VILLAGE OF BETHEL
CLERMONT COUNTY

NON-GAGAS AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005

VILLAGE BETHEL
CLERMONT COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Mary Taylor, CPA
Auditor of State

Village of Bethel
Clermont County
120 North Main Street
Bethel, Ohio 45106

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 government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an 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

Mary Taylor, CPA
Auditor of State

February 20, 2009

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

This page intentionally left blank.

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Bethel
Clermont County
120 North Main Street
Bethel, OH 45106

To the Village Council:

We have selectively tested the accounts, financial records, files and report of the Village of Bethel, Clermont County, Ohio (the Village), as of and for the year ended December 31, 2005 following Ohio Administrative Code Section 117-4-02.

The accompanying financial statements present receipts and disbursements by fund type totals only. Ohio Administrative Code Section 117-2-002(A) requires governments to classify receipt and disbursement transactions.

There are reportable findings and conditions as a result of performing these procedures. These findings and conditions are described in the Schedule of Findings on pages 18 through 25. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

The report is intended solely for the information and use of management, the Village Council, and other officials authorized to receive this report under Section 117.26 of the Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 20, 2009

This page intentionally left blank.

VILLAGE OF BETHEL
CLERMONT COUNTY

COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Governmental Fund Types					
	General	**Special Revenue**	**Debt Service**	**Capital Projects**	**Permanent**	**Totals (Memorandum Only)**
Cash Receipts:						
Total Unclassified Receipts	$529,309	$282,731	$45,559	$28,811	$51,542	$937,952
Cash Disbursements:						
Total Unclassified Disbursements	637,377	155,492	49,463	7,745	38,387	888,464
Excess of Unclassified Cash Receipts Over/(Under) Unclassified Cash Disbursements	(108,068)	127,239	(3,904)	21,066	13,155	49,488
Fund Cash Balances, January 1	262,132	83,462	(3,493)	91,599	1,183,025	1,616,725
Fund Cash Balances, December 31	**$154,064**	**$210,701**	**($7,397)**	**$112,665**	**$1,196,180**	**$1,666,213**

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

VILLAGE OF BETHEL
CLERMONT COUNTY

COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED CASH DISBURSEMENTS, ANE
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	Proprietary Fund Types	Fiduciary Fund Types	
	Enterprise	**Agency**	**Totals (Memorandum Only)**
Cash Receipts:			
Total Unclassified Receipts	$3,279,095	$295,908	$3,575,003
Cash Disbursements:			
Total Unclassified Disbursement	2,806,592	298,078	3,104,670
Excess Unclassified Cash Receipts Over/(Under) Unclassified Cash Disbursements	472,503	(2,170)	470,333
Fund Cash Balances, January 1	915,440	2,939	918,379
Fund Cash Balances, December 31	**$1,387,943**	**$769**	**$1,388,712**

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

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 Bethel, Clermont County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water, electric, and garbage utilities, park operations and police services. The Village contracts with Tate Township to provide fire protection services.

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).

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-2-02(A). This Ohio Administrative Code Section requires classifying receipts and disbursements.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

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

The Village values U.S. Treasury Notes, equity securities, common stock, and certificates of deposit at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

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.

1. Summary of Significant Accounting Policies (Continued)

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 tax money for constructing, maintaining, and repairing Village streets.

3. Debt Service Funds

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

Sidewalk Debt Fund – This fund receives special assessment money to fund the principal and interest payments of the Sidewalk Special Assessment Bonds.

Pavilion Debt Fund – This fund receives proceeds from the sale of notes and transfers from the Burke Donation Fund to fund the principal and interest payments Park Pavilion note.

4. Capital Project Funds

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

Police Cruiser Fund – This fund receives transfers from the General Fund for the purchases of police cruisers.

Issue 2 / Water Tower Fund – This fund received Issue 2 funding from the Ohio Public Works Commission. The funding is for the construction project of the water tower.

5. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Village's programs. The Village had the following significant permanent fund:

Burke Trust Fund – A permanent fund composed of the corpus and investment earnings of the Edmund G. Burke Community Trust; see Note 9 for additional information on the Edmund G. Burke Community Trust. The earnings of the Burke Trust fund were transferred to the Burke Donation, Pavilion Debt, and General funds during 2004. The money used to provide scholarships for worthy and/or needy students were expensed in the permanent fund.

1. Summary of Significant Accounting Policies (Continued)

6. 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:

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

7. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

The Village's private purpose trust fund is for the benefit of students from the Village.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency funds account for their mayor's court, unclaimed moneys fund and payroll holding account.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law. A summary of 2005 budgetary activity appears in Note 3.

1. Summary of Significant Accounting Policies (Continued)

F. Property, Plant, and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Cash and Investments

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

	2005
Demand deposits	$1,087,690
Certificates of deposit	395,000
Total deposits	1,482,690
STAR Ohio	375,318
Mutual Funds	75,648
Common Stocks	496,265
Fixed Income Equity Securities	623,077
Total investments	1,570,308
Total deposits and investments	$3,052,998

At December 31, 2005 the Village did not fully reconcile its accounts with the bank resulting in the variance between the financial statement ending balances and the carrying amount of deposits and investments presented above. Errors in postings activity to the books and in the reconciliations resulted in an unreconciled book balance that is greater than an unreconciled bank balance by $1,927.

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

Investments: Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form. Common Stocks, Fixed Income Equity Securities, and $57,363 of the Mutual Funds are held by the Bank (Trustee) in the name of Edmund G. Burke Community Trust. The fair value of the Edmund G. Burke Community Trust at December 31, 2005 was $1,327,808.

3. Budgetary Activity

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

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$725,500	$529,309	($196,191)
Special Revenue	250,847	282,731	31,884
Debt Service	82,700	45,559	(37,141)
Capital Projects	356,200	28,811	(327,389)
Enterprise	3,440,100	3,279,095	(161,005)
Total	$4,855,347	$4,165,505	($689,842)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$982,971	$637,377	$345,594
Special Revenue	321,398	155,492	165,906
Debt Service	77,364	49,463	27,901
Capital Projects	125,461	7,745	117,716
Enterprise	3,798,331	2,806,592	991,739
Total	$5,305,525	$3,656,669	$1,648,856

Contrary to Ohio law, at December 31, 2005, the Sidewalk Debt and the Water 1st Mortgage 1998 Issue fund had a cash deficit balance of $9,084 and $8,522 respectively.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council 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, 2005 was as follows:

	Principal	Interest Rate
Water 1st Mortgage 1998 Issue	$765,000	4.80%
Sidewalk Improvement	60,000	4.125%
Total	$825,000	

The Water 1st Mortgage 1998 Bond funds the purchase and installation of new water lines. The debt is paid for through water collections.

The Sidewalk Improvement Bond funds the upkeep and maintenance of sidewalks within the Village. The debt is paid for through a special assessment on Village property.

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

Year ending December 31:	Water 1st Mortgage	Sidewalk Improvement
2006	$99,962	$32,475
2007	101,579	31,238
2008	99,017	
2009	105,683	
2010	109,017	
2011 – 2015	599,250	
Total	$1,114,508	$63,713

6. Debt Service Trust Funds

The First Mortgage Waterworks System Revenue Refunding Bonds debt agreement required the Village to establish a Bond Account maintained by a custodian bank. Monthly, the Village is to pay an amount equal to one-sixth of the interest due on all outstanding Bonds on the next ensuing interest payment date and one-twelfth of the principal due on the next ensuing principal payment. Moneys in the Bond Account shall be used to pay principal and interest on bonds on their regularly scheduled maturity dates. The Village has established this account. At December 31, 2005, the custodian held $113,508 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

7. Retirement Systems

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

7. Retirement Systems (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2005, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

8. 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.

