

***VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Village Council
Village of Bowerston
P.O. Box 2
205 Water Alley
Bowerston, Ohio 44695

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

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* 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 *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 11, 2009

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**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2006 & 2005**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Bowerston
Harrison County
P O Box 2
205 Water Alley
Bowerston, Ohio 44695

To the Village Council:

We have audited the accompanying financial statements of the Village of Bowerston, Harrison County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the 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 governments to reformat their statements. The Village has elected not to reformat its statements. Since the 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 of December 31, 2006 and 2005, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Bowerston, Harrison County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements and changes in fund cash balances 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 years ended December 31, 2006 and 2005. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2009, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Charles E. Harris & Associates, Inc.

January 23, 2009

VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2006

	Governmental Fund Types				Total Memorandum Only
	General	Special Revenue	Debt Service	Capital Projects	
Receipts:					
Property and Local Taxes	\$ 10,350	\$ 8,015	\$ -	\$ -	\$ 18,365
Municipal Income Taxes	138,080	-	-	15,343	153,423
Intergovernmental	24,303	14,239	-	-	38,542
Charges for Services	850	-	-	-	850
Fines, Licenses and Permits	3,004	-	-	-	3,004
Earnings on Investments	18,515	584	-	-	19,099
Miscellaneous	9,776	-	-	-	9,776
Total Receipts	204,878	22,838	-	15,343	243,059
Disbursements:					
Current:					
Security of Persons & Property	4,391	-	-	-	4,391
Public Health Services	276	-	-	-	276
Leisure Time Activities	4,114	2,225	-	-	6,339
Basic Utility Services	258	-	-	-	258
Transportation	-	3,162	-	-	3,162
General Government	81,903	9,555	-	-	91,458
Capital Outlay	57,948	618	-	-	58,566
Debt Service:					
Principal	-	-	5,000	-	5,000
Total Disbursements	148,890	15,560	5,000	-	169,450
Total Receipts Over/(Under)					
Disbursements	55,988	7,278	(5,000)	15,343	73,609
Other Financing Sources/(Uses):					
Transfers-In	-	-	5,000	-	5,000
Advances-In	-	-	37,750	-	37,750
Transfers-Out	(5,000)	-	-	-	(5,000)
Advances-Out	(37,750)	-	-	-	(37,750)
Total Other Financing Sources/(Uses)	(42,750)	-	42,750	-	-
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	13,238	7,278	37,750	15,343	73,609
Fund Cash Balance, January 1, 2006	214,129	18,560	-	55,185	287,874
Fund Cash Balance, December 31, 2006	\$ 227,367	\$ 25,838	\$ 37,750	\$ 70,528	\$ 361,483

See Accompanying Notes to the Financial Statements.

VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2005

	Governmental Fund Types				Total Memorandum Only
	General	Special Revenue	Debt Service	Capital Projects	
Receipts:					
Property and Local Taxes	\$ 19,716	\$ 8,943	\$ -	\$ -	\$ 28,659
Municipal Income Taxes	164,497	-	-	18,277	182,774
Intergovernmental	13,759	13,357	-	22,881	49,997
Charges for Services	2,000	-	-	-	2,000
Fines, Licenses and Permits	1,878	-	-	-	1,878
Earnings on Investments	11,812	449	-	-	12,261
Miscellaneous	2,603	250	-	-	2,853
Total Receipts	216,265	22,999	-	41,158	280,422
Disbursements:					
Current:					
Security of Persons & Property	4,224	-	-	-	4,224
Public Health Services	532	-	-	-	532
Leisure Time Activities	4,584	3,311	-	-	7,895
Community Environment	10	-	-	-	10
Basic Utility Services	213	-	-	-	213
Transportation	39,325	11,766	-	-	51,091
General Government	74,889	10,907	-	-	85,796
Capital Outlay	53,398	250	-	2,997	56,645
Debt Service:					
Principal	-	-	5,000	-	5,000
Total Disbursements	177,175	26,234	5,000	2,997	211,406
Total Receipts Over/(Under) Disbursements	39,090	(3,235)	(5,000)	38,161	69,016
Other Financing Sources/(Uses):					
Transfers-In	-	-	5,000	-	5,000
Transfers-Out	(5,000)	-	-	-	(5,000)
Other Financing Uses	(9,285)	-	-	-	(9,285)
Total Other Financing Sources/(Uses)	(14,285)	-	5,000	-	(9,285)
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	24,805	(3,235)	-	38,161	59,731
Fund Cash Balance, January 1, 2005	189,324	21,795	-	17,024	228,143
Fund Cash Balance, December 31, 2005	\$ 214,129	\$ 18,560	\$ -	\$ 55,185	\$ 287,874

See Accompanying Notes to the Financial Statements.

