



Mary Taylor, CPA
Auditor of State

VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Mowrystown
Highland County
50 Maple Street
Mowrystown, Ohio 45155

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

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August 16, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Mowrystown
Highland County
50 Maple Street
Mowrystown, Ohio 45155

To the Village Council:

We have audited the accompanying financial statements of the Village of Mowrystown, Highland County, Ohio (the Village), as of and for the years ended December 31, 2009 and 2008. 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. 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, 2009 and 2008 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, 2009 and 2008, or its changes in financial position 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 Mowrystown, Highland County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

August 16, 2010

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$10,645	\$28,313	\$38,958
Intergovernmental	36,826	23,345	60,171
Charges for Services		350	350
Fines, Licenses and Permits	3,087	120	3,207
Earnings on Investments	135	4	139
Miscellaneous	3,957	928	4,885
	<u>54,650</u>	<u>53,060</u>	<u>107,710</u>
Total Cash Receipts			
	<u>54,650</u>	<u>53,060</u>	<u>107,710</u>
Cash Disbursements:			
Current:			
Security of Persons and Property		29,135	29,135
Leisure Time Activities	531		531
Transportation		25,064	25,064
General Government	52,812		52,812
	<u>53,343</u>	<u>54,199</u>	<u>107,542</u>
Total Cash Disbursements			
	<u>53,343</u>	<u>54,199</u>	<u>107,542</u>
Total Receipts Over/(Under) Disbursements	<u>1,307</u>	<u>(1,139)</u>	<u>168</u>
Fund Cash Balances, January 1	<u>960</u>	<u>111,281</u>	<u>112,241</u>
Fund Cash Balances, December 31	<u><u>\$2,267</u></u>	<u><u>\$110,142</u></u>	<u><u>\$112,409</u></u>

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

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$121,758	\$0	\$121,758
Total Operating Cash Receipts	<u>121,758</u>	<u>0</u>	<u>121,758</u>
Operating Cash Disbursements:			
Personal Services	7,774		7,774
Employee Fringe Benefits	1,186		1,186
Contractual Services	85,423		85,423
Supplies and Materials	10,863		10,863
Other	5,108		5,108
Total Operating Cash Disbursements	<u>110,354</u>	<u>0</u>	<u>110,354</u>
Operating Income/(Loss)	<u>11,404</u>	<u>0</u>	<u>11,404</u>
Non-Operating Cash Receipts:			
Intergovernmental	31,580		31,580
Special Assessments	13,873		13,873
Earnings on Investments	7		7
Other Non-Operating Cash Receipts		\$3,814	3,814
Miscellaneous Receipts	6,082		6,082
Total Non-Operating Cash Receipts	<u>51,542</u>	<u>3,814</u>	<u>55,356</u>
Non-Operating Cash Disbursements:			
Capital Outlay	(4,511)		(4,511)
Redemption of Principal	(16,779)		(16,779)
Interest and Other Fiscal Charges	(30,471)		(30,471)
Other Non-Operating Cash Disbursements		(3,696)	(3,696)
Total Non-Operating Cash Disbursements	<u>(51,761)</u>	<u>(3,696)</u>	<u>(55,457)</u>
Net Receipts Over Disbursements	11,185	118	11,303
Fund Cash Balances, January 1	<u>196,271</u>	<u>0</u>	<u>196,271</u>
Fund Cash Balances, December 31	<u>\$207,456</u>	<u>\$118</u>	<u>\$207,574</u>

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

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$13,039	\$29,444	\$42,483
Intergovernmental	43,695	29,661	73,356
Charges for Services		8,000	8,000
Fines, Licenses and Permits	5,228	90	5,318
Earnings on Investments	584	590	1,174
Miscellaneous	69,534	1,265	70,799
Total Cash Receipts	132,080	69,050	201,130
Cash Disbursements:			
Current:			
Security of Persons and Property		54,616	54,616
Transportation		20,423	20,423
General Government	54,862		54,862
Capital Outlay	74,158		74,158
Total Cash Disbursements	129,020	75,039	204,059
Total Receipts Over/(Under) Disbursements	3,060	(5,989)	(2,929)
Other Financing Receipts/(Disbursements):			
Transfers-In		5,000	5,000
Transfers-Out	(5,000)		(5,000)
Total Other Financing Receipts/(Disbursements)	(5,000)	5,000	0
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(1,940)	(989)	(2,929)
Fund Cash Balances, January 1	2,900	112,270	115,170
Fund Cash Balances, December 31	\$960	\$111,281	\$112,241

