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STATE OF OHIO

VILLAGE OF LAWRENCEVILLE PERFORMANCE AUDIT

MARCH 27, 2001

Financial Forecast

Introduction

As a benefit to government entities in fiscal watch or emergency status, the Auditor of State's Office has the ability to initiate performance audits. These performance audits are completed at no cost to the government entity and are designed to assist the government in making decisions with the objective of eliminating the conditions which brought about the declaration of fiscal watch or emergency. Another objective of the performance audit is to perform an independent assessment of the government's financial situation, including the development of a framework for a financial recovery plan. The recommendations contained within the performance audit provide one resource to a government entity in developing a financial recovery plan.

Scope & Methodology

This document, prepared as of March, 2001, represents the performance audit of the Village of Lawrenceville and consists of a comprehensive financial forecast through 2003. In developing the financial forecast, a thorough analysis of each of the major revenue and expenditure line-items was conducted in an effort to develop detailed assumptions. The forecast focuses primarily on the General and Special Revenue Funds and projects the Village's financial situation through 2003 assuming no major operational changes. To allow for a perspective of the Village's past financial situation, the financial forecast presents historical information from 1997 through 2000.

Through the process of developing the financial forecast, a number of the Village's operational practices were also assessed for overall efficiency and effectiveness. Accordingly, the performance audit identifies detailed recommendations designed to assist the Village in enhancing its operational efficiency as well as in developing a financial recovery plan.

Background

As provided by Section 118.021 of the Ohio Revised Code (ORC), the Mayor of Lawrenceville requested that a fiscal watch analysis be performed by the Auditor of State (AOS). On December 29, 1999, citing Sections 118.02 and 118.03 of the ORC, the AOS placed the Village in fiscal watch as of the end of 1998. The Village of Lawrenceville has remained in this condition since the AOS's original designation.

The reason the Village was found to be in a state of fiscal watch was due to having deficit fund balances in excess of the provisions outlined in ORC section 118.022(A)(2). Specifically, the computed aggregate sum of the General Fund deficit balance exceeded one-twelfth of the sum of the General Fund Budget. Although the reason cited for the fiscal watch determination was monetary, the fiscal watch condition actually stems from administrative inefficiencies and not necessarily from lack of money. The following are some of the major administrative problems resulting in the fiscal watch status:

- **Budgetary Process** - The Tax Budget, Certificates of Available Resources and the Annual Appropriation Ordinance routinely had not been prepared on a timely basis. The policies in place regarding the budget process were seemingly ineffective because time frames for the completion of tasks were not being realized. These actions resulted in decreases in County funds that were allocated to the Village. However, all funds in arrears have been collected from the County to date.

According to a representative from the Clarke County Auditor's office, it appears that the Village has taken some steps to rectify past filing deficiencies as the Tax Budget for 2001 was filed within the appropriate time frames.

- **Water Operations** - Although the Village provides water service to the residents, they do not have meters to track usage. Consequently, the billing is performed on a flat rate basis. In addition, in the past, the water department billing records were not accurately accounted for as evidenced by numerous citations noted in the financial audits covering 1995 through 1998. The Village is planning to renovate the current billing process with the addition of the new clerk/treasurer.
- **Record-keeping** - The lack of financial records for the Village has been well documented. Local Government Services (LGS) has had to reconstruct financial statements for 1997, 1998, 1999 and 2000. According to Village officials, the records have fallen victim to theft and fire. As mentioned previously, numerous citations and management recommendations about the financial records are contained in the previous two financial audits.
- **Turnover** - The Village of Lawrenceville has had six Clerks since 1997 resulting in an obvious disruption in the flow of financial information. The Clerk is normally the chief fiscal administrator of a village. Clerk responsibilities include keeping and maintaining the financial records, reviewing receipts and expenditures, being an integral part of the budget process, tax remittances, government filings and various council meeting duties. Further compounding the problem is the absence of the Village's long time Mayor due to retirement.

Nature and Purpose of Presentation

This financial projection represents the expected revenues, expenditures and fund balances of the general, special revenue and agency funds of the Village of Lawrenceville. These financial projections are for each of the calendar years including 2001 through 2003, with historical information presented for 1997 through 2000.

Description of Village

The Village of Lawrenceville (the Village) is located in the southwest portion of Clark County. The Village consists of a 0.348 square kilometer area, and according to the 1990 U.S. Census, is inhabited by 304 persons. The U.S. Census Bureau also has an estimated 1998 population of 279, indicating an overall trend toward a declining population.

The Village became incorporated in 1931 and is directed by a publicly-elected six-member Council, a Mayor and an appointed Clerk-Treasurer. These eight individuals receive a part-time salary as compensation for their time. The Village of Lawrenceville provides services to its residents that include a police department and a water utility. The Police Department has the only full-time Village employee, the Police Chief; but the Department also employs two part-time officers that are paid hourly, and has six auxiliary officers that are volunteers. The water utility employs one part-time salaried employee who is responsible for all the purification and treatment processes, while any major repair and maintenance requirements are outsourced to private industry. In addition, the Village operates the Magistrate's Court (the Court). A judge from the Common Pleas Court in Springfield, Ohio is contracted two days a month to preside over the Magistrate's Court. The Court also employs a Clerk of Court on a part-time but salaried basis.

Fund Accounting

The village uses fund accounting to segregate cash which is restricted as to its use, and the following are the fund classifications:

- **General Fund** - This is the general operating fund used to account for all financial resources except those required to be accounted for in another fund. Lawrenceville also uses the general fund to account for its water utility activities. For most entities, utility activities would normally be accounted for in the proprietary fund.