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES -
All Proprietary Funds
For the Year Ended December 31, 2006**

		<u>Proprietary Fund Types</u>
		<u>Enterprise</u>
Receipts:		
Charges for Services	\$	<u>126,939</u>
Total Receipts		126,939
Disbursements:		
Personal Services		48,253
Employee Fringe Benefits		7,595
Contractual Services		24,581
Materials and Supplies		<u>27,177</u>
Total Disbursements		<u>107,606</u>
Excess of Receipts Over (Under) Disbursements		19,333
Nonoperating Receipts (Disbursements):		
Debt Service:		
Principal		(17,500)
Interest		<u>(19,250)</u>
Total Nonoperating Receipts (Disbursements)		<u>(36,750)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements		(17,417)
Fund Balance, January 1, 2005		<u>94,574</u>
Fund Balance, December 31, 2005	\$	<u><u>77,157</u></u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES -
All Proprietary Funds
For the Year Ended December 31, 2005**

	Proprietary Fund Types
	Enterprise
Receipts:	
Charges for Services	\$ <u>128,186</u>
Total Receipts	128,186
Disbursements:	
Personal Services	44,718
Employee Fringe Benefits	7,342
Contractual Services	24,624
Materials and Supplies	26,941
Capital Outlay	<u>30,000</u>
Total Disbursements	<u>133,625</u>
Excess of Receipts Over (Under) Disbursements	(5,439)
Nonoperating Receipts (Disbursements):	
Proceeds of Loans	30,000
Debt Service:	
Principal	(18,599)
Interest	<u>(20,215)</u>
Total Nonoperating Receipts (Disbursements)	<u>(8,814)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements	(14,253)
Fund Balance, January 1, 2005	<u>108,827</u>
Fund Balance, December 31, 2005	\$ <u><u>94,574</u></u>

See Accompanying Notes to the Financial Statements.

VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Bowerston, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general government, water and sewer utilities, street repair and maintenance, and park operations. The Village contracts with the Bowerston Volunteer Fire Department to provide fire protection services.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved.)

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING - (Continued)

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds: These funds are used to account for proceeds from special sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. Significant special revenue funds follow:

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

Debt Service Fund: These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

- General Obligation Debt Service Fund - This fund is used to accumulate funds and make payments on outstanding debt of the Village.

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

- Capital Improvement Fund - This fund receives 10% of the municipal income tax and intergovernmental revenue to construct and/or repair the Village streets.

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

VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Clerk, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the County Budget Commission and sent to the Village Clerk by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Clerk sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the County Budget Commission for approval. This amended certificate may be further amended during the year if projected increases or the Clerk identifies decreases in revenue. The amounts reported in the budgetary footnote reflect the amounts in the final amended certificates issued during 2006 and 2005.

Budget receipts, as shown in footnote number 4, do not include the unencumbered fund balances as of January 1, 2006 and 2005. However, those fund balances are available for appropriation.

2. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control and appropriations may not exceed estimated resources. A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available.

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS – (Continued)

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year end are carried forward to the subsequent year and need not be reappropriated.

A summary of budgetary activity appears in Note 5.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon termination of employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	2006	2005
Demand deposits	\$ 438,640	\$ 382,448

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

3. PROPERTY TAXES

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2006.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as intergovernmental receipts.

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

Tangible personal property tax is assessed on the property owners, who must file a list of such property to the County by each April 30.

The County Treasurer collects property tax on behalf of all taxing Villages within the county. The County Auditor periodically remits to the taxing Village their portions of the taxes collected.

4. 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 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.

Total income taxes collected in 2006 and in 2005 were \$153,423 and \$182,774, respectively.

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

5. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2006 follows:

<u>2006 Budgeted vs Actual Receipts</u>				
Fund	Budgeted Receipts	Actual Receipts	Variance	
General Fund	\$ 105,843	\$ 204,878	\$ 99,035	
Special Revenue Funds	16,650	22,838	6,188	
Debt Service Funds	43,264	42,750	(514)	
Capital Project Funds	4,500	15,343	10,843	
Enterprise Funds	122,940	126,939	3,999	
<u>2006 Budgeted vs Actual Budgetary Basis Disbursements</u>				
Fund	Appropriation Authority	Budgetary Disbursements	Variance	
General Fund	\$ 215,205	\$ 191,640	\$ 23,565	
Special Revenue Funds	23,475	15,560	7,915	
Debt Service Funds	5,000	5,000	-	
Capital Project Funds	3,000	-	3,000	
Enterprise Funds	192,640	144,356	48,284	

Budgetary activity for the year ended December 31, 2005 follows:

