



**VILLAGE OF MT. ORAB
BROWN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF MT. ORAB
BROWN COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Mt. Orab
Brown County
100 South High Street
Mt. Orab, Ohio 45154

To the Village Council:

We have audited the accompanying financial statements of the Village of Mt. Orab, Brown County, Ohio (the Village), as of and for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As more fully described in Note 11 to the financial statements, the former Board of Public Affairs Clerk admitted to misappropriating cash from the Water Operating, Sewer Operating, and Waste Enterprise Funds and the Mayor's Court fund. There was insufficient evidence supporting the water, sewer and waste fund receipts recorded as charges for services in the Enterprise Fund in 1999 and 2000 and the mayor's court receipts recorded in the Agency Fund for 1999 and 2000. Without this evidential matter, we were unable to obtain sufficient information regarding the receipts recorded for the Water Operating, Sewer Operating, and Waste Enterprise Funds, and mayor's court receipts of the Agency Fund, or to satisfy ourselves regarding the validity of the underlying transactions through other auditing procedures. Those receipts represent substantially all operating revenue in 1999 and 2000 of the Enterprise Fund Type and all non-operating revenue in 1999 and 2000 of the Agency Fund Type.

As discussed 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.

In our opinion, except for the Enterprise Fund and the Agency Fund, upon which we express no opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2000 and 1999, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

A special audit is currently being conducted by the Auditor of State's office to determine funds misappropriated by the Village's former Board of Public Affairs Clerk. See Note 11.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2002 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Jim Petro
Auditor of State

April 5, 2002

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts:					
Property Tax and Other Local Taxes	\$377,128	\$141,388	\$0	\$0	\$518,516
Special Assessments	0	0	61,994	0	61,994
Intergovernmental Receipts	70,251	84,246	0	43,736	198,233
Charges for Services	24,203	3,520	0	0	27,723
Fines, Licenses, and Permits	37,970	0	0	0	37,970
Earnings on Investments	66,101	943	0	0	67,044
Miscellaneous	394	0	0	0	394
Total Cash Receipts	576,047	230,097	61,994	43,736	911,874
Cash Disbursements:					
Current:					
Security of Persons and Property	390,328	136,227	0	0	526,555
Public Health Services	5,948	0	0	0	5,948
Community Environment	17,957	0	0	0	17,957
Basic Utility Services	0	0	0	142,307	142,307
Transportation	19,375	59,633	0	1,031	80,039
General Government	119,403	2,950	0	0	122,353
Debt Service:					
Principal Payments	0	0	116,890	0	116,890
Interest Payments	2,133	0	0	0	2,133
Capital Outlay	47,774	2,804	0	390,422	441,000
Total Disbursements	602,918	201,614	116,890	533,760	1,455,182
Total Receipts Over/(Under) Disbursements	(26,871)	28,483	(54,896)	(490,024)	(543,308)
Other Financing Receipts/(Disbursements):					
Sale of Bonds or Notes	15,000	0	25,000	978,638	1,018,638
Transfers-In	0	0	25,000	0	25,000
Other Financing Sources	149	0	0	0	149
Transfers-Out	(25,000)	0	0	0	(25,000)
Other Financing Uses	(16,554)	0	0	0	(16,554)
Total Other Financing Receipts/(Disbursements)	(26,405)	0	50,000	978,638	1,002,233
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(53,276)	28,483	(4,896)	488,614	458,925
Fund Cash Balances January 1	119,371	13,155	77,358	67,150	277,034
Fund Cash Balances, December 31	\$66,095	\$41,638	\$72,462	\$555,764	\$735,959

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

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$1,396,775	\$0	\$1,396,775
Total Operating Cash Receipts	<u>1,396,775</u>	<u>0</u>	<u>1,396,775</u>
Operating Cash Disbursements:			
Personal Services	258,794	0	258,794
Fringe Benefits	73,785	0	73,785
Contractual Services	414,117	0	414,117
Supplies and Materials	137,821	0	137,821
Capital Outlay	586,549	0	586,549
Total Operating Cash Disbursements	<u>1,471,066</u>	<u>0</u>	<u>1,471,066</u>
Operating Income/(Loss)	<u>(74,291)</u>	<u>0</u>	<u>(74,291)</u>
Non-Operating Cash Receipts:			
Proceeds from Notes and Bonds	99,500	0	99,500
Other Non-Operating Receipts	13,657	47,213	60,870
Total Non-Operating Cash Receipts	<u>113,157</u>	<u>47,213</u>	<u>160,370</u>
Non-Operating Cash Disbursements:			
Debt Service	287,983	0	287,983
Other Non-Operating Cash Disbursements	0	46,741	46,741
Total Non-Operating Cash Disbursements	<u>287,983</u>	<u>46,741</u>	<u>334,724</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(249,117)	472	(248,645)
Fund Cash Balances, January 1	<u>577,255</u>	<u>1,710</u>	<u>578,965</u>
Fund Cash Balances, December 31	<u>\$328,138</u>	<u>\$2,182</u>	<u>\$330,320</u>

