

# **Village of Scio**

*Audited Financial Statements*

*December 31, 2006 and 2005*





# Mary Taylor, CPA

## Auditor of State

Village Council  
Village of Scio  
306 East Main St.  
Scio, OH 43988-0307

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

### Findings for Recovery

1) For the pay period March 15, 2006 through March 31, 2006, the Bi-Monthly Sheet for Tina M. Knapp reflected 88 hours of regular time and 16 hours of overtime worked. However, Village payroll records reflect that Ms. Knapp was paid for 26 hours of overtime for this pay period. Ms. Knapp's overtime rate of pay was \$15 per hour. As a result of this situation, Ms. Knapp was overpaid \$150 (10 hours of overtime @ \$15 per hour).

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State ex. Rel. Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended hereby issued against Tina M. Knapp, Patricia Copeland, Village Clerk, and Utica Mutual Insurance Company, her bonding company, jointly and severally, in the amount of \$150, and in favor of the Village of Scio.

Patricia Copeland should be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Tina M. Knapp, Village employee.

Village Council  
Re: Village of Scio  
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2) Village Council approved Ronald Scotts' salary at \$35 per Council meeting effective January 1, 2005. Council attendance records reflect Mr. Scotts' attendance at 24 Council Meetings for both 2005 and 2006. As such, Mr. Scott was entitled to payment of \$840 for each year. However, Village payroll records reflect that Mr. Scott was paid \$1,520 for 2005 and \$805 for 2006. The net effect was an overpayment to Mr. Scott of \$645 for the period January 1, 2005 through December 31, 2006.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code Section 9.39; State ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended hereby issued against Ronald E. Scott, Jackie Hendricks, Village Clerk, and Utica Mutual Insurance Company, her bonding company, jointly and severally, in the amount of \$645, and in favor of the Village of Scio.

Jackie Hendricks shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Ronald E. Scott, Village Council Member.

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

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

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA  
Auditor of State

December 17, 2007

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**VILLAGE OF SCIO  
HARRISON COUNTY**

**DECEMBER 31, 2006 AND 2005**

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## Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

*Focused on Your Future.*

November 15, 2007

Mayor and Members of Council  
Village of Scio  
Scio, OH 44613

### Independent Auditor's Report

We have audited the accompanying financial statements of the Village of Scio (the "Village") as of and for the years ended December 31, 2006 and 2005, as listed in the table of contents. 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 audits.

We conducted our audits 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 obtain reasonable assurance about 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 audits provide a reasonable basis for our opinion.

As described in Note 1, the Village prepares its financial statements using accounting practices prescribed or permitted by the Auditor of State. 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 years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as December 31, 2006 and 2005, or its changes in financial position or cash flows of its proprietary funds for the years then ended.



Village of Scio  
Independent Auditor's Report  
November 15, 2007

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, 2006 and 2005, and its combined cash receipts and disbursements for the years ended on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we also have issued our report dated November 15, 2007 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

*Kea & Associates, Inc.*

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, 2006

	General	Special Revenue	Capital Projects	(Memorandum Only) Total
<b>CASH RECEIPTS:</b>				
Property Tax and Other Local Taxes	\$ 30,186	\$ 6,188	\$ 0	\$ 36,374
Municipal Income Tax	11,595	0	34,784	46,379
Intergovernmental Revenue	19,987	39,339	56,000	115,326
Charges For Services	0	185	0	185
Fines, Licenses and Permits	1,102	0	0	1,102
Interest	3,269	0	0	3,269
Miscellaneous	30,557	4,601	0	35,158
<b>Total Cash Receipts</b>	<b>96,696</b>	<b>50,313</b>	<b>90,784</b>	<b>237,793</b>
<b>CASH DISBURSEMENTS:</b>				
<b>Current:</b>				
Security of Persons	11,797	0	0	11,797
Public Health Services	570	0	0	570
Leisure Time Activities	0	5,571	0	5,571
Transportation	0	43,881	0	43,881
General Government	58,628	2,772	3,820	65,220
Capital Outlay	0	0	86,533	86,533
<b>Total Cash Disbursements</b>	<b>70,995</b>	<b>52,224</b>	<b>90,353</b>	<b>213,572</b>
<b>Total Cash Receipts Over (Under) Cash Disbursements</b>	<b>25,701</b>	<b>(1,911)</b>	<b>431</b>	<b>24,221</b>
<b>OTHER FINANCING RECEIPTS (DISBURSEMENTS):</b>				
Other Financing Uses	(5,902)	0	(96)	(5,998)
<b>Total Other Financing Receipts (Disbursements)</b>	<b>(5,902)</b>	<b>0</b>	<b>(96)</b>	<b>(5,998)</b>
<b>Total Cash Receipts and Other Financing Receipts Over (Under) Cash Disbursements and Other Financing Disbursements</b>	<b>19,799</b>	<b>(1,911)</b>	<b>335</b>	<b>18,223</b>
<b>FUND CASH BALANCES, January 1, 2006</b>	<b>72,123</b>	<b>38,547</b>	<b>77,259</b>	<b>187,929</b>
<b>FUND CASH BALANCES, December 31, 2006</b>	<b>\$ 91,922</b>	<b>\$ 36,636</b>	<b>\$ 77,594</b>	<b>\$ 206,152</b>