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. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

PEP retains casualty risks up to $250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding $250,000, up to $1,750,000 per claim and $10,000,000 in the aggregate per year. Governments can elect additional coverage, from $2,000,000 to $12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to $5,000,000 per year, subject to a per-claim limit of $2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to $100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding $100,000 up to $500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding $250,000 up to $600 million per occurrence. APEEP reinsures members for specific losses exceeding $100,000 up to $250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between $100,000 and $250,000, Travelers will reinsure specific losses exceeding $100,000 up to their $600 million per occurrence limit. The aggregate stop-loss limit for 2005 was $1,682,589.

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

8. Risk Management (Continued)

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, 2005 and 2004:

Casualty Coverage	2005	2004
Assets	$29,719,675	$27,437,169
Liabilities	(15,994,168)	(13,880,038)
Retained earnings	$13,725,507	$13,557,131

Property Coverage	2005	2004
Assets	$4,443,332	$3,648,272
Liabilities	(1,068,245)	(540,073)
Retained earnings	$3,375,087	$3,108,199

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately $14.3 million and $12 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately $14.3 million and $12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately $38,128. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

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.

Contributions to PEP	
2005	$ 45,070
2004	$ 43,066

8. Risk Management (Continued)

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must 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 the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

9. The Edmund G. Burke Community Trust

By will dated February 2, 1965, Edmund Glenn Burke established a trust for the Village of Bethel, for the benefit of the People of the Village of Bethel, in the amount of $500,000. The trust stipulated that Mr. Burke's sister would act as trustee for a period of twenty-one (21) years. Mr. Burke's sister administered the trust under the provisions set forth in Mr. Burke's Will, which provided for the distribution of accumulated interest to the Village of Bethel as requested by Bethel Council. Total distributions in any fiscal year shall be limited to earned income (less expenses of the trust). In addition, the trust contained a provision permitting invasion of the principal up to ten percent (10%). At that point, no further distributions could be made until the invaded principal had been repaid.

Upon the termination of this trust in 1986, the Council of the Village of Bethel created a new trust to be known as the Edmund Glenn Burke Community Trust to be administered by a financial institution as trustee. On November 21, 1986 $546,845 in funds were transferred from Mr. Burke's sister as original trustee to the Society National Bank as trustee. These funds are recorded in the Permanent fund in the accompanying financial statements.

The provisions of the 1986 trust were the same as the 1965 trust described above with two exceptions – (1) requests for distribution of interest would have to be approved by a trust commission; and (2) the principal may be invaded up to $10,000 without affecting distributions. The purposes of the distributions from the trust were as follows:

(1) to provide for the general welfare of the people;

(2) to provide for the care and maintenance of the historic OLD CEMETERY otherwise known as The Early Settlers Burial Ground in the Village of Bethel, together with the constructions, acquisition and maintenance of suitable improvements and additions;

(3) to provide for the care of maintenance of BURKE PARK in the Village of Bethel, together with the construction, acquisition and maintenance of suitable improvements and additions;

(4) to provide for any and all municipal and Village purposes in the Village of Bethel, whenever such purposes and projections are approved by the governing body of the Village and certified by the highest official of the Village of Bethel, such as but not limited to public parks, schools, nurseries, hospitals, churches or any other public use; and

9. The Edmund G. Burke Community Trust (Continued)

(5) to provide scholarships for worthy and/or needy students from the Village of Bethel, as well as from other parts of Clermont County. The selection of the recipients of said scholarships shall be in the absolute discretion of the Council of the Village of Bethel.

The Commission created by the Trust consists of nine (9) members, four (4) of whom are appointed by Village Council and five (5) appointed by the Village Mayor with a term of 5 years each. These members cannot be removed by Council or the Mayor. Replacement of a Commission member occurs when a member ceases to attend the monthly meetings for any reason. The replacement is appointed by either Council or the Mayor dependent upon who originally appointed the member. Neither the Mayor nor a member of the Village Council may serve on the Commission.