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

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts:					
Property Tax and Other Local Taxes	\$352,266	\$141,600	\$0	\$0	\$493,866
Special Assessments	0	0	103,740	0	103,740
Intergovernmental Receipts	107,266	79,194	0	181,843	368,303
Charges for Services	1,212	225	0	0	1,437
Fines, Licenses, and Permits	32,925	0	0	0	32,925
Earnings on Investments	34,179	421	2,824	0	37,424
Miscellaneous	428	0	0	0	428
Total Cash Receipts	528,276	221,440	106,564	181,843	1,038,123
Cash Disbursements:					
Current:					
Security of Persons and Property	320,336	156,725	0	0	477,061
Public Health Services	3,646	0	0	0	3,646
Community Environment	7,282	0	0	0	7,282
Basic Utility Services	0	0	0	137,150	137,150
Transportation	54,551	64,014	0	0	118,565
General Government	100,931	2,624	0	0	103,555
Debt Service:					
Principal Payments	0	0	587,570	0	587,570
Interest Payments	2,073	0	0	0	2,073
Financing and Other Debt-Service Related	0	0	0	0	0
Capital Outlay	44,767	2,359	0	392,416	439,542
Total Disbursements	533,586	225,722	587,570	529,566	1,876,444
Total Receipts Over/(Under) Disbursements	(5,310)	(4,282)	(481,006)	(347,723)	(838,321)
Other Financing Receipts/(Disbursements):					
Sale of Bonds or Notes	0	0	496,000	319,000	815,000
Transfers-In	0	0	98,971	65,000	163,971
Other Financing Sources	745	0	0	0	745
Transfers-Out	(65,000)	0	(73,971)	0	(138,971)
Other Financing Uses	(1,127)	0	0	(8)	(1,135)
Total Other Financing Receipts/(Disbursements)	(65,382)	0	521,000	383,992	839,610
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(70,692)	(4,282)	39,994	36,269	1,289
Fund Cash Balances January 1, Restated	190,063	17,437	37,364	30,881	275,745
Fund Cash Balances, December 31	\$119,371	\$13,155	\$77,358	\$67,150	\$277,034

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

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPRIETARY FUND TYPE AND AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$1,647,182	\$0	\$1,647,182
Total Operating Cash Receipts	<u>1,647,182</u>	<u>0</u>	<u>1,647,182</u>
Operating Cash Disbursements:			
Personal Services	237,617	0	237,617
Fringe Benefits	80,113	0	80,113
Contractual Services	326,490	0	326,490
Supplies and Materials	116,572	0	116,572
Capital Outlay	219,816	0	219,816
Total Operating Cash Disbursements	<u>980,608</u>	<u>0</u>	<u>980,608</u>
Operating Income/(Loss)	<u>666,574</u>	<u>0</u>	<u>666,574</u>
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	554	28,846	29,400
Total Non-Operating Cash Receipts	<u>554</u>	<u>28,846</u>	<u>29,400</u>
Non-Operating Cash Disbursements:			
Debt Service	290,767	0	290,767
Other Non-Operating Cash Disbursements	506	29,332	29,838
Total Non-Operating Cash Disbursements	<u>291,273</u>	<u>29,332</u>	<u>320,605</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	375,855	(486)	375,369
Transfers-In	150,000	0	150,000
Transfers-Out	<u>(175,000)</u>	<u>0</u>	<u>(175,000)</u>
Net Receipts Over/(Under) Disbursements	350,855	(486)	350,369
Fund Cash Balances, January 1, Restated	<u>226,400</u>	<u>2,196</u>	<u>228,596</u>
Fund Cash Balances, December 31	<u>\$577,255</u>	<u>\$1,710</u>	<u>\$578,965</u>

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

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Mt. Orab, Brown 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. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, and police services to provide security of persons and property. The Village contracts with the Mt. Orab Fire Department to provide fire protection and emergency medical services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except debt service funds maintained by outside custodians which are not included in these financial statements. Assets held by custodians are described in Note 8 to the financial statements.