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

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILIAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$207,086	\$0	\$207,086
Total Operating Cash Receipts	<u>207,086</u>	<u>0</u>	<u>207,086</u>
Operating Cash Disbursements:			
Personal Services	8,974		8,974
Employee Fringe Benefits	138		138
Contractual Services	82,344		82,344
Supplies and Materials	13,133		13,133
Total Operating Cash Disbursements	<u>104,589</u>	<u>0</u>	<u>104,589</u>
Operating Income	<u>102,497</u>	<u>0</u>	<u>102,497</u>
Non-Operating Cash Receipts:			
Intergovernmental	62,380		62,380
Special Assessments	13,269		13,269
Earnings on Investments	470		470
Sale of Bonds	753,000		753,000
Other Non-Operating Cash Receipts		\$1,777	1,777
Total Non-Operating Cash Receipts	<u>829,119</u>	<u>1,777</u>	<u>830,896</u>
Non-Operating Cash Disbursements:			
Capital Outlay	(209,682)		(209,682)
Redemption of Principal	(771,678)		(771,678)
Interest and Other Fiscal Charges	(17,406)		(17,406)
Other Non-Operating Cash Disbursements		(3,589)	(3,589)
Total Non-Operating Cash Disbursements	<u>(998,766)</u>	<u>(3,589)</u>	<u>(1,002,355)</u>
Net Receipts Over/(Under) Disbursements	(67,150)	(1,812)	(68,962)
Fund Cash Balances, January 1	<u>263,420</u>	<u>1,812</u>	<u>265,232</u>
Fund Cash Balances, December 31	<u><u>\$196,270</u></u>	<u><u>\$0</u></u>	<u><u>\$196,270</u></u>

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

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

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 Mowrystown, Highland County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Village Council governs the Village. The Village provides general governmental services, police services and park maintenance.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Accounting Basis

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Deposits

The Village deposits all available funds in an interest earning checking account at a local commercial bank. All deposits are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Police Levy Fund – This fund receives tax monies to provide police protection for the Village residents.

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

3. Enterprise Funds

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

Sewer Revenue Fund - This fund receives the monthly user fee for the sewer system.

Sewer Debt Fund – This fund is used to account for the debt obtained to finance the sewer system.

4. Fiduciary Fund (Agency Fund)

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations, or other governments. The Village had the following significant agency fund:

Mayor's Court Fund – This fund accounts for the activities of the Village Mayor's Court.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The 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.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. Equity in Pooled Cash

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

	2009	2008
Demand deposits	\$319,983	\$308,511

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by Federal Home Loan Bank letter of credit in the name of the financial institution's public entity pool.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$60,890	\$54,650	(\$6,240)
Special Revenue	52,235	53,060	825
Enterprise	225,237	173,300	(51,937)
Total	\$338,362	\$281,010	(\$57,352)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$66,564	\$53,343	\$13,220
Special Revenue	157,296	54,199	103,097
Enterprise	422,507	162,115	260,391
Total	\$646,366	\$269,657	\$376,709

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$53,495	\$132,080	\$78,585
Special Revenue	67,925	69,050	1,125
Enterprise	852,445	1,036,205	183,760
Total	\$973,865	\$1,237,335	\$263,470

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

3. Budgetary Activity (Continued)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$56,396	\$129,020	(\$72,624)
Special Revenue	179,195	75,039	104,156
Enterprise	422,109	1,103,355	(681,246)
Total	\$657,700	\$1,307,414	(\$649,714)