The accompanying notes are an integral part of these financial statements.

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, 2006

	Proprietary
	Enterprise Funds
OPERATING CASH RECEIPTS:	
Charges for services	\$ 173,753
Other operating receipts	30
Total Operating Cash Receipts	173,783
OPERATING CASH DISBURSEMENTS:	
Personal services	40,360
Contractual services	28,849
Material and supplies	76,081
Total Operating Cash Disbursements	145,290
Operating Income	28,493
NON-OPERATING CASH RECEIPTS:	
Other non-operating receipts	375
NON-OPERATING CASH DISBURSEMENTS:	
Debt service:	
Principal retirement	20,660
Interest and fiscal charges	2,760
Total Non-operating Cash Disbursements	23,420
Net Cash Receipts Over Cash Disbursements	5,448
FUND CASH BALANCES, January 1, 2006	86,142
FUND CASH BALANCES, December 31, 2006	\$ 91,590

The accompanying notes are an integral part of these financial statements.

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, 2005

	General	Special Revenue	Capital Projects	(Memorandum Only) Total
<b>CASH RECEIPTS:</b>				
Property Tax and Other Local Taxes	\$ 28,600	\$ 6,498	\$ 0	\$ 35,098
Municipal Income Tax	49,536	0	0	49,536
Intergovernmental Revenue	26,273	44,322	10,105	80,700
Charges For Services	0	345	0	345
Fines, Licenses and Permits	2,133	0	0	2,133
Interest	2,111	0	0	2,111
Miscellaneous	5,054	67	0	5,121
<b>Total Cash Receipts</b>	<b>113,708</b>	<b>51,232</b>	<b>10,105</b>	<b>175,045</b>
<b>CASH DISBURSEMENTS:</b>				
<b>Current:</b>				
Security of Persons	12,119	0	0	12,119
Public Health Services	574	0	0	574
Leisure Time Activities	0	4,160	0	4,160
Transportation	0	45,268	0	45,268
General Government	61,692	2,879	0	64,571
Capital Outlay	0	6,407	83,786	90,193
<b>Total Cash Disbursements</b>	<b>74,385</b>	<b>58,714</b>	<b>83,786</b>	<b>216,885</b>
<b>Total Cash Receipts Over (Under) Cash Disbursements</b>	<b>39,323</b>	<b>(7,482)</b>	<b>(73,681)</b>	<b>(41,840)</b>
<b>OTHER FINANCING RECEIPTS (DISBURSEMENTS):</b>				
Proceeds from Loans	0	0	42,702	42,702
Transfers - In	0	750	37,152	37,902
Transfers - Out	(37,902)	0	0	(37,902)
<b>Total Other Financing Receipts (Disbursements)</b>	<b>(37,902)</b>	<b>750</b>	<b>79,854</b>	<b>42,702</b>
<b>Total Cash Receipts and Other Financing Receipts Over (Under) Cash Disbursements and Other Financing Disbursements</b>	<b>1,421</b>	<b>(6,732)</b>	<b>6,173</b>	<b>862</b>
<b>FUND CASH BALANCES, January 1, 2005</b>	<b>70,702</b>	<b>45,279</b>	<b>71,086</b>	<b>187,067</b>
<b>FUND CASH BALANCES, December 31, 2005</b>	<b>\$ 72,123</b>	<b>\$ 38,547</b>	<b>\$ 77,259</b>	<b>\$ 187,929</b>

The accompanying notes are an integral part of these financial statements.