A request for funds is first submitted to Council for their approval, then to the Burke Trust Commission for review and approval or rejection. Council cannot override the decision of the Burke Trust Commission.

10. Subsequent Event

Due to the significant decline in funds available to the Village on September 22, 2008 the Village's management and Council minutes state that the Village has enacted a fiscal recovery plan. The plan includes three areas: revenue enhancement, expense reduction and adoption of best management practices. At January 31, 2009, excluding the Permanent and Agency Fund, the Village had unaudited fund balances of $44,681 in the General, Special Revenue, Debt Service, Capital Project, Enterprise, Private Purpose Trust funds. At December 31, 2004 the fund balances for these funds totaled $1,877,451 of the $3,054,925 reported on the accompanying financial statements.

Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Village of Bethel
Clermont County
120 North Main Street
Bethel, Ohio 45106

To the Village Council:

We have selectively tested certain accounts, financial records, files and reports of the Village of Bethel, Clermont County, Ohio (the Village), as of and for the year ended December 31, 2005 following Ohio Admin. Code Section 117-4-02. We noted the Village did not classify receipts and disbursements in the financial statements. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinion on these matters.

Internal Control over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the schedule of findings as items 2005-003, 2005-004 and 2005-005.

We noted certain matters that we reported to the Village's management in a separate letter dated February 20, 2009.

Compliance and Other Matters

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. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying schedule of findings as items 2005-001 through 2005-007. In a separate letter to the Village's management dated February 20, 2009, we reported other matters related to noncompliance we deemed immaterial.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 20, 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2005-001

Finding for Recovery – Repaid Under Audit

On March 28, 2006, the Village of Bethel reimbursed Mike Shiverski, Village Administrator for medical expenses totaling $1,182. Upon review of the supporting documentation provided for the medical expenses reimbursed to Mr. Shiverski it was determined that two of the expenses totaling $285 had already been submitted for reimbursement and paid to Mr. Shiverski. As a result, an overpayment of $285 occurred. This overpayment was signed by Mr. Shiverski.

Section 314 of the Village of Bethel Employee's Handbook, titled, Educational Assistance, states that the "Village of Bethel will reimburse regular full-time employees who are eligible for educational expenses, upon presentation of valid receipts to the Fiscal Officer, and approval by Bethel Village Council. Bethel limits such reimbursements to a maximum of five hundred ($500) per employee in any one year period, provided the employee maintains a 2.5 grade point average."

On January 16, 2007, the Village of Bethel reimbursed Mr. Shiverski for college tuition reimbursement expenses totaling $500. A review of the Village's records revealed that there was no supporting documentation provided for this expense. Upon further review it was determined that Mr. Shiverski was reimbursed for this expense prior to taking the class and he never completed the class. Mr. Shiverski provided the Auditor of State with a transcript from Northern Kentucky University indicating that he received an incomplete for the class he was reimbursed. As a result, an overpayment of $500 occurred. This overpayment was signed by the Fiscal Officer, Clarissa McCoy and Mr. Shiverski.

Section 316 of the Village of Bethel Employee's Handbook, titled, Health Insurance, states that "vision insurance is provided by Bethel, not the insurance company. Employees and their dependents, as defined in the Summary Plan Description (SPD) for medical insurance, are eligible to receive up to $200 per family member every two years, upon providing Clerk-Treasurer with an invoice for eye exams, glasses, and/or contact lenses."

On January 17, 2007, the Village of Bethel reimbursed Mr. Shiverski for vision expenses for his wife totaling $550.93. As a result, an overpayment of $350.93 occurred. This overpayment was signed by the Fiscal Officer, Clarissa McCoy and Mr. Shiverski.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is issued against Mr. Mike Shiverski, and his bonding company, Western Surety, in the amount of $1,135.93, in favor of the General Fund.

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. <u>Seward v. National Surety Corp.</u> (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074: Ohio Rev. Code Section 9.39; <u>State ex. Rel. Village of Linndale v. Masten</u> (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondary 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. Att'y Gen. No. 80-074.

