not always posted to the correct receipt account classification.	No	Not corrected; Reissued as Finding Number 2004-008.
2002-008	Approval of Lines of Credit – no formal approval by Village Council for open lines of credit established for the Village.	Yes	N/A.



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**VILLAGE OF HOLLOWAY
BELMONT COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2005**