

VILLAGE OF GANN
KNOX COUNTY, OHIO

**REPORT ON EXAMINATION OF FINANCIAL
STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 1997 AND 1998**

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STATE OF OHIO
OFFICE OF THE AUDITOR

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Village Council
Village of Gann
Brinkhaven, Ohio 43006

We have reviewed the Independent Auditor's Report of the Village of Gann, Knox County, prepared by J E Slaybaugh & Associates, Inc., for the audit period January 1, 1997 through December 31, 1998. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

September 1, 2000

VILLAGE OF GANN
KNOX COUNTY

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

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INDEPENDENT AUDITOR'S REPORT

We engaged to audit the accompanying financial statements of Village of Gann, Knox County, Ohio (the Village), as of and for the years ended December 31, 1997 and 1998. These financial statements are the responsibility of the Village's management.

The Village was unable to present the required completed ledgers or supporting documentation for various transactions occurring for the years ended December 31, 1997 and 1998. Various ledgers were not completed by the former Clerk and supporting documentation could not be located for various receipts or disbursements. The Village's records do not permit the application of other auditing procedures for receipts or disbursements as indicated on the unclassified financial statements.

As described in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Since the Village did not maintain sufficient documentation supporting transactions nor maintain completed ledgers to record the transactions occurring during the years examined, we were not able to apply other auditing procedures to satisfy ourselves as to the receipts or disbursements during the years ended December 31, 1997 and 1998. The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2000 on our consideration of the Village's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants.

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

J. E. Slaybaugh & Associates, Inc.

J.E. Slaybaugh & Associates, Inc.
Lexington, Ohio
July 10, 2000

**VILLAGE OF GANN
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 1998**

	General	Special Revenue	(Memorandum Only) Total
CASH RECEIPTS:			
Unclassified receipts	\$ 20,607	\$ 6,738	\$ 27,345
Total Cash Receipts	20,607	6,738	27,345
CASH DISBURSEMENTS:			
Unclassified disbursements	15,443	651	16,094
Total Cash Disbursements	15,443	651	16,094
Total cash receipts over/(under) cash disbursements	5,164	6,087	11,251
Fund Cash Balances - January 1, 1998	42,544	14,630	57,174
Fund Cash Balances - December 31, 1998	\$ 47,708	\$ 20,717	\$ 68,425

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

**VILLAGE OF GANN
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 1997**

	General	Special Revenue	(Memorandum Only) Total
CASH RECEIPTS:			
Unclassified receipts	\$ 19,024	\$ 5,315	\$ 24,339
Total Cash Receipts	19,024	5,315	24,339
CASH DISBURSEMENTS:			
Unclassified disbursements	13,423	11,690	25,113
Total Cash Disbursements	13,423	11,690	25,113
Total cash receipts over/(under) cash disbursements	5,601	(6,375)	(774)
Fund Cash Balances - January 1, 1997	36,943	21,005	57,948
Fund Cash Balances - December 31, 1997	\$ 42,544	\$ 14,630	\$ 57,174

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

VILLAGE OF GANN
KNOX COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 1998 and 1997

1. Summary of Significant Accounting Policies

A. Description of the Entity

The Village of Gann, Knox County, Ohio (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly elected six-member Council directs the Village. The Village provides general governmental services, including fire service.

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

B. Basis of Accounting

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

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

C. Cash and Deposits

Village funds are pooled in a checking account and a money market account with a local commercial bank.

D. Fund Accounting

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

General Fund

The General Fund is the General Operating Fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

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

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

Fire Fund . This fund receives fire levy money and contract monies for providing fire protection services.

VILLAGE OF GANN
KNOX COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 1998 and 1997

E. Budgetary Process

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

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 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.

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.

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 1998 and 1997 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

2. Equity in Pooled Cash and Deposits

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

	<u>1998</u>	<u>1997</u>
Demand deposits	\$ 68,425	\$ 57,174

Deposits:

Deposits are insured by the Federal Depository Insurance Corporation.