- **Special Revenue Funds** - These funds account for monies from specific sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village has the following Special Revenue Funds:
 - Motor Vehicle License Fund
 - Street Fund
 - State Highway Fund - gas and motor vehicle tax for highway construction and maintenance
 - COPS Fast - federal funds to help cover Village police department operating expenses
 - Health Fund

- **Agency Fund** - This fund accounts for fines and bond forfeitures collected by the Magistrate's Court on behalf of the Village.

Financial Forecast

The financial forecasts presented in **Tables 1-1, 2-1 and 3-1** represent the Auditor of State's projection of the Village of Lawrenceville's present and future financial condition in the absence of significant increases in revenues or reductions in expenditures. The projections, which are for the General, Special Revenue and Agency Funds, are accompanied by four years of comparable historical results, general assumptions and explanatory events.

General Fund Forecast

The following financial information in **Table 1-1: General Fund** represents actual and forecasted financial information in the General Fund for the Village of Lawrenceville.

Table 1-1: General Fund

	Actual 1997 ¹	Actual 1998 ¹	Actual 1999 ²	Actual 2000 ²	Forecast 2001	Forecast 2002	Forecast 2003
Property Taxes	\$5,872	\$13,569	\$6,628	\$20,884	\$14,293	\$14,610	\$14,801
Intergovernmental Receipts	\$11,278	\$5,435	\$3,499	\$10,969	\$5,474	\$5,525	\$5,578
Charges for Services	\$16,159	\$13,525	\$6,993	\$12,284	\$13,000	\$16,000	\$16,000
Fines, Licenses and Permits	\$30,013	\$27,647	\$56,779	\$44,910	\$44,910	\$30,000	\$24,000
Miscellaneous	\$4,308	\$2,687	\$2,324	\$4,847	\$3,274	\$3,274	\$3,274
Total Operating Revenues	\$67,630	\$62,863	\$76,223	\$93,894	\$80,951	\$69,409	\$63,653
Security	\$25,512	\$23,220	\$11,275	\$10,671	\$10,990	\$11,321	\$11,659
Utility Services	\$7,590	\$11,829	\$5,211	\$3,007	\$35,000	\$7,000	\$5,000
General Operations	\$38,221	\$36,780	\$32,915	\$45,329	\$44,569	\$46,018	\$47,399
Total Operating Expenditures	\$71,323	\$71,829	\$49,401	\$59,007	\$90,559	\$64,339	\$64,058
Net Transfers/Advances - In/(Out)	\$0	\$0	(\$17,134)	(\$16,427)	\$0	(\$4,563)	(\$1,126)
Results of Operations (Net)	(\$3,693)	(\$8,966)	\$9,688	\$18,460	(\$9,608)	\$507	(\$1,531)
Beginning Fund Balance	\$1,853	(\$1,840)	(\$10,806)	(\$1,118)	\$17,342	\$7,734	\$8,241
Ending Fund Balance	(\$1,840)	(\$10,806)	(\$1,118)	\$17,342	\$7,734	\$8,241	\$6,710

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

¹ Information for 1997 and 1998 represents audited actual financial statement figures

² Information for 1999 and 2000 represents unaudited actual financial information

Assumptions

Summarized in the following pages are the significant general assumptions underlying the financial forecast shown in **Table 1-1**.

Revenues

- A. **Property Taxes:** Property taxes are levied and assessed on a calendar year basis against real, public utility and tangible personal (used in business) property located in the Village of Lawrenceville. Assessed values for real property taxes are established by state law at 35 percent of appraised market value. All real property is required to be revalued every six years and updated midway through the six-year period.

The fluctuation in the property tax information that occurs between 1997 and 1998 is due to the Village successfully passing a 3.0 mill operating levy in 1997 (collected in 1998). The fluctuation in the property tax information that occurs between 1999 and 2000 is due to the County Auditor withholding approximately \$6,800 of second half property tax collections from the Village. These funds were withheld because the Village did not file its 1999 tax budget with the County Auditor. Subsequently, the Village did file the tax budget and received these funds in 2000.

The property tax forecasts in **Table 1-2** are based on historical valuations and trends, including the effects of scheduled updates and appraisals. Historically, there has been a 2.7 percent annual increase in residential/agricultural valuation, 1.7 percent annual increase in commercial/industrial, a 2.5 decrease in public utility and the tangible personal property valuation has increased 7.8 percent annually. In projecting property valuations for the non-reappraisal years (2000, 2001 and 2003), it is assumed that the appraised values will increase at the applicable historical growth rates.

Property reappraisals are performed every six years, with the next being scheduled for 2001 (to be collected in 2002). Historically, the reappraisal has resulted in a five percent increase in property tax valuations for the Village of Lawrenceville. According to a representative from the County Auditor's office, Lawrenceville's size and present capacity make future construction prohibitive indicating that growth beyond the five percent is unlikely. As a result, this forecast assumes that in 2002, the appraised property values will increase at the historical reappraisal growth rate of five percent.

The Village is currently collecting on two levies, a 3.0 Mill outside levy (voted) and 2.1 inside mills (un-voted). The 3.0 mill levy is an operating levy that was passed in 1997 and successfully renewed in November, 2000. The 3.0 mill levy (2.78 effective mills) generates approximately \$8,800 annually and is scheduled to expire at the conclusion of 2003. The detailed valuation, millage and revenue projections are summarized in **Table 1-2**:

Table 1-2: Property Valuation and Millage

	FY 2000	FY 2001	FY 2002	FY 2003
Residential/Agricultural Assessed Valuation	2,338,020	2,401,147	2,521,204	2,589,276
Commercial/Industrial Assessed Valuation	362,310	368,469	386,893	393,470
Public Utility Assessed Valuation	161,410	157,375	165,243	161,112
Personal Tangible Assessed Valuation	358,710	384,896	404,141	433,643
Authorized Mills				
Operating	3.00	3.00	3.00	3.00
Inside	2.10	2.10	2.10	2.10
Total Authorized Mills	5.10	5.10	5.10	5.10
Effective Mills to be Levied				
Operating	2.78	2.75	2.56	2.53
Inside	2.10	2.10	2.10	2.10
Total Effective Mills to be Levied	4.88	4.85	4.66	4.63
Total Projected Property Taxes	\$14,031 ¹	\$14,293	\$14,610	\$14,801

¹ The property tax line-item within Table 1-1 shows total tax revenues in 2000 of 20,884. This consists of approximately \$14,000 that was owed in 2000 with the remainder attributed to taxes collected in arrears from 1999.