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, 2005

	Proprietary
	Enterprise Funds
OPERATING CASH RECEIPTS:	
Charges for services	\$ 173,429
Other Operating Revenue	322
	173,751
Total Operating Cash Receipts	
OPERATING CASH DISBURSEMENTS:	
Personal services	40,058
Contractual services	41,787
Material and supplies	55,111
	136,956
Total Operating Cash Disbursements	
Operating Income	36,795
NON-OPERATING CASH RECEIPTS:	
Other non-operating receipts	650
NON-OPERATING CASH DISBURSEMENTS:	
Debt service:	
Principal retirement	18,992
Interest and fiscal charges	6,101
	25,093
Total Non-Operating Disbursements	
Net Cash Receipts Over Cash Disbursements	12,352
FUND CASH BALANCES, January 1, 2005	73,790
FUND CASH BALANCES, December 31, 2005	\$ 86,142

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF SCIO, OHIO**  
**HARRISON COUNTY**

**Notes to the Financial Statements**  
**December 31, 2006 and 2005**

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**NOTE 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.

**VILLAGE OF SCIO, OHIO  
HARRISON COUNTY**

**Notes to the Financial Statements  
December 31, 2006 and 2005**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 construction, maintaining and repairing Village streets.

**3. Capital Projects 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 legal 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. Unencumbered appropriations lapse at year end.

**VILLAGE OF SCIO, OHIO  
HARRISON COUNTY**

**Notes to the Financial Statements  
December 31, 2006 and 2005**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**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 cancelled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

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

**NOTE 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 as December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 241,231	\$ 219,635
Certificates of deposit	<u>56,511</u>	<u>54,436</u>
Total deposits	<u>\$ 297,742</u>	<u>\$ 274,071</u>

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



**VILLAGE OF SCIO, OHIO  
HARRISON COUNTY**

**Notes to the Financial Statements  
December 31, 2006 and 2005**

**NOTE 3: BUDGETARY ACTIVITY**

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

2006 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 93,184	\$ 96,696	\$ 3,512
Special Revenue	41,310	50,313	9,003
Capital Projects	106,000	90,784	(15,216)
Enterprise	170,000	174,158	4,158
Total	<u>\$ 410,494</u>	<u>\$ 411,951</u>	<u>\$ 1,457</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 142,662	\$ 76,897	\$ 65,765
Special Revenue	63,617	52,224	11,393
Capital Projects	124,395	90,449	33,946
Enterprise	251,090	168,710	82,380
Total	<u>\$ 581,764</u>	<u>\$ 388,280</u>	<u>\$ 193,484</u>

2005 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 151,286	\$ 113,708	\$ (37,578)
Special Revenue	39,758	51,982	12,224
Capital Projects	0	108,603	108,603
Enterprise	204,800	174,401	(30,399)
Total	<u>\$ 395,844</u>	<u>\$ 448,694</u>	<u>\$ 52,850</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 225,659	\$ 161,860	\$ 63,799
Special Revenue	101,057	58,714	42,343
Capital Projects	0	52,857	(52,857)
Enterprise	235,684	162,049	73,635
Total	<u>\$ 562,400</u>	<u>\$ 435,480</u>	<u>\$ 126,920</u>

**VILLAGE OF SCIO, OHIO  
HARRISON COUNTY**

**Notes to the Financial Statements  
December 31, 2006 and 2005**

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**NOTE 4: PROPERTY TAXES**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the financial statements as intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to make semi-annual payments, the first half 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.

**NOTE 5: LOCAL INCOME TAX**

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as a 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.

The Village's income tax ordinance allocates twenty-five percent of income tax collections to the General Fund and the remaining seventy-five percent to the Income Tax Permanent Improvement Fund. The Village reported all income tax collections into the General Fund in 2005 and prior years and then transferred the seventy-five percent to the Income Tax Permanent Improvement Fund. In 2006, the Village changed their method in recording income tax collections among their funds. In 2006, the Village recorded income tax collections directly into the General and Income Tax Permanent Improvement Fund which is in accordance with the Village's Income Tax Ordinance.