VILLAGE OF GANN
KNOX COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 1998 and 1997

3. Budgetary Activity

Budgetary activity for the years ending December 31, 1998 and 1997 follows:

1998 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 21,227	\$ 20,607	\$(620)
Special Revenue	5,350	6,738	1,388
Total	\$ 26,577	\$ 27,345	\$ 768

1998 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 40,575	\$ 15,443	\$ 25,132
Special Revenue	7,290	651	6,639
Total	\$ 47,865	\$ 16,094	\$ 31,771

1997 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$20,789	\$ 19,024	\$(1,765)
Special Revenue	5,560	5,315	(245)
Total	\$ 26,349	\$ 24,339	\$(2,010)

1997 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 19,900	\$ 13,423	\$ 6,477
Special Revenue	4,000	11,690	(7,690)
Total	\$ 23,900	\$ 25,113	\$(1,213)

VILLAGE OF GANN
KNOX COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 1998 and 1997

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property 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. The receipts and disbursements presented in the financial statements are unclassified. This presentation is a material departure from the presentation prescribed by the Auditor of State in Sections 117-5-01 through 117-5-18 of the Ohio Administrative Code. Those sections of the Ohio Administrative Code require classifying receipts by source and disbursements by program.

6. Retirement Systems

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

Contribution rates are also prescribed by the Ohio Revised Code. For 1998 and 1997, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1998.

7. Risk Management

The Village has obtained commercial insurance for the following risks:

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

8. Year 2000 Issue

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Village's operations as early as fiscal year 1999.

The Village has also identified the following systems that relate to external entities requiring Year 2000 remediation:

- Knox County collects property taxes for distributing to the Village. Knox County is responsible for remediating the tax collection system. The County is solely responsible for any costs associated with the tax collection system project.
- The State of Ohio makes material intergovernmental payments to the Village. The State is responsible for remediating their systems.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the Village is or will be Year 2000 ready, that the Village's remediation efforts will be successful in whole or in part, or that parties with whom the Village does business will be Year 2000 ready.

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

Village of Gann
Knox County
313 Main Street, P.O. Box 295
Brinkhaven, Ohio 43006

We were engaged to audit the financial statements of Village of Gann, Knox County, Ohio (the Village) as of and for the years ended December 31, 1997 and 1998, and have issued our report thereon dated July 10, 2000. The Village was unable to present completed ledgers and supporting documentation for various receipts and disbursements transactions.

Compliance

As part of obtaining reasonable assurance about whether Village of Gann's financial statements are free of material misstatement, we performed tests of its compliance with certain laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are described in the accompanying schedule of findings as items 1998-001 through 004.

Internal Control

In planning and performing our audit, we considered Village of Gann's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 1998-001, 1998-002 and 1998-005.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Of the reportable conditions described above, we consider items 1998-001 and 1998-002 to be material weaknesses.

Village of Gann
Independent Auditor's Report on Compliance and on
Internal Control Over Financial Reporting
Page 2

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

J.E. Slaybaugh & Associates, Inc.
J.E. Slaybaugh & Associates, Inc.
Lexington, Ohio
July 10, 2000

VILLAGE OF GANN
KNOX COUNTY, OHIO
SCHEDULE OF FINDINGS
For the Years Ended December 31, 1998 and 1997

Finding Number	1998-001
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Noncompliance/Reportable Condition

Receipts

Ohio Rev. Code, Section 733.28, requires the Village Clerk to keep the books of the village, exhibit accurate statements of all moneys received and expended, and maintain records of all the property owned by the village and the income derived.

Financial Records

An accurate record was not maintained for all moneys received as illustrated below:

- Receipts from the County Auditor that should be segregated into separate funds and line items were posted incorrectly to the wrong funds.
- Local taxes received were posted at the net amount, not the gross amount.
- State and local government revenues were not posted correctly to their annual financial report in 1998. An annual financial report for 1997 was not available.

The Village is unable to keep an accurate account of the balance in each fund if receipts are posted incorrectly. This could ultimately lead to negative fund balances because the Village could spend more than is available in a particular fund. It is recommended that the Village take due care when posting receipts.