B. Intergovernmental Receipts: Intergovernmental consists of local government revenue assistance, state shared taxes and permits, homestead and rollback property tax exemptions. The Local Government Tax and Revenue Assistance are general operating monies received from the County Auditor. The amount of funding received from the Local Government Tax and Revenue Assistance are based on a mathematical formula outlined in ORC § 5747.53 and ORC § 5747.63. As **Table 1-3** illustrates, this revenue item has experienced significant fluctuations during the past three years. These fluctuations can be partially attributed to the County Auditor holding back six months of 1999 Local Government Taxes and Revenue Assistance due to the Village not filing its tax budget within the appropriate time frames. Subsequently, the Village did file the tax budget and is receiving these funds in 2000. Due to the significant fluctuations in these revenue items, it is assumed that future revenues will remain constant at the average of the 1999 actual amount and the 2000 County Auditor certification.

Inheritance Tax is an unpredictable revenue source and therefore, no revenues from this source are projected. The Cigarette Tax has historically remained constant at \$56 and is forecasted to continue this trend. Liquor and Beer Permits have experienced significant fluctuations during the past three years. Accordingly, in projecting revenue from this source in future years, it is assumed that they will remain constant at the 1999 and 2000 levels.

Homestead/Rollback include a ten percent property tax rollback for all real property tax owners. In 1979, an additional 2.5 percent rollback was enacted for owner occupied homes. These tax credits are reimbursed to the Village through the state and are calculated by applying the appropriate percentages to the residential and commercial properties. Also, included in this category is an exemption for businesses for the first \$10,000 in personal property tax valuation. This exemption is reimbursed by the state and is estimated based on historical trends. The main components of Intergovernmental Receipts and the projections by component are presented in **Table 1-3**.

Table 1-3: Intergovernmental Receipts

	Actual 1997	Actual 1998	Actual 1999	Actual 2000	Forecast 2001	Forecast 2002	Forecast 2003
Local Government	\$3,202	\$2,725	\$1,310	\$4,477	\$2,900	\$2,900	\$2,900
Local Government Revenue Assistance	\$690	\$616	\$299	\$1,003	\$650	\$650	\$650
Inheritance Tax	\$5,888	\$0	\$0	\$3,615	\$0	\$0	\$0
Cigarette Tax	\$56	\$56	\$56	\$56	\$56	\$56	\$56
Liquor and Beer Permits	\$63	\$408	\$157	\$157	\$157	\$157	\$157
Homestead/Rollback Property Tax	\$1,379	\$1,630	\$1,677	\$1,661	\$1,711	\$1,762	\$1,815
Total Intergovernmental Receipts	\$11,278	\$5,435	\$3,499	\$10,969	\$5,474	\$5,525	\$5,578

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

C. Charges for Services: This revenue source consists of water receipts generated by the water utility provided to Lawrenceville residents. The forecasted revenues found in **Table 1-1** predict a steady increase from 2001 through 2003, while the historical trend shows significant decreases in revenue from 1997 through 2000. The decrease has been due to the historical problems associated with the billing and collections processes. Due to missing paperwork and the high turnover in the clerk/treasurer position, six months of water billing in 1999 was never performed and/or only partially collected. The Village Mayor quantified the lost revenue at \$5,000, but citing the lack of proper record-keeping, the Village council has voted not to pursue this lost income.

Presently there is a flat rate fee for water service in the Village of Lawrenceville which is \$9.50 per month per household, and \$15.00 per month for businesses. In 2000, the Village of Lawrenceville provided water services to 81 households and three businesses. The Village officials have indicated a desire to implement a fee increase beginning in 2002 in an effort to fund major upgrades to the existing water utility infrastructure. While the Village officials have yet to determine the size of the rate increase, there has been some early indication that it could be around \$3.00 per month. In projecting revenues from this source in future years, it is assumed that the new Clerk/Treasurer and Mayor have resolved the billing/collection problems and will institute a rate increase of \$3.00 beginning in 2002.

- D. Fines, Licenses and Permits:** This revenue source stems from fines levied and collected in the Magistrates Court and subsequently transferred from the Agency Fund to the General Fund. This revenue has increased 105 percent from 1998 to 1999 and is attributable to the increased police presence in the Village as a result of the COPS Fast Grants. There are presently three COPS Fast Grants that subsidize the Village of Lawrenceville police operations, with one scheduled to expire at the end of 2001, and the other two scheduled to expire at the end of 2002. Prior to receiving the COPS Fast Grants in 1996, the Village paid approximately \$5,000 for part-time police protection. When this option was last utilized in 1995, the Village received approximately \$22,000 in citation revenues.

Because of the uncertainty regarding the continuation of the COPS Fast Grants, it is assumed that in 2002, the Village will lose one officer and the citation revenues will decrease by one-third from the previous year. Furthermore, it is assumed that in 2003, the Village will lose the two remaining officers and will begin providing part-time police services. Accordingly, the citation revenue in 2003 is conservatively projected to be \$24,000 based on the 1995 levels adjusted for inflation. For additional information on the COPS Fast Grant see the Special Revenue Fund section.