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

5. BUDGETARY ACTIVITY – (Continued)

<u>2005 Budgeted vs Actual Receipts</u>			
<u>Fund</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 81,391	\$ 216,265	\$ 134,874
Special Revenue Funds	16,754	22,999	6,245
Debt Service Funds	43,264	5,000	(38,264)
Capital Project Funds	4,500	41,158	36,658
Enterprise Funds	122,940	158,186	35,246

<u>2005 Budgeted vs Actual Budgetary Basis Disbursements</u>			
<u>Fund</u>	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General Fund	\$ 132,905	\$ 191,460	\$ (58,555)
Special Revenue Funds	28,600	26,234	2,366
Debt Service Funds	7,764	5,000	2,764
Capital Project Funds	3,000	2,997	3
Enterprise Funds	186,654	172,439	14,215

6. RETIREMENT SYSTEM

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. In 2005, OPERS participants contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of their wages. In 2006, OPERS participants contributed 9.0% of their wages. The Village contributed an amount equal to 13.70% of their wages. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

7. DEBT

Debt outstanding at December 31, 2006 was as follows:

Description	Principal	Interest Rate
OPWC Loan-Penn Ave/State St Widening	\$ 32,500	0.00%
OPWC Loan-Water Treatment Plant Upgrade	28,500	0.00%
FHA Mortgage Revenue Bonds	369,000	5.00%
	\$ 430,000	

The Ohio Public Works Commission (OPWC) loan relates to a Penn Avenue/State Street widening and resurfacing capital project within the Village. The original loan was for \$50,000 dated August 29, 2001 at 0% interest for 10 years. The loan will be repaid in semiannual payments of \$2,500. The Village's taxing authority collateralizes the OPWC loan.

The Ohio Public Works Commission (OPWC) loan relates to a Water Treatment Plant upgrade. The original loan was for \$30,000 dated July 6, 2005 at 0% interest for 10 years. The loan will be repaid in semiannual payments of \$1,500 starting July 1, 2006. The Village's taxing authority collateralizes the OPWC loan.

The FHA Sanitary Sewer System Mortgage Revenue Bonds were issued for the construction of a new sanitary sewer system. The original amount was \$600,000 dated March 1, 1981. These bonds are redeemed at a rate of approximately \$35,500, including interest, paid annually over 40 years. The bonds are collateralized by sewer receipts.

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

Year Ended	OPWC Street Widening	OPWC Water Upgrade	Mortgage Revenue Bonds
2007	\$ 5,000	\$ 3,000	\$ 35,450
2008	5,000	3,000	35,600
2009	5,000	3,000	35,700
2010	5,000	3,000	35,750
2011	5,000	3,000	35,750
2012-2016	7,500	13,500	177,000
2017-2021	-	-	177,850
Total	\$ 32,500	\$ 28,500	\$ 533,100

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

Settled claims have not exceeded commercial coverage in any of the past three years. Also, the Village did not reduce the limits of liability significantly in the current period.

9. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits.

10. LEGAL COMPLIANCE

Contrary to Ohio Revised Code Section 5705.41 (B), expenditure plus encumbrances exceeded appropriations in several funds.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS

Village of Bowerston
Harrison County
P O Box 2
205 Water Alley
Bowerston, Ohio 44695

To the Village Council:

We have audited the financial statements of the Village of Bowerston, Harrison County Ohio (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated January 23, 2009, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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 Controls 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 have 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 Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2006-001 and 2006-002 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We believe the significant deficiencies described above to be material weaknesses.

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, grants agreements and other matters, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-003.

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

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

Charles E. Harris and Associates, Inc.

January 23, 2009

**VILLAGE OF BOWERSTON
HARRISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

Finding # 2006-001

Material Weakness

We noted the following issue during our testing of the Village's fund structure:

During May of 2005 the Village converted their manual accounting system to the Uniform Accounting Network provided by a division of the State Auditor's Office. During the conversion process three funds were incorrectly recorded into UAN as Enterprise funds. The following funds had material audit adjustments to move the activity and fund balances into the proper fund classifications. The first column is the posted UAN conversion fund title, the second column is the proper fund category.

Incorrect Fund

Corrected Fund

Enterprise Debt Service
Enterprise Improvements
Other Enterprise

Debt Service - General Obligation Debt Service
Capital Projects - Capital Improvements
Special Revenue - State Highway

We recommend the Village review all current and future fund classification to ensure they are properly classified.

Management Response:

Management has corrected the funds on the UAN system as of January 1, 2009.