Therefore, because Clarissa McCoy signed two of the three warrants resulting in the improper payments, she is jointly and severally liable in the amount of $850.93, in favor of the General Fund.

Mr. Shiverski repaid $1,135.93 under audit, which was credited to the Village General Fund.

FINDING NUMBER 2005-002

Finding for Recovery

On November 16, 2007, the Village of Bethel reimbursed Clarissa McCoy, Village Fiscal Officer, for medical expenses related to Primary Pediatrics totaling $319.64. On February 13, 2008, the Village made a payment to Primary Pediatrics totaling $319.64 for the same medical expense reimbursed to Ms. McCoy. As a result, an overpayment of $319.64 occurred. This overpayment was signed by Ms. McCoy and the Administrator, Mike Shiverski.

On February 1, 2008, the Village of Bethel reimbursed Ms. McCoy for personal legal expenses totaling $2,700. Upon further review it was determined that there was no supporting documentation for this expense. As a result, an overpayment of $2,700 occurred. This overpayment was signed by Ms. McCoy and the Administrator, Mike Shiverski.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is issued against Ms. Clarissa McCoy in the amount of $3,019.64, in favor of the General Fund.

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. (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074: Ohio Rev. Code Section 9.39; State ex. Rel. Village of Linndale v. Masten (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondary 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. Att'y Gen. No. 80-074.

Therefore, because Mike Shiverski signed the warrants resulting in the improper payments, he and his bonding company, Western Surety, are jointly and severally liable in the amount of $3,019.64, in favor of the General Fund.

FINDING NUMBER 2005-003

Noncompliance/Internal Control

Ohio Rev. Code Section 117.38 states, in part, that each public office, other than a state agency, shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

The report shall be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The auditor of state may extend the deadline for filing a financial report and establish terms and conditions for any such extension. At the time the report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in section 319.11 of the Revised Code, shall publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer.

FINDING NUMBER 2005-003
(Continued)

The report shall contain the following:

(A) Amount of collections and receipts, and accounts due from each source;

(B) Amount of expenditures for each purpose;

(C) Income of each public service industry owned or operated by a municipal corporation, and the cost of such ownership or operation;

(D) Amount of public debt of each taxing district, the purpose for which each item of such debt was created, and the provision made for the payment thereof. The substance of the report shall be published at the expense of the state in an annual volume of statistics, which shall be submitted to the governor. The auditor of state shall transmit the report to the general assembly at its next session.

Upon review of the Village's cash basis annual financial report filed with the auditor of state for the year ending December 31, 2005, we determined the amounts were misclassified and did not agree to the underlying accounting system. Additionally, it was determined that the Village had not properly recorded all revenues and expenditures that had occurred during the period of October through December 2005 to their accounting system which are detailed below in finding 2005-004 and they were not reflected in the cash basis annual financial report filed with the auditor of state. We recommend that the Village follow the chart of accounts in the Village Officers Handbook (revised 3/2008) and report the actual financial activity of the Village when preparing their cash basis annual financial report that is filed with the auditor of state so that it is not incomplete or misleading.

FINDING NUMBER 2005-004

Noncompliance/Internal Control

Ohio Rev. Code, Section 733.28, requires, in part, that the village fiscal officer shall keep the books of the village and exhibit accurate statements of all moneys received and expended. The Village's fiscal officer did not maintain an accurate receipt ledger, appropriation ledger or cash journal. The Village did not classify receipt and disbursement transactions. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was also unable to classify receipts by source or disbursements by purpose in its annual report, contrary to Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-9-01 provides suggested account classifications. These accounts classify receipts by source (taxes or charges for services, for example) and classify disbursements by program (security of persons and property, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

In addition, **Ohio Admin. Code, Section 117-2-02,** states in part that

(A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

FINDING NUMBER 2005-004
(Continued)

(B) The management of each local public office is responsible for the assertions underlying the information in the public office's financial statements. The accounting system should assure that the following five assertions are achieved for all transaction types and account balances applicable to the local public office's operations, considering the basis of accounting applicable to it:

1) Existence/occurrence: That recorded assets (and liabilities, if generally accepted accounting principles apply) Exist as of fiscal year end, recorded transactions have occurred and are not fictitious.