- E. Miscellaneous:** This represents a number of different revenue streams that are either without a specific category or do not generate enough revenue to warrant a specific category.

The Community Center Room rentals was reclassified to Miscellaneous Receipts beginning in 1999. In future years, the Community Center Room rentals are projected to equal the two-year average from 1999 and 2000. The PERS overpayment, Police Cruiser Reimbursements and Insurance Refund are seemingly one-time receipts and no future revenues are projected for these line-items.

Due to the erratic nature of the Miscellaneous Revenues, future years are projected based on the four-year historical average. The main components of Miscellaneous Receipts and the projections by component are presented in **Table 1-4**.

Table 1-4: Miscellaneous Receipts

	Actual 1997	Actual 1998	Actual 1999	Actual 2000	Forecast 2001	Forecast 2002	Forecast 2003
Community Center Room Rentals	\$0	\$0	\$1,004	\$2,432	\$1,720	\$1,720	\$1,720
Village of Tremont	\$0	\$0	\$563	\$814	\$814	\$814	\$814
PERS Overpayment	\$3,650	\$0	\$0	\$0	\$0	\$0	\$0
Pagers	\$0	\$313	\$108	\$0	\$0	\$0	\$0
Police Cruiser Reimbursement	\$0	\$2,000	\$0	\$0	\$0	\$0	\$0
Insurance Refund	\$0	\$318	\$0	\$0	\$0	\$0	\$0
Miscellaneous Revenues	\$658	\$56	\$649	\$1,601	\$740	\$740	\$740
Total Miscellaneous Receipts	\$4,308	\$2,687	\$2,324	\$4,847	\$3,274	\$3,274	\$3,274

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

Expenditures

- F. **Security:** This represents all expenditures associated with maintaining the police force in the Village of Lawrenceville except the salary and benefits. The salary and benefits costs are captured in the Special Revenue Fund as part of the COPS Fast Grant that has been awarded to the Village, see **Table 2-1** Security expenditure line item. As **Table 1-5** illustrates, in 1999 and 2000 the Village's security expenditures decreased significantly. This is due to the transfers for the matching portion of the COPS Fast Grant Fund being properly accounted for as transfers rather than as security expenditures and an overall reduction in expenses on the part of the Village in an effort to remedy its financial situation.

Amounts projected for 2000 are based on actual expenditure information. Although the COPS Fast grant is scheduled to begin expiring in 2001 and will be fully expired by 2003, all line-items for these years were projected to increase by three percent using 2000 expenditures as a base. It should be noted that by projecting three percent increases for Security Expenses, a conservative approach has been taken because the projected non-renewal of the COPS Fast Grant should result in lower expenditures. The main components of Security Expenses and the projections by component are presented in **Table 1-5**.

Table 1-5: Security Expenses

	Actual 1997	Actual 1998	Actual 1999	Actual 2000	Forecast 2001	Forecast 2002	Forecast 2003
Insurance	\$3,780	\$3,977	\$2,190	\$2,104	\$2,167	\$2,232	\$2,299
Postage	\$64	\$84	\$66	\$0	\$0	\$0	\$0
Towing Services	\$0	\$70	\$87	\$0	\$0	\$0	\$0
Paging Services	\$814	\$766	\$822	\$603	\$621	\$640	\$659
Training	\$710	\$900	\$0	\$371	\$382	\$394	\$405
Legal fees	\$0	\$0	\$200	\$0	\$0	\$0	\$0
Uniforms	\$569	\$123	\$749	\$325	\$335	\$345	\$355
Gas, Maintenance, Service	\$3,946	\$4,785	\$3,844	\$5,195	\$5,350	\$5,511	\$5,676
Printed Material	\$493	\$600	\$541	\$361	\$372	\$383	\$394
Ammunition and Equipment	\$2,027	\$3,905	\$1,751	\$644	\$663	\$683	\$704
Office Supplies	\$536	\$156	\$513	\$671	\$691	\$712	\$733
Transfer to COPS Fast Fund	\$11,592	\$6,969	\$0	\$0	\$0	\$0	\$0
Other	\$981	\$885	\$512	\$397	\$409	\$421	\$434
Total Security Expenditures	\$25,512	\$23,220	\$11,275	\$10,671	\$10,990	\$11,321	\$11,659

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

G. Utility Service: This expenditure item represents the costs of maintaining the water utility for the Village of Lawrenceville. These costs include maintenance and testing of the water supply, water additives, salary for the part-time utility maintenance and purification employee, any repairs and postage and other costs associated with billing. The Mayor of Lawrenceville and the Village Council have confirmed that an upgrade to the existing water utility infrastructure is scheduled to begin in 2001. The upgrade is focusing on new piping, electrical work, repairs to the well house and two pump stations as well as some work to the pressure tanks. At the start of this engagement, the Village estimated the cost of this upgrade to be \$30,000.

During the course of this audit, certain specification changes were made to the scope and magnitude of the proposed upgrade and as a result, the Mayor has indicated that this could become a major upgrade and may cost as much as \$250,000. To fund repairs and upgrades of this magnitude, the Mayor indicated that Village will most likely issue debt and repay the borrowed amount over the next 20 to 30 years. The proceeds from the water utility rate increase will be used to service the debt. However, as of March 2001, this \$250,000 upgrade is still in the discussion stages and no action has been taken by council to obtain financing.

In forecasting the expenditures for utility services in future years, it is assumed that the Village will undertake some type of water utility upgrade in 2001. Therefore, \$35,000 (\$30,000 construction costs and \$5,000 operating costs) in water utility expenditures is projected for 2001. At a minimum, this level of expenditure would allow the Village to undertake the original upgrade that was planned. If it is decided to go forward on the major upgrade at an estimated cost of \$250,000, this \$35,000 can be used either to reduce the amount borrowed or to service the debt in future years.