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 Investments

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. 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:

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Police Levy Fund - This fund receives local taxes for the purpose of providing police protection services for the security of persons and property.

Fire Levy Fund - This fund receives local taxes for the purpose of providing fire protection services.

3. Debt Service Funds

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service funds:

Fire Truck Bond Anticipation Note Fund- This fund was established to fund debt for the purchase of a fire truck.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Water Reservoir Construction Tax Anticipation Note Fund - This fund received proceeds from the Tax Anticipation Notes to fund construction of the water reservoir.

5. Enterprise Funds

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

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

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

6. Fiduciary Fund (Agency Fund)

Agency funds are used to account for resources held by the Village as an agent for other governmental units. The Village Mayor's Court Fund is used to record fines and forfeitures from Mayor's Court and distribute these funds to various governments as required by law.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments during the year as required by Ohio law. However, there were no material encumbrances outstanding at December 31, 2000 and 1999.

A summary of 2000 and 1999 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.

G. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2000</u>	<u>1999</u>
Demand deposits	\$ 814,224	\$ 619,465
Mayor's Court demand deposits	2,182	1,710
Total deposits	<u>816,406</u>	<u>621,175</u>
STAR Ohio	249,873	234,824
Total investments	<u>249,873</u>	<u>234,824</u>
Total deposits and investments	<u>\$ 1,066,279</u>	<u>\$ 855,999</u>

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

Investments: Investments in STAR Ohio, an investment pool is not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2000 and 1999 follows:

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 584,592	\$ 591,196	\$ 6,604
Special Revenue	228,724	230,097	1,373
Debt Service	111,994	111,994	0
Capital Projects	1,019,389	1,022,374	2,985
Enterprise	1,576,700	1,668,932	92,232
Total	<u>\$ 3,521,399</u>	<u>\$ 3,624,593</u>	<u>\$ 103,194</u>

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2000 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 677,990	\$ 644,472	\$ 33,518
Special Revenue	236,964	201,614	35,351
Debt Service	161,620	116,890	44,730
Capital Projects	1,083,852	533,760	550,092
Enterprise	2,104,307	1,918,049	186,258
Total	<u>\$ 4,264,733</u>	<u>\$ 3,414,785</u>	<u>\$ 849,949</u>

1999 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 523,872	\$ 529,021	\$ 5,149
Special Revenue	219,230	221,440	2,210
Debt Service	651,563	701,535	49,972
Capital Projects	512,525	565,843	53,318
Enterprise	1,788,800	1,797,736	8,936
Total	<u>\$ 3,695,990</u>	<u>\$ 3,815,575</u>	<u>\$ 119,585</u>

1999 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 700,550	\$ 599,713	\$ 100,837
Special Revenue	234,725	225,722	9,003
Debt Service	613,891	661,541	(47,650)
Capital Projects	478,406	529,574	(51,168)
Enterprise	1,874,953	1,446,881	428,072
Total	<u>\$ 3,902,525</u>	<u>\$ 3,463,431</u>	<u>\$ 439,094</u>

The following funds had expenditures that exceeded appropriations.

Fund Name	FY 2000 Variance		FY 1999 Variance	
	Dollar	Percentage	Dollar	Percentage
Fire Equipment	-	-	50,000	100%
Ohio Public Works	2,985	7%	53,318	29%
Waste	-	-	1,065	1%

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

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.

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, 2000 was as follows:

	Principal	Interest Rate
1993 Ohio Water Development Authority Loan	\$ 1,538,693	2.00%
1996 Sewer Line Extension Special Assessment Bonds	15,174	5.25%
1997 First Mortgage Water Revenue Bonds	1,113,322	4.90%
1999 Various Purpose General Obligation Bonds	715,000	4.62%
2000 Fire Truck Bond Anticipation Note	25,000	6.00%
2000 Wastewater Treatment Plant Improvement Loan	99,500	0.00%
2000 General Utility Truck Bond Anticipation Notes	15,000	5.65%
2000 Reservoir Construction Bond Anticipation Notes	675,654	5.22%
2000 Road Improvement Bond Anticipation Notes	303,000	5.39%
Total	\$ 4,500,343	