Contrary to Ohio law, estimated receipts exceeded actual receipts in some funds, the excess was appropriated, and a reduced amended certificate was not received and appropriations reduced. Contrary to Ohio law, disbursements exceeded appropriations adopted by the Board in the General and Sewer Debt Fund for 2008. Also, contrary to Ohio law, prior certification was not obtained for all expenditures.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. Debt

Debt outstanding at December 31, 2009 was as follows:

	Principal	Interest Rate
Wastewater System Mortgage Revenue Bonds	\$745,306	4.13%
Ohio Water Development Authority Loan	\$300,985	1.00%
Ohio Public Works Commission Loan	224,145	0%
Total	\$1,270,436	

The wastewater system mortgage revenue bonds were issued June 13, 2008 in the total amount of \$753,000 to pay an Ohio Water Development Authority Loan used to finance the installation of a wastewater collection system in the Village. The revenue of the Village's sewer utility has been pledged to prepay the debt. As required by the bond covenant, the Village has established and funded the Sewer Reserve Fund. As of December 31, 2009 the Sewer Reserve Fund balance was \$31,580.

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

5. Debt (Continued)

The Ohio Water Development Authority (OWDA) loan was obtained for construction of the new wastewater collection system. This loan is to be paid in semiannual installments over 30 years. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission loan is also for construction of the new wastewater collection system. The Village will repay the loans in semiannual installments over 20 years. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Amortization of the above OPWC Loan follows:

Year ending December 31:	Mortgage Revenue Bonds	OWDA Loan	OPWC Loan
2010	\$38,754	\$12,163	\$11,207
2011	38,755	12,163	11,207
2012	38,837	12,163	11,207
2013	38,755	12,163	11,207
2014	38,754	12,163	11,207
2015-2019	193,852	60,817	56,036
2020-2024	193,915	60,817	56,036
2025-2029	193,835	60,817	56,036
2030-2034	193,826	60,817	
2035-2039	193,818	42,572	
2040-2044	193,826		
2045-2048	155,023		
Total	\$1,511,950	\$346,657	\$224,145

6. Retirement Systems

The Village's elected officials contribute to Social Security. Contribution rates for 2009 and 2008 were 6.2% for employee and employer.

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' benefits, which include postretirement healthcare and survivor and disability benefits. Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, the OPERS member contributed 10% of gross salary and the Village contributed an amount equaling 14% of the participant's gross salary. The Village has paid all contributions required through December 31, 2009.

7. Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

7. Risk Management (Continued)

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2008, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2008 and 2007 (the latest information available):

	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	<u>(15,310,206)</u>	<u>(17,340,825)</u>
Net Assets	<u>\$20,459,329</u>	<u>\$20,219,246</u>

At December 31, 2008 and 2007, respectively, the liabilities above include approximately \$13.8 million and \$15.9 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008, and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$4,865.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

7. Risk Management (Continued)

<u>Contributions to PEP</u>	
2007	\$7,642
2008	7,385
2009	5,015

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. Compliance

The fiscal officer failed to accurately maintain the Village's financial records as required by Ohio Rev. Code Section 733.28.

The Village did not authorize or certify tax levies to the County Auditor as required by Ohio Rev. Code Section 5705.34.

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Mowrystown
Highland County
50 Maple Street
Mowrystown, Ohio 45155

To the Village Village Council:

We have audited the financial statements of Village of Mowrystown, Highland County, Ohio (the Village), as of and for the year ended December 31, 2009 and 2008, and have issued our report thereon dated August 16, 2010, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Audit of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 and 2009-003 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 through 2009-006.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 16, 2010.

We intend this report solely for the information and use of the management and others within the Village. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

August 16, 2010

**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008**

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

FINDING NUMBER 2009-001

Noncompliance Citation / Material Weakness

Ohio Rev. Code, §733.28, provides, in part, that the village clerk shall keep the books of the village and exhibit accurate statements of all moneys received and expended.