In 2002, \$7,000 has been forecasted to cover normal operating costs and any preliminary work, any cost overages, any additional work, and/or any expansion of services. In 2003, \$5,000 is budgeted to cover normal operating costs.

H. General Operations: This expenditure category consists of items associated with the overall operations of the Village of Lawrenceville. The line-items found in **Table 1-6** are broad descriptions but the specific costs include salaries and taxes for the Mayor, Council Persons, Magistrate, Clerk of Courts and Clerk/Treasurer; expenditures for office supplies and equipment; insurance; land and building maintenance and any other various overhead or miscellaneous charges connected with the operations of any municipality. The General Operations Expenditures historically have been collectively decreasing because of an effort by the Village to better control costs as a result of their fiscal watch status. Projections for 2000 are based on actual expenditures. Future years are projected based on a combination of historical averages and inflationary increases. The main components of General Operations Expenditures and the projections by component are presented in **Table 1-6**.

Table 1-6: General Operations Expenditures

	Actual 1997	Actual 1998	Actual 1999	Actual 2000	Forecast 2001	Forecast 2002	Forecast 2003
Administrative Offices	\$2,029	\$2,382	\$3,365	\$1,873	\$2,412	\$2,485	\$2,560
Legislative Activities	\$2,289	\$435	\$745	\$565	\$582	\$600	\$617
Mayor's Court	\$3,758	\$3,939	\$4,047	\$5,279	\$5,543	\$5,820	\$5,995
Clerk-Treasurer	\$3,850	\$13,000	\$14,364	\$11,611	\$11,960	\$12,318	\$12,688
Land and Buildings	\$17,515	\$7,716	\$7,153	\$13,503	\$11,471	\$11,816	\$12,170
County Auditor and Treasurer Fees	\$76	\$227	\$116	\$482	\$225	\$232	\$239
Other	\$8,704	\$9,081	\$3,125	\$12,016	\$12,376	\$12,747	\$13,130
Total General Operations Exp.	\$38,221	\$36,780	\$32,915	\$45,329	\$44,569	\$46,018	\$47,399

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

Transfers-out

I. Transfers-out: Historically, the transfers primarily constitute the matching portion of the COPS Fast Grant (ranging from \$9,000 to \$10,000) and deficits in the Street Funds (ranging from \$4,000 to \$7,000) within the Special Revenue Fund. For future years, due to the major water utility upgrades scheduled for 2001, the General Fund resources available for transfer to the Special Revenue Fund will most likely be minimal. Therefore, in 2001, it is assumed that no transfers will be made to the Special Revenue Fund and any deficits will be covered by past surpluses. For 2002 and 2003, sufficient transfers will be made to maintain a positive ending fund balance within the Special Revenue Fund.

Special Revenue Fund Forecast

The following financial information in **Table 2-1: Special Revenue Fund** represents actual and forecasted financial information in the Special Revenue Fund for the Village of Lawrenceville. The Special Revenue Fund is actually a collection of several funds that include the COPS Fund, Street Fund, State Highway Fund and Motor Vehicle Fund.

Table 2-1: Special Revenue Fund

	Actual 1997 ¹	Actual 1998 ¹	Actual 1999 ²	Actual 2000 ²	Forecast 2001	Forecast 2002	Forecast 2003
Local Taxes	\$0	\$2,147	\$965	\$3,067	\$2,300	\$2,300	\$2,300
Intergovernmental	\$38,929	\$39,989	\$40,916	\$36,232	\$33,993	\$25,065	\$3,949
Other	\$1,699	\$4,103	\$198	\$691	\$1,325	\$1,325	\$1,325
Total Operating Revenues	\$40,628	\$46,239	\$42,079	\$39,990	\$37,618	\$28,690	\$7,574
Security	\$44,227	\$43,620	\$52,479	\$50,598	\$51,925	\$34,448	\$5,900
Health Services	\$1,449	\$2,147	\$965	\$3,067	\$2,300	\$2,300	\$2,300
Transportation	\$34,895	\$6,628	\$94	\$40	\$500	\$500	\$500
Total Operating Expenditures	\$80,571	\$52,395	\$53,538	\$53,705	\$54,725	\$37,248	\$8,700
Net Transfers/Advances - In/(Out)	\$0	\$0	\$17,134	\$16,427	\$0	\$4,563	\$1,126
Results of Operations (Net)	(\$39,943)	(\$6,156)	\$5,675	\$2,712	(\$17,107)	(\$3,995)	\$0
Beginning Cash Balance	\$61,814	\$21,871	\$15,715	\$21,390	\$24,102	\$6,995	\$3,000
Ending Cash Balance	\$21,871	\$15,715	\$21,390	\$24,102	\$6,995	\$3,000	\$3,000

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

¹ Information for 1997 and 1998 represents audited actual financial statement figures

² Information for 1999 and 2000 represents unaudited actual financial information

Assumptions

Summarized in the following pages are the significant general assumptions underlying the financial forecast shown in **Table 2-1**.

Revenues

- A. **Local Taxes:** This line-item represents the taxes collected for health services. The County currently levies a .80 mill levy on behalf of the Village to pay for various health services. This levy generates approximately \$2,300 annually and is scheduled to expire in 2001. In 1999, the collections from the levy were affected by the County Auditor withholding the second half collections from the Village due to the Village not filing the tax budget within the applicable time frames. Subsequently, the Village did file the tax budget and is receiving these funds in 2000.

The funds collected from this levy are required to be immediately distributed to the County Health Department via the Health Services expenditure line item found in **Table 2-1**. Therefore, the Tax revenue should always equal the Health Services expenditure line item. This was not the case for 1997 as the tax monies were incorrectly captured in another line item. In projecting the revenues for this line-item, it is assumed that the Village will collect approximately \$2,300 annually throughout the forecast period.