**NOTE 6: DEBT**

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works	\$ 21,702	0.00%
Ohio Water Development Authority Loan #3882	90,225	2.00%
Ohio Water Development Authority Loan #2107	46,014	6.32%
Total	<u>\$ 157,941</u>	

**VILLAGE OF SCIO, OHIO  
HARRISON COUNTY**

**Notes to the Financial Statements  
December 31, 2006 and 2005**

**NOTE 6: DEBT (Continued)**

The Ohio Public Works Commission (OPWC) loan #CN32A was used by the water and sewer department for various improvement projects. The loan was issued on November 1, 1999 for \$34,724 and is due on July 1, 2019. The loan will be repaid in semi-annual 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 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 semi-annual installments. 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.

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 plus capitalized interest of 20.92 percent, a total of \$105,843. The loan is for 20 years at a two percent interest rate. The loan will be repaid in semi-annual 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:

<u>Year ending December 31</u>	<u>OPWC Loan</u>	<u>OWDA Loans</u>
2007	\$ 1,736	\$ 11,284
2008	1,736	11,284
2009	1,736	11,284
2010	1,736	11,284
2011	1,736	11,284
2012-2016	8,681	56,422
2017-2021	<u>4,341</u>	<u>56,422</u>
Totals	<u>\$ 21,702</u>	<u>\$ 169,264</u>

**NOTE 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 post-retirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPFPF participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 9.0 and 9.5 percent of their wages respectively. The Village contributed an amount equal to 13.44 and 13.55 percent of participants' gross salaries respectively. The Village has paid all contributions required through December 31, 2006 to the Ohio Public Employees Retirement System (OPERS).

**VILLAGE OF SCIO, OHIO**  
**HARRISON COUNTY**

**Notes to the Financial Statements**  
**December 31, 2006 and 2005**

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**NOTE 8: RISK MANAGEMENT**

**Risk Pool Membership**

The Government belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Plan is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes certain premiums to reinsurers to excess reinsurers. The Pool is contingently liable should any reinsurer be unable to meet its reinsurance obligations.

Members may withdraw at the end of any coverage period upon 60 days' prior notice to the Pool. A withdrawing member not providing the required notification remains responsible for its unpaid claims, and also remains liable for additional assessments (if any) for years during which they were members.

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

	<u>2006</u>	<u>2005</u>
Assets	\$ 2,331,284	\$ 2,241,661
Liabilities	<u>(3,130,475)</u>	<u>(3,457,720)</u>
Accumulated Deficit	<u>\$ (799,191)</u>	<u>\$ (1,216,059)</u>

**NOTE 9: COMPLIANCE**

Contrary to Ohio Revised Code Section 733.28, the Village Clerk did not keep accurate records of all Village receipt ledgers.



November 15, 2007

Mayor and Members of Council  
City of Steubenville  
Steubenville, OH 43952

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Village of Scio (the "Village") as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiencies in internal control over financial reporting. The significant deficiency is reported as finding 2006-006.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Village of Scio, Ohio  
Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

Internal Control Over Financial Reporting (continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2006-006 to be a material weakness. We also noted certain matters that we reported to management of the Village in a separate letter dated November, 15, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2006-001 through 2006-005. We also noted certain immaterial instances of non-compliance that we reported to management of the Village in a separate letter dated November 15, 2007.

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

*Res & Associates, Inc.*

VILLAGE OF SCIO  
HARRISON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2006 AND 2005

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Non-Compliance Citations**

<b>Finding Number</b>	<b>2006-001</b>
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**Ohio Rev. 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 certifying 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.

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.

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 \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of 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 legislature 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 extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

VILLAGE OF SCIO  
HARRISON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2006 AND 2005

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2006-001 (continued)</b>
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The Village did not properly certify or record the amount against the applicable appropriation accounts for 11 of 23 (48%) of tested expenditures in 2005 and 2006. 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 and 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 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 to authorize 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.

**Village's Response:** The Village of Scio has begun reviewing all expenditures, when invoices are received, to note if the date on the PO is prior to the invoice date. If not, the Village is now using a Then & Now notification so that they are in compliance with ORC 5705.41(D).

<b>Finding Number</b>	<b>2006-002</b>
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**Ohio Rev. 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 as of December 31, 2005:

Fund	Total Resources	Appropriations	Variance
General Fund	\$121,462	\$139,382	(\$17,920)
State Highway Fund	2,741	4,384	(1,643)
Main St. Water Project Fund	50	39,919	(39,869)
Permissive MVL Fund	2,359	3,000	(641)



Income Tax Fund	48,000	86,277	(38,277)
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VILLAGE OF SCIO  
HARRISON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2006 AND 2005

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2006-002 (continued)</b>
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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.