The Village did not properly post the following transactions to the proper account codes, and therefore reported materially incorrect account classifications in the Village's annual financial report:

Item	Amount	Fund Type	Proper Classification	Reported As
2008				
Homestead and rollback distributions	\$5,078	Special Revenue	Intergovernmental	Taxes
Proceeds of bonds issued	\$753,000	Enterprise	Sale of Bonds	Charges For Services
Roof replacement and remodeling	\$74,158	General	Capital Outlay	General Government
Purchase of utilities for village buildings - electric, heating, gas, water, phone, and trash service	\$17,695	General	General Government	Basic Utility Services
Purchase of Utilities for village buildings for police and fire departments	\$5,635	Special Revenue	Security of Persons and Property	Basic Utility Services
Payment of OWDA loan principal	\$771,678	Enterprise	Redemption of Principal	Interest and Other Fiscal Charges
Payments to county for wastewater treatment processing contract	\$73,700	Enterprise	Contractual Services	Miscellaneous
2009				
Homestead and rollback distributions	\$5,384	Special Revenue	Intergovernmental	Taxes
Rural Development Grant	\$31,580	Enterprise	Intergovernmental	Other Financing Sources
Special assessments for sewer	\$13,873	Enterprise	Special Assessments	Charges For Services
Purchase of utilities for village buildings - electric, heating, gas, water, phone, and trash service	\$19,316	General	General Government	Basic Utility Services
Payments to county for wastewater treatment processing contract	\$73,700	Enterprise	Contractual Services	Miscellaneous

**FINDING NUMBER 2009-001
 (Continued)**

The Village corrected the accompanying financial statements.

Additionally, the Village classified the Sewer Debt Fund as a Debt Service Fund type and the Sewer Construction Fund as a Capital Project Fund on the 2008 and 2009 annual financial reports. These funds are reclassified as Enterprise Fund Types on the accompanying financial statements.

Failure to properly post transactions resulted in transactions being inaccurately classified in the annual report and inaccurate fund balances. The Fiscal Officer agreed to reclassifications to correctly report the above items, and the reclassifications were posted to the accompanying financial statements. The Fiscal Officer should review the chart of accounts in the *Ohio Village Handbook* to assure that items are being posted to the proper funds and account codes.

FINDING NUMBER 2009-002

Noncompliance Citation

Ohio Rev. Code, § 5705.36(A)(4), provides, in part, that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Actual receipts were less than estimated receipts and the deficiency reduced available resources below the level of current appropriations by a material amount in the following Special Revenue Fund:

Fund	Available Resources (Beginning Fund Balance Plus Actual Receipts)	Appropriations	Variance
2009			
General Fund	\$60,375	\$66,564	(\$6,189)
Sewer Debt Fund	173,244	253,282	(80,038)

Over estimating receipts could result in spending more funds than available. We recommend that Council monitor receipts and when it is determined receipts are going to be less than originally estimated, an amended certificate should be obtained and appropriations reduced, if necessary.

FINDING NUMBER 2009-003

Noncompliance Citation / Material Weakness

Ohio Admin. Code, § 117-2-02 (C)(1), states all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

**FINDING NUMBER 2009-003
 (Continued)**

The estimated receipts entered in the accounting system did not agree with estimated receipts certified by the budget commission on the latest amended certificate. Estimated receipts that were certified varied from those posted by material amounts as follows:

Fund	Estimated Receipts Certified by the Budget Commission	Estimated Receipts Posted	Variance
2008			
Sewer Debt Fund	\$736,849	\$0	(\$736,849)

Failure to post the estimated receipts certified by the budget commission into the accounting system resulted in the officials relying on inaccurate information. The officials should be sure that the estimated receipts from the most current amended certificate are entered into the accounting system.

Appropriations posted to the accounting system did not agree with appropriations made by Council in 2008, or appropriations filed with the County Auditor in 2009 by a material amount in the following funds:

Fund	Appropriations Adopted or Filed	Appropriations Posted in the Accounting System	Variance
2008			
General Fund	\$56,395	\$129,654	(\$73,258)
Sewer Debt Fund	107,500	844,349	736,849
2009			
Fire Levy Fund	8,745	15,745	(7,000)

Failure to post the appropriations that have been approved by the Village Council increases the risk that funds could be overspent. Council should adopt appropriations and the amounts adopted should be recorded in the minute records. Only those appropriations that are adopted by the Village Council in the minute records should be posted in the accounting system.