- B. Intergovernmental:** The major component of this revenue source is the COPS Fast Grant, but also consists of taxes collected on behalf of the Village that are ultimately remitted to the various Funds that comprise the Special Revenue Fund. The COPS Fast Grant is a program administered by the Justice Department for the purpose of assisting smaller communities with their law enforcement capabilities. Since 1996, the Village has been awarded these funds. The COPS Fast Grant is a closed end grant with a three year award life and a one year retention. The purpose of the grant is to help these selected communities establish self-sustaining local police departments. The Village is receiving the maximum award for a municipality of its size, \$75,000. The grant is divided into three annual installments of not more than \$25,000 per year, and 25 percent of the monies spent must be matched with local funds. The Village currently has three active grants; one for the full-time police chief due to expire at the end of 2001, and two for the two part-time positions due to expire the end of 2002. The expiration of these grants is reflected in the steadily decreasing grant awards forecasted through the year 2003.

The Police Chief is in charge of maintaining the Cops Fast grant and explained that the grant was not designed as an open-ended funding mechanism, but instead was established as assistance to promote self-sustenance. The Police Chief also suggested the COPS Fast Grant was a political issue and that any possible federal shift of politics could effect the COPS Fast program. These two factors have led the Chief of Police to register serious concerns about the future of this grant and therefore, the forecasted figures in all line items linked to the COPS Fast Grant assume no grant renewal. This can be verified by the general decrease in revenue and expense totals in all the funds.

The license tax is imposed by the State of Ohio on motor vehicles operating on public highways. The tax rate is \$20 for passenger cars and other increased rates for heavy-duty types of vehicles. Counties, Townships and Municipalities can also levy permissive license fees on top of the license tax in the amount of \$5.00 per registration. The gasoline tax is imposed on wholesale fuel dealers who sell gasoline in Ohio. The tax is currently established at a rate of \$.22 per gallon. All of these taxes are collected at the State level and then distributed to the County and Municipality levels.

The license, permissive and gasoline taxes represent intergovernmental revenues the Village receives for the purpose of repairing and maintaining the roads within the Village’s jurisdiction. Due to the fluctuations in the License tax line-item, amounts are projected to remain constant at \$970 based on historical averages. In the gasoline tax line-item, it is assumed that the revenues will increase three percent annually from the 1999 levels based on inflation. Due to the significant fluctuations in the permissive taxes, these revenues are forecasted to remain constant at \$420 based on historical averages. The main components of Intergovernmental and the projections by component are presented in **Table 2-2**.

Table 2-2: Intergovernmental

	Actual 1997	Actual 1998	Actual 1999	Actual 2000	Forecast 2001	Forecast 2002	Forecast 2003
COPFast Grant	\$34,657	\$36,778	\$37,707	\$31,870	\$30,191	\$21,191	\$0
License Tax	\$1,144	\$921	\$278	\$1,571	\$970	\$970	\$970
Gasoline Tax	\$2,623	\$2,022	\$2,661	\$2,113	\$2,412	\$2,484	\$2,559
Permissive Tax	\$505	\$268	\$270	\$678	\$420	\$420	\$420
Total Intergovernmental Receipts	\$38,929	\$39,989	\$40,917	\$36,232	\$33,993	\$25,065	\$3,949

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

C. Other: This represent interest earned on bank deposits as well as Workers’ Compensation rebates. In projecting the interest revenue, it is assumed that the village will rectify all deficiencies that led to the County Auditor withholding taxes and therefore, the Village will have more funds to invest and will earn slightly higher interest revenues. For Workers’ Compensation, based on the historical fluctuations for this line-item, the forecasts assumes a \$1,000 annual average of compensation reimbursement. In 1998, the significant increase in the Workers’ Compensation reimbursement was due to the statewide rebate. The main components of Other Revenues and the projections by component are presented in **Table 2-3**.

Table 2-3: Other Revenues

	Actual 1997	Actual 1998	Actual 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003
Bureau of Workers’ Comp	\$1,449	\$3,911	\$33	\$0	\$1,000	\$1,000	\$1,000
Interest	\$250	\$192	\$165	\$691	\$325	\$325	\$325
Total Intergovernmental Receipts	\$1,699	\$4,103	\$198	\$691	\$1,325	\$1,325	\$1,325

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

Expenditures

D. Security: This line-item represents the expenditures (salaries, benefits and employer withholding taxes) associated with the COPS Fast Grant. The COPS Fast Grant is scheduled to fully expire at the conclusion of 2002. Before the COPS Fast grant was awarded to the Village of Lawrenceville, the policing of the Village was handled by hiring part-time officers. In 1995, the cost of this arrangement was approximately \$5,000. Discussions with the Mayor indicate that if the COPS Fast Grant is not renewed, the Village is most likely going to reinstate the practice of hiring part-time police officers. Therefore, in 2003, the first full year without COPS Fast Grant money available, \$5,900 has been forecasted for security expenses in the Special Revenue Fund. This figure was determined by taking the cost of contracting for policing in 1995 (\$5,000) and adjusting it by 18 percent to account for inflation and other factors. The main components of Security Expenses and the projections by component are presented in **Table 2-4**.

Table 2-4: Security

	Actual 1997	Actual 1998	Actual 1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003
Salaries	\$31,355	\$32,451	\$37,356	\$37,554	\$37,700	\$25,000	\$0
Benefits	\$8,922	\$6,676	\$12,137	\$10,632	\$10,900	\$7,200	\$0
Withholding Taxes	\$3,950	\$4,493	\$2,986	\$2,412	\$3,325	\$2,248	\$0
Part-time Policing	\$0	\$0	\$0	\$0	\$0	\$0	\$5,900
Total Security Receipts	\$44,227	\$43,620	\$52,479	\$50,598	\$51,925	\$34,448	\$5,900

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

E. Health: This expenditure represents health services funded through taxes. The expenditure should always be the equivalent of the Local Taxes collected as seen in **Table 2-1**, as this is merely a flow through item on the financials.