Finding # 2006-002

Material Weakness

The Village had significant posting errors during the fiscal years 2006 and 2005. These errors were the result of the UAN conversion and the Clerk's failure to recognize classification errors and the sources of revenue and inconsistencies when posting receipts and expenditures. The errors noted are as follows:

- Debt service payments were posted incorrectly. Payments were recorded twice and amounts were added to the line item Miscellaneous Receipts during the UAN conversion process to correct the original error resulting in audit adjustments of \$43,564 in the Enterprise Debt Service Fund (changed to General Obligation Debt Service in finding # 2006-001) to correct the respective line items.
- A correction for a UAN conversion error caused the fund balance in the Sewer Operating fund to be understated by \$3,290 and the Enterprise Debt Service fund (General Obligation Debt Service) to be overstated by the same amount.

- A correction for a UAN conversion error caused the fund balance in the Other Enterprise fund (State Highway fund) to be understated by \$250 and the Enterprise Debt Service Reserve fund to be overstated by the same amount.
- Ten percent of the Village Income Tax is required to be deposited into the Capital Improvement Fund. This percentage was recorded into the Other Enterprise Fund (changed to Special Revenue - State Highway fund in finding # 2006-001) for 2006 and 2005 resulting in positive fund balance adjustments for the Capital Improvement Fund of \$15,567 and \$18,530 respectively and decreases of those amounts in the Other Enterprise Fund (Special Revenue - State Highway fund).
- Expenditures were improperly recorded as Transfers-Out. During 2005 a payment of \$44,405 was recorded as a transfer out in the General Fund instead of as Capital Outlay resulting in an audit adjustment.
- Debt Service payments for the FHA Sanitary Sewer System Mortgage Revenue Bonds are to be paid out of the Sewer Operating Fund. In 2006 the payments were made out of the previously known Enterprise Debt Service fund (changed to the General Obligation Debt Service in finding 2006-001). The audit adjustment caused an increase in the Enterprise Debt Service fund (General Obligation Debt Service) and a decrease in the Sewer Operating Fund of \$35,250.
- Debt Service payments for the OPWC loan related to the Penn Avenue/State Street widening and resurfacing project are to be paid out of the General Obligation Debt Service (previously the Enterprise Debt Service fund). In 2006 one payment was made out of the Enterprise Debt Service fund (General Obligation Debt Service) and one payment was made from the Sewer Operating fund. The audit adjustment caused a decrease in the Enterprise Debt Service fund (General Obligation Debt Service) fund balance and an increase in the Sewer Operating Fund of \$2,500.
- Debt service payments were improperly allocated between Principal and Interest and Fiscal Charges. This resulted in audit adjustments in the Sewer Operating Fund decreasing the Principal paid and increasing the Interest and Fiscal Charges for 2006 and 2005 by \$19,250 and \$20,050 respectively. Also, \$8,000 was improperly recorded as Principal paid where it should have been recorded as Contractual Services resulting in an audit adjustment.
- A transfer was made in 2006 from the General fund to the Water Operating fund in the amount of \$5,000. This transfer was for the payment of the Penn Avenue/State Street widening and resurfacing project which is to be paid from the Enterprise Debt Service fund (General Obligation Debt Service). The audit adjustment to correct the improper transfer caused an increase in the Enterprise Debt Service fund (General Obligation Debt Service) fund balance and a decrease in the Water Operating fund of \$5,000.

We recommend the Village use more caution when recording transactions and refer to the Village Officers' Handbook to ensure proper fund and transaction classification.

Management Response:

The errors were caused mostly by the incorrect conversion to UAN. The amounts due to the conversion have been corrected. We will monitor the debt payments and other transactions to ensure proper classification in the future.

Finding # 2006-003

Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) provides, in part, that no subdivision or taxing unit is to expend money unless it has been appropriated. Total expenditures plus encumbrances exceeded total appropriations in the following funds:

<u>Year</u>	<u>Fund</u>	<u>Expenditures plus Encumbrances</u>	<u>Total Appropriations</u>	<u>Variance</u>
2005	General	\$ 191,460	\$ 132,905	\$ (58,555)
Special Revenue Funds:				
2005	Street Construction & Maintenance	15,874	15,000	(874)
2005	Permissive Motor Vehicle License	6,717	6,000	(717)
2005	Parks & Recreation	3,392	3,100	(292)
Enterprise Fund:				
2005	Water Operating	83,058	76,514	(6,544)

We recommend that management monitor the budgetary process more closely in the future to avoid having expenditures that exceed the appropriations.

Management Response:

We will continue to improve the monitoring of the budgetary process in the future.

**VILLAGE OF BOWERSTON
HARRISON COUNTY, OHIO
For the Years Ending December 31, 2006 and 2005**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	ORC 5705.41(D), purchase orders dated after the invoice or not being used.	No	Partially corrected, included in the Management Letter.



Mary Taylor, CPA
Auditor of State

VILLAGE OF BOWERSTON

HARRISON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 24, 2009**