2) Completeness: That all account balances and transactions that should be included in the financial records are included.
3) Rights and obligations: That recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.

4) Valuation/allocation: That generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices that are not required to follow generally accepted accounting principles.

5) Presentation and disclosure: That financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities that do not follow generally accepted accounting principles.

During the period of January through September 2005, the Village's Fiscal Officer did not prepare accurate cash reconciliations. During the period of October through December 2005, the Village did not have an appointed Fiscal Officer. Therefore, during this period the Village's Fiscal Officer duties were performed by the Village Administrator. However, the Village Administrator did not prepare monthly cash reconciliations during this period. The following issues were noted from review of the Village's financial records and bank statements:

- During January through September 2005, the Village had a money market account with Davenport Company and Gradison McDonald that was not reported on the Village's monthly bank reconciliations and the funds were not represented in the fund balances of the Village. At December 31, 2005 this money market account totaling $18,285 has been included in the financial statement fund balances.

- During January through September 2005, the Village reported the wrong balance for their STAR Ohio Account on their monthly bank reconciliations; and

- During October 2005 through December 2005, the Village did not record $137,705 in revenues collected and $36,785 in expenses. A detail of these discrepancies is noted below.

- There is no evidence that the monthly reconciliations prepared were reviewed upon completion.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been deposited with the financial institution. We recommend the Fiscal Officer properly reconcile their accounts on a monthly basis. Any variances should be immediately investigated and justified. We also recommend that Council or an appointee of Council, review and sign off on the reconciliation thereby indicating approval and promoting timeliness of reconciliations.

FINDING NUMBER 2005-004
(Continued)

There were several instances where revenue or expenditures were either not properly recorded or not recorded at all into the Village's accounting system:

- The Village did not allocate "Electric Deregulation Kilowatt-Hour (kWh) tax" to the General fund as required by AOS Bulletin 2001-011 for the months of October and November totaling $16,439.

- The Village did not record rental income transfers from the Village's Electric fund and Water fund totaling $16,000 and $4,000 respectively to the General fund for the period of September through December.
- The Village posted gas tax, gasoline cents per gallon, and MVL tax revenue to the State Highway and Road Bridge fund totaling $14,336 and $854 respectively rather than the Street Construction, Maintenance and Repair fund.

- The Village posted all personal property exemption revenue to the General fund of which $398, $179, $60, $199, $80, and $80 was to be posted to the Road and Bridge fund, Police fund, Police Pension fund, Police Communications fund, Grant Memorial fund, and the Burke Park fund respectively.

- The Village posted all of the second half personal property tax revenue to the General fund of which $5,613, $2,526, $842, $2,807, $1,123, and $1,123 was to be posted to the Road and Bridge fund, Police fund, Police Pension fund, Police Communications fund, Grant Memorial fund, and the Burke Park fund respectively.

- The Village did not record revenue received in November and December for permissive tax, gas cents per gallon, and gas tax totaling $2,363, $4,576, and $6,810 respectively.

- The Village did not record utility collections for the Water fund, Garbage fund, and Electric fund totaling $20,616, $3,129, and $81,383 respectively.

- The Village did not record interest earned on their STAR Ohio investment account during 2005 totaling $11,328.

- The Village did not record the activity of their money market account totaling $5,085 during 2005.

- The Village did not record insufficient checks repaid to the Village totaling $2,415 during October and November 2005.

- The Village did not record insufficient checks charged from the bank totaling $4,271 during September through December 2005.

- During the period of October through December 2005, the Village did not record $3,195 in electronic charges related to kWh tax.

- During the period of October through December 2005, the Village did not record $26,324 in payroll expenses.