F. Transportation: These are the costs associated with maintaining the streets and roads in the Village of Lawrenceville. In 1997, a major repair to the Village roads was required and the unexpected nature of this expense severely depleted the Special Revenue Fund balance as depicted in **Table 2-1**. The following year additional street maintenance was required that further depleted the fund balance. To help lessen the effects of any future unexpected road repairs, it is assumed that \$500 will be set-aside annually for road repairs. This gives the Village flexibility to proactively maintain its streets and roads or to accumulate a fund balance to offset major expenses when they occur.

Transfers-In

G. Transfers-in: From 1997 through 2002, the transfers-in represent the Village’s matching portion of the COPS Fast Grant and the amounts needed to cover the operating costs. Due to the major water utility upgrades scheduled for 2001, the General Fund resources available for transfer to the Special Revenue Fund will most likely be minimal. Therefore, in 2001, it is assumed that no transfers will be made to the Special Revenue Fund and any deficits will be covered by past surpluses.

Agency Fund Forecast

The following financial information in **Table 3-1: Agency Fund** represents actual and forecasted financial information in the Agency Fund for the Village of Lawrenceville.

Table 3-1: Agency Fund

	Actual 1997 ¹	Actual 1998 ¹	Actual 1999 ²	Actual 2000 ²	Forecast 2001	Forecast 2002	Forecast 2003
Additions	\$41,528	\$35,401	\$72,451	\$49,585	\$49,585	\$35,000	\$30,000
Deductions	\$41,783	\$35,824	\$70,632	\$48,585	\$48,585	\$34,000	\$29,000
Results of Operations (Net)	(\$255)	(\$423)	\$1,819	\$1,000	\$1,000	\$1,000	\$1,000
Beginning Cash Balance	\$1,435	\$1,180	\$757	\$2,576	\$3,576	\$4,576	\$5,576
Ending Cash Balance	\$1,180	\$757	\$2,576	\$3,576	\$4,576	\$5,576	\$6,576

Sources: 1995 - 1999 Financial Audits and interviews with Village and County officials

¹ Information for 1997 and 1998 represents audited actual financial statement figures

² Information for 1999 and 2000 represents unaudited actual financial information

A. Additions: As seen in **Table 3-1**, this represents the monies generated by the Magistrates Court, which is directly attributable to the COPS Fast Grant. As stated previously, the greater police presence has resulted in an increase in the number of violations detected and consequently, an increase in fines levied and collected by the Magistrate’s Court. Since the COPS Fast Grants are due to expire by the end of 2002, the forecast reflects a decrease in revenue which is similarly found in the Fines, Licenses, Permits line item **Table 1-1** and in the Security line item in **Table 2-1**.

B. Deductions: As seen in **Table 3-1**, this represents the disbursements and deductions of cash. Of the total deductions in 1997, 1998 and 1999 approximately 80 percent (\$57,000 in 1999) represents Magistrate Court receipts transferred to the General Fund. The remaining 20 percent (approximately \$14,000 in 1999) represent deductions for amounts due to the County as well as the cost of operating the Magistrate’s Court. Since the COPS Fast Grants are scheduled to expire by the end of 2002, the forecast reflects a decrease in the amounts deducted from the Agency Fund.

Conclusions

Based on the General Fund forecast presented in **Table 1-1**, it appears that the Village has the capability to stabilize its finances. For all years projected in **Table 1-1**, the Village is forecasted to maintain positive ending fund balances. However, for Lawrenceville to achieve the results projected in **Table 1-1**, certain aspects of the Village's operations need to be improved. More specifically, the Village should focus on improving its budgetary practices, take action to minimize employee turnover in the Clerk's position, begin maintaining accurate financial and water billing records and begin fostering proper accounting practices. The detailed operational changes that Lawrenceville should implement are outlined in the **General Recommendations** section of this report.

In developing the General Fund forecast presented in **Table 1-1**, a number of assumptions were made regarding different aspects of Lawrenceville's operations. It should be noted that if the Village takes actions which are contrary to these assumptions, the results presented in the General Fund, Special Revenue and Agency Fund forecasts could differ significantly. The major assumptions which have a significant impact on the Village's projected financial condition include the following:

- It was assumed that both the .80 mill health care levy and the 3.0 mill operating levy will be successfully renewed in 2001 (expires in November, 2001) and 2003 (expires in November, 2003) respectively. If either of these levies are not renewed, the General and Special Revenue Fund forecasts will be negatively impacted. For more information, please see Recommendation No.5.
- For all revenues that are distributed by the County Auditor, it was assumed that the Village has rectified its past problems and will file the tax budget and the appropriation measures within the applicable time frames. If the Village does not comply with these time frames, it could result in the County Auditor withholding funds. For more information, please see Recommendation No. 1.
- The projections for the Village's water services assume that the Village will implement a \$3.00 rate increase in 2002. This fee will be used to cover major infrastructure upgrades. If the rate increase is not implemented at this level, the results projected in the General Fund forecast are likely to negatively impacted. For more information, please see Recommendation No. 4.
- In projecting revenues and expenditures associated with policing services, it was assumed that the COPS Fast Grants will fully expire and in 2003, the Village will begin paying for part-time policing services. If the COPS Fast Grant were to be successfully renewed, the General and Special Revenue Fund forecasts will likely be positively impacted. For more information, please see Recommendation No. 6.