**Village's Response:** The Village of Scio corrected this during 2006. The Clerk is now reviewing appropriations on a regular basis and verifying if she needs to get an amended certificate of estimated resources from the county.

<b>Finding Number</b>	<b>2006-003</b>
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**Ohio Rev. Code Section 5705.41(B)** states no subdivision or taxing unit is to expend money unless it has been appropriated. The following funds had disbursements which exceeded appropriations as of December 31, 2005 and 2006:

Funds (2005)	Appropriations	Expenditures	Variance
Street Construction Maintenance & Repair Fund	\$35,652	\$43,419	(\$7,768)
FEMA Fund	0	6,407	(6,407)
Main St. Water Project Fund	39,919	52,857	(12,938)

Funds (2006)	Appropriations	Expenditures	Variance
Parkl Fund	\$2,720	\$5,645	(\$2,925)
FEMA Fund	0	2,546	(2,546)
Police Levy Fund	0	152	(152)
OPWC – Pump Station Repair Fund	0	56,000	(56,000)

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.

**Village's Response:** The Clerk will review appropriation/expenditure ledgers throughout the year and have Village Council approve supplemental appropriation measures as needed.

VILLAGE OF SCIO  
HARRISON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2006 AND 2005

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b>
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<b>Finding Number</b>	<b>2006-004</b>
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**Ohio Rev. Code Section 5705.40** states any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them.

During 2005 and 2006, we noted the Village Clerk posted the appropriation measures to the computer system, however, the amount posted to the system did not agree to the amount approved by Village Council.

The Clerk should verify the amounts entered into the computer system for the appropriations agree to the amounts approved by Village Council.

**Village's Response:** The Village of Scio did not review appropriations entered into the new computer system. The Village will review and verify all appropriation measures are entered into the system and agree to the amounts approved in the minutes.

<b>Finding Number</b>	<b>2006-005</b>
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**Ohio Rev. Code Section 733.28** requires 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 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, transfers in and out and other disbursements. 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 monies 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.

**Village's Response:** The Village of Scio will begin posting all amounts correctly according to the Village Officer's Handbook.

VILLAGE OF SCIO  
HARRISON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES  
DECEMBER 31, 2006 AND 2005

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)</b></p>
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**Material Weakness**

<b>Finding Number</b>	<b>2006-006</b>
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The Village's payroll function lacked internal controls. As a result, our testing revealed several errors had occurred without being detected by Village employees. Examples of errors found were overpayments to a council member and the water superintendent; an underpayment to an employee's holiday pay; and two instances where medicare taxes were not withheld. Also, there were three instances where the Village was unable to locate the employee's timesheet; and two payroll period reports that could not be located to support payroll checks written for that period.

We recommend the Village implement a control requiring an employee other than the person doing the payroll to review and approve (by signing off) each bi-weekly payroll report prior to finalizing the payroll checks. Also, a formal payroll manual should be created and followed. The manual should include documentation of how to gather payroll information, inputting said information, and full utilization of the system and its reports. Finally, all Village employee timesheets and all payroll reports should be kept in an organized manner.

**Village's Response:** The Village of Scio will implement a payroll control process where someone other than the person performing the payroll function will review the bi-weekly payrolls.

VILLAGE OF SCIO  
HARRISON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2004-001	A finding for recovery was issued against Zelma Brooks in the amount of \$385.81 and in favor of the Village's General Fund.	Yes	
2004-002	ORC Section 5705.41(D) Disbursements were not properly certified.	No	Repeated as Finding Number 2006-001
2004-003	ORC Section 5705.39 Appropriations exceeded the total estimated revenue available for expenditures.	No	Repeated as Finding Number 2006-002
2004-004	ORC Section 5705.41(B) Expenditures exceeded appropriations.	No	Repeated as Finding Number 2006-003
2004-005	ORC Section 733.28 The Clerk failed to keep accurate records for the Village.	No	Repeated as Finding Number 2006-005
2004-006	ORC Sections 733.43 and 733.44 The Treasurer should keep separate records and reconcile her records to the Clerk's records of the Village.	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  
DECEMBER 31, 2007**