Finding Number	1998-002
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Noncompliance/ Reportable Condition

Uniformed System of Accounting

Ohio Revised Code, Section 117.43, authorizes the Auditor of State to prescribe by rule, requirements for accounting and financial reporting for public offices other than state agencies. The Auditor of State has prescribed a uniform accounting system for villages, which is set forth in Ohio Administrative Code Chapter 117-5. The Village did not comply in the following instances:

- Rule 117-5-07, Ohio Administrative Code, establishes guidelines for the proper coding and classification of Village receipts. The Village did not always properly code and classify receipts.
- Rule 117-5-09, Ohio Administrative Code, provides guidelines for the proper and complete maintenance of a village cash journal. The Village did not follow the prescribed guidelines in that a cash journal was not complete and accurately maintained.
- Rule 117-5-10, Ohio Administrative Code, requires that a village post to each receipt account the estimated amount of money to be received into the account as specified by the County budget commission. It also provides that receipts shall be entered in the "Amount Received" column and in the "Credit" column and subtracted from the budget estimate amount ("Balance"). The Village fiscal officer did not maintain a complete and accurate receipt ledger.

VILLAGE OF GANN
KNOX COUNTY, OHIO
SCHEDULE OF FINDINGS
For the Years Ended December 31, 1998 and 1997
(Continued)

Finding Number

1998-002 continued

- Rule 117-5-11, Ohio Administrative Code, requires the Village to maintain an appropriation ledger in a complete and accurate form as prescribed. The Village did not maintain a complete and accurate appropriation ledger.
- Rule 117-5-13, Ohio Administrative Code, provides that each village must use purchase orders, as prescribed, for all expenditures. The Village did not make any purchase orders, which may have been used, available for audit.

To provide accurate and complete financial information for management to use in the decision making process, and to aid in the accurate classification of receipts and disbursements on the Village's annual financial report, we recommend the Village maintain receipt and appropriation ledgers as prescribed by the Ohio Admin. Code. Encumbrances and disbursements should be posted to the appropriation ledger resulting in declining unencumbered balances. Receipts should be posted by fund and line item, with a running balance maintained. At year-end, the totals from these ledgers should be carried forward to the annual financial report.

Finding Number

1998-003

Noncompliance

Encumbering

Ohio Revised Code, Section 5705.41 (D), states that: No subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same...has been lawfully appropriated for such purpose and is in the treasury of in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon. If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrance, the taxing authority may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

If the amount involved is less than \$1,000, the fiscal officer may authorize it to be paid without affirmation of the authority if such expenditure is otherwise.

Due the lack of disbursement documentation, (ie. , purchase orders or invoices) available for audit, we were unable to determine if disbursements from 1997 and disbursements from 1998 were properly encumbered. There was no indication that disbursements were approved in the minute record.

Failure to properly encumber expenditures can result in overspending funds and negative cash fund balances. Therefore, we recommend the Village maintain proper supporting documentation for all expenditures. The Village should include the purchase order number on their transaction reports for easy reference. All disbursements should be listed in the minute record by warrant number and vendor and approved by Council before payment.

VILLAGE OF GANN
KNOX COUNTY, OHIO
SCHEDULE OF FINDINGS
For the Years Ended December 31, 1998 and 1997
(Continued)

Finding Number	1998-004
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Noncompliance

Availability of Records

Ohio Revised Code, Section 149.351, establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Code, Sections 149.38 to 149.42.

The Clerk did not maintain the following:

1. Supporting documentation for the expenditures tested in accordance with the aforementioned provisions.
2. The Clerk was unable to locate the 1997 annual financial report.

Finding Number	1998-005
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Reportable Condition

Segregation of Duties/Government Oversight

The small size of the Village's staff does not allow for an adequate segregation of duties. The Clerk handles all the financial record keeping including receipting and posting. The weakness of this system is that it allows for diversion of funds through possible alteration of source documents. Also, bookkeeping errors may occur without detection in a timely manner.

We believe the following conditions indicate a need for increased oversight of management by the Board: Village accounts were not properly reconciled for the last two years; receipts and disbursements have been posted to incorrect funds and not detected and receipts were not posted to the system or deposited in the prescribed timely manner.

To ensure accountability and to strengthen internal accounting controls, officials should periodically review the records, (i.e. reconciliations, etc.), to determine accuracy and to verify that proper procedures were followed by the fiscal officer. These periodic reviews should be noted in the minutes, and documents reviewed should be initialed by the reviewer.



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VILLAGE OF GANN

KNOX 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
OCTOBER 3, 2000**