General Recommendations

1. *The Village should formalize the budgetary process*

In the past, the Village has not filed its Tax Budget and its appropriation resolutions with the County Auditor within the prescribed time frames. As a result, the County Auditor has withheld tax revenues that were due to the Village. Because the Village is currently in Fiscal Watch, it cannot afford to forego any revenues to which it is owed. Accordingly, the Village should develop a formal timetable and instructions for preparing the tax budget and the appropriations resolution. Given the significant amount of turnover in the Clerk position (six clerks since 1997), having detailed budget preparation instructions and a formal timetable will help smooth the transition period associated with employee turnover while ensuring the Village is meeting the County Auditor's filing deadlines.

2. *The Village should utilize the Uniform Accounting Network*

In the past, the Village's financial records have not been effectively maintained as evidenced by a number of citations during financial audits. More specifically, the Village has failed to adequately maintain cash journals, receipt ledgers, appropriation ledgers and it has not properly used the encumbrance method of accounting. In addition, bank reconciliations were not performed and the records that have been maintained have fallen victim to theft and fire. As a result, LGS has had to reconstruct past financial records. To rectify these record keeping and accounting deficiencies, the Village should take advantage of the Uniform Accounting Network (UAN) services offered by the Auditor of State's office. The UAN not only provides computer training for Clerk/Treasurers, but also provides general fund accounting training that would be helpful in establishing financial reporting procedures for the Village. The Village cannot operate effectively or efficiently without accurate financial records and sound accounting practices.

3. *The Village should attempt to limit the turnover in the Clerk's position*

One factor contributing to the Village not meeting budgetary time frames and the lack of accounting records is the high turnover in the Clerk's position. Since 1997, the Village has had six Clerks. For a Village, the Clerk is the chief fiscal administrator who is responsible for maintaining financial records, reviewing receipts and expenditures, being an integral part of the budget process as well as other financial related duties. Because of the significant financial responsibilities of the Clerk's position, the Village should seek to understand the reasons for the turnover and attempt to rectify the issues.

4. *The Village should consider increasing the water usage fee to fund infrastructure upgrades and the installation of water meters*

Although the Village provides water service to the residents, they do not have meters to track water usage. Consequently, the billing is performed on a flat rate basis. Presently, the flat rate is \$9.50 per month per household, and \$15.00 per month for businesses. However, there have been some discussions of increasing the fee (early indications were a \$3.00 increase) to fund major upgrades (new piping, electrical work, repairs to well house and two pump stations) to the existing infrastructure. In addition, in the past, the water department billing records were not accurately maintained as evidenced by numerous citations during financial audits. These inaccurate billing records have resulted in some lost revenues.

To rectify these issues, the Village should take action to ensure that it has resolved the past billing problems and it should continue with its plans to implement a rate increase to fund major upgrades. The financial forecast for the General Fund projects the Village achieving financial stability by implementing a \$3.00 rate increase. During the major upgrades, the Village should also consider installing water usage meters. This would help resolve the billing problems as well as allow the Village to charge customers for the water that is actually used. In addition, installing water usage meters would also help alert the Village of the presence of water leaks and water main breaks. Presently, these conditions would remain undetected unless observed through a physical inspection.

5. *The Village should begin planning for the upcoming levy renewals*

The Village is currently collecting on a 3.0 mill levy that was originally passed in 1997 and successfully renewed in November, 2000. The 3.0 mill levy generates approximately \$8,800 annually and is scheduled to expire at the conclusion of 2003. If this levy renewal were to fail, the Village's financial condition could significantly worsen, especially if the COPS fast grant is not renewed. Therefore, in order to achieve and maintain financial stability, the Village should begin developing strategies in an attempt to successfully renew this levy. At a minimum, the selected strategy should be designed to articulate the Village's needs and uses of the levy proceeds to the citizens of Lawrenceville. In addition, prior to undertaking this levy campaign, the Village should display that it is accountable by implementing the various recommendations contained in this report.

In addition to the 3.0 mill levy, the Village also collects on a .80 mill levy that is dedicated strictly to paying the County Health Department for providing health related services to the Village. The .80 mill levy is assessed by the County on behalf of the Village and generates \$2,300 annually. The .80 mill levy is scheduled to expire in 2001. If the County were unsuccessful in renewing this levy, the Village would most likely have to begin using General Fund resources to pay for County Health Services. Therefore, to minimize the requirements of the General Fund, the Village should work with the County in a cooperative effort to have the .80 mill levy renewed.

6. *The Village should develop a police contingency plan*

Currently, the Village has one full-time police officer and two part-time police officers that are funded through COPS Fast Grants. These grants are scheduled to expire by 2003 and there are doubts that the Village will be able to renew the grant. Within Lawrenceville, traffic citations and other fines represent the largest revenue item and can be attributed to the increased police presence associated with the COPS Fast Grants. Prior to receiving the COPS Fast Grants, the Village hired part-time police officers to provide policing services.

In an effort to continue providing policing services to the citizens on a full-time basis, the Village should apply for another COPS Fast Grant. However, because of the uncertainty surrounding the COPS Fast Grants and because citations represent the largest revenue item, the Village should also begin developing contingency plans in the event that the COPS Fast Grant application is denied. By developing a contingency plan now, the Village has a period of time in which it can make appropriate and favorable arrangements without jeopardizing the safety of its citizens.

7. *The Village should begin developing a formal road maintenance plan*

In 1997, the Village spent approximately \$35,000 on emergency road repairs. These repairs severely depleted the Village's Special Revenue Fund balance. In forecasting expenditures for future years, it was assumed that the Village would incur annual expenditures of \$500 in an effort to proactively maintain its streets and roads. Accordingly, the Village should consider developing a formal five-year formal road maintenance plan to spend the \$500 in a proactive fashion. This plan should be updated annually and should be incorporated into the yearly appropriations.

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