FINDING NUMBER 2009-004

Noncompliance Citation

Ohio Rev. Code, § 5705.41(B), provides that no subdivision shall make any expenditure of money unless it has been appropriated. Disbursements exceeded appropriations by a material amount in following funds:

Fund	Appropriations Adopted by Board	Disbursements	Variance
2008			
General Fund	\$56,395	\$129,020	(72,624)
Sewer Debt Fund	107,500	789,083	(681,583)

This noncompliance citation occurred because more appropriations were posted in the accounting records than had been approved by the Board. Failure to properly record approved appropriations to the Village's accounting system increases the risk that funds could be overspent. Officials should review the appropriations and assure that only those approved by the Board have been posted to the accounting system.

FINDING NUMBER 2009-005

Noncompliance Citation

Ohio Rev. Code, § 5705.41(D)(1), prohibits a subdivision or taxing unit from making any contract or giving any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. 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 account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expenses. 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.

Contrary to the above requirement, prior certification for expenditures was not obtained for 2 of 13 (15%) expenditures tested in 2008 and for 1 of 12 (8%) expenditures tested in 2009. We also noted that then and now certifications were issued for 9 of the 13 expenditures tested in 2008 and for 7 of the 12 expenditures tested in 2009. Failure to obtain prior certification and encumber appropriations could result in overspending and negative cash balances.

**FINDING NUMBER 2009-005
(Continued)**

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments received prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify that 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, however, "then and now" certifications should only be used in limited circumstances when prior certificate is not possible, and should not be used to avoid prior certification.

We recommend the Village personnel obtain the Fiscal Officer's certification of the availability of funds prior to incurring the purchase commitment. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment and only when the requirements of 5705.41(D) are satisfied.

FINDING NUMBER 2009-006

Noncompliance

Ohio Rev. Code, § 5705.34, provides in part that each taxing authority shall pass an ordinance or resolution to authorize the necessary tax levies for the following year and certify them to the County Auditor before the first day of October in each year. The Village Council did not make this resolution or submit it to the County Auditor during 2008 or 2009 as required. Failure to submit the resolution could result in the loss of tax money. The Village should implement procedures to authorize the necessary tax levies by or before October 1 of each year, unless a later date is approved by the tax commissioner.

We did not receive a response from officials to the findings above.

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**VILLAGE OF MOWRYSTOWN
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-01	Section 5705.10, 5705.14m 5705.15 and 5705.16, illegal transfers made	No	Partially Corrected – adjustment made to correct one transfer, the other transfer was not corrected and is repeated in the management letter
2007-002	Section 733.28, transactions not posted to the proper accounts and not reported in the proper classifications	No	Not Corrected – Repeated as finding #2009-01
2007-003	Section 5705.10 (H), negative fund balances and expenditures made from incorrect funds	Yes	
2007-004	Section 5705.34, resolution not made to authorize tax levies	No	Not Corrected – Repeated as finding #2009-06
2007-005	Section 5705.39, appropriations exceeded certified resources	Yes	
2007-006	Section 5705.41(B), expenditures exceeded appropriations	No	Not Corrected – Repeated as finding #2009-04
2007-007	Section 5705.41(D) prior certification for expenditures not obtained	No	Not Corrected – Repeated as finding #2009-05
2007-008	OAC Section 117-2-02(A), sufficient accounting records not maintained	Yes	
2007-009	Section 1905.21, mayor's court records incomplete	No	Partially Corrected –repeated in management letter
2007-010	Internal control weaknesses over expenditures and sewer receipts	No	Not Corrected – repeated in management letter
2007-011	Weakness over federal grant awards	N/A	N/A – not single audit this period



Mary Taylor, CPA
Auditor of State

VILLAGE OF MOWRYSTOWN

HIGHLAND 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
AUGUST 31, 2010**