- In December 2005, the Village issued a manual check totaling $288 that was not recorded in their system and recorded a check at an amount lower than what cleared the bank totaling $77.

- In August and November 2005, the Village had $2,630 in bank charges that were not recorded.

FINDING NUMBER 2005-004

As a result of these errors, receipts and disbursements for certain line items and funds were incorrectly reported on the Village's annual report. All adjustments were made to individual funds on the financial statements and the accounting records. We recommend due care be exercised when posting entries to the cash journal to prevent errors and assist in accurately reflecting the Village's financial activity in the financial statements.

FINDING NUMBER 2005-005

Noncompliance/Internal Control

Ohio Rev. Code, Section 135.14(O)(1), states, in part, that no treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the auditor of state a written investment policy approved by the treasurer or governing board.

The Village's Investment Policy in part states the following:

Section 2: The Clerk-Treasurer shall routinely monitor the contents of the investment portfolio, the available markets and the relative value of competing investments and will adjust the portfolio accordingly.

Section 6 (B): The investment officer is responsible for establishing and maintaining an internal control structure designed to ensure that assets of the Village are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Accordingly, the investment officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures.

Section 6 (C): The investment officer shall prepare an investment report at least quarterly that provides an analysis of the current investment portfolio. The management summary will be prepared in a manner, which will allow the Village to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment officer and all other designated parties.

Section 6 (D): The Clerk-Treasurer will maintain a list of financial institutions authorized to provide investment services.

During 2005, the Village Clerk-Treasurer did not monitor the contents of their investment portfolio; did not establish and maintain an internal control structure; did not establish a process for an annual review by an external auditor; did not prepare any investment reports; and did not maintain a list of financial institutions authorized to provide investment services. We recommend that the Village familiarize themselves with their policy to ensure that they are in compliance with their policy and the Ohio Revised Code.

FINDING NUMBER 2005-006

Noncompliance

Ohio Rev. Code, Section 5705.10(H), provides that money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The Sidewalk Debt fund and Water 1st Mortgage fund had a negative fund balance of $9,084 and $8,522 respectively.

In previous years, the Village did not accurately record proposed audit adjustments which would have reduced the fund balance in the Village's Sidewalk Debt fund to a negative balance. In addition, during 2005, the Village expended more monies than received in the Sidewalk Debt fund which resulted in increasing the negative fund balance at year end. Also, during 2005, the Village expended more monies than received in the Water 1st Mortgage fund which resulted in a negative fund balance. Therefore, we recommend that the Village correct the negative fund balances in the Sidewalk Debt and Water 1st Mortgage funds and monitor their fund balances to ensure that the Village does not use monies from one fund to cover the expenses of another fund.

FINDING NUMBER 2005-007

Noncompliance

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Further, contracts and orders for expenditures lacking prior certification shall be null and 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 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 encumbrances, 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 ordinance or 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" certifications 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.

FINDING NUMBER 2005-007
(Continued)

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

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

The Village did not properly certify the availability of funds for purchase commitments for four out of twenty nine (13%) for general disbursement testing of the transactions tested and none of the three exceptions above applied. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances.

Unless the Village uses the exceptions noted above, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the 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.

We recommend the Village officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. 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. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

We received the following response from Officials to the findings reported above.

The Village of Bethel accepts the findings presented by the Auditors. The issues brought forward in the findings are being addressed.

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2004-001	ORC Section 733.28 & OAC 117-2-02, not accurately preparing cash reconciliations and not accurately maintaining books.	No	Reissued as finding 2005-004.
2004-002	Violations of Village investment policy	No	Reissued as finding 2005-005.
2004-003	ORC Section 5705.39, appropriations exceeding estimated revenue	No	Reissued in management letter.
2004-004	ORC Section 5705.10(H), negative fund balances	No	Reissued as finding 2005-006.

VILLAGE OF BETHEL

CLERMONT 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
MAY 7, 2009

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us