The 1993 Ohio Water Development Authority (OWDA) loan relates to a sewer plant expansion project that were mandated by the Ohio Environmental Protection Agency. The loan will be repaid in semiannual installments of \$74,907, including interest, over 20 years. The scheduled payment will be adjusted to reflect any revisions in amounts actually borrowed. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The 1996 Sewer Line Extension Special Assessment Bonds were used to extend sewer lines and are payable over a ten-year period these will be repaid via assessments levied against property owners.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

5. DEBT (Continued)

The 1997 First Mortgage Water Revenue Bonds were used to refund previously issued 1997 and 1986 First Mortgage Water Revenue Bonds and 1996 Water Clarifier Notes which were used to expand water lines, purchase water system improvements, etc. The Village has agreed to various bond covenants, including establishing Reserve Accounts with Bond Trustee, and to set utility rates sufficient to maintain net income at 125% of maximum annual debt service requirements. See related Trustee note disclosure included in Note 8.

The 1999 Various Purpose General Obligation Bonds were used for street improvements and sewer line extensions and are payable over a four-year period. The other various Bond Anticipation Notes were used for road improvements, reservoir construction, and the purchase of fire and utility trucks and mature one year from issue.

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

Year ending December 31:	OWDA Loan	Waste water Loan	Bond Anticipation Notes	Sewer Line Extension Bonds	Water Revenue Bonds	General Obligation Bonds
2001	\$ 149,814	\$ 5,175	\$ 1,018,654	\$ 3,905	\$ 128,002	\$ 59,505
2002	149,814	5,175	0	3,745	129,748	63,517
2003	149,814	5,175	0	3,586	126,185	62,287
Subsequent	<u>1,273,417</u>	<u>83,975</u>	<u>0</u>	<u>8,798</u>	<u>1,157,440</u>	<u>910,200</u>
Total	<u>\$ 1,722,859</u>	<u>\$ 99,500</u>	<u>\$ 1,018,654</u>	<u>\$ 20,034</u>	<u>\$ 1,541,375</u>	<u>\$ 1,095,509</u>

In addition to the debt described above, the Village has defeased the Sewer System Plant 1964 bond issue from prior years. Debt principal outstanding at December 31, 2000 was \$78,008. Assets accumulated to retire this debt are held by a trustee.

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement 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 2000 and 1999, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. PERS members contributed 8.5% of their gross salaries. For 1999, the Village contributed an amount equal to 13.55% of participants' gross salaries. PERS reduced the employer rate during 2000. For 2000, the Village contributed an amount equal to 10.84% of participants' gross salaries. The Village has paid all contributions required through December 31, 2000.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

7. RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with over 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages 100%, rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

8. DEBT SERVICE TRUSTEED FUNDS

The 1997 First Mortgage Water Revenue Bonds Trust agreement required the Village to establish various funds to be maintained by a custodian bank. The Village has established these funds. At December 31, 2000, the custodian held \$209,804 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

As disclosed in Note 5, the Village has also defeased the Sewer Plant 1964 bonds. At December 31, 2000, the custodian held \$78,008 in Village assets to retire the 1994 bonds.

9. PRIOR PERIOD ADJUSTMENT

The Village began using the Uniform Accounting Network in January 1999. In order to correctly reflect fund activity, the water and sewer expansion funds were reclassified from the Capital Projects funds to the Enterprise funds in the amount of \$71,062 and the Ohio Public Works sewer and wastewater reservoir loan funds were reclassified from Debt Service Funds to the Enterprise funds in the amount of \$11,003.

	<u>Debt Service Fund Type</u>	<u>Capital Projects Fund Type</u>	<u>Enterprise Fund Type</u>
Fund Balance - December 31, 1998	\$ 48,367	\$ 101,943	\$ 144,335
Water & Sewer Expansion Funds		(71,062)	71,062
Ohio Public Work Sewer & Wastewater Reservoir Loan Funds	<u>(11,003)</u>	<u> </u>	<u>11,003</u>
Fund Balance restated- January 1, 1999	<u>\$ 37,364</u>	<u>\$ 30,881</u>	<u>\$ 226,400</u>

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

10. NONCOMPLIANCE

During 2000 and 1999, the Village did not comply with debt covenants that require payments to the Replacement and Improvement Fund. Due to the Village's noncompliance with debt covenants, the entire outstanding balance on the 1997 First Mortgage Water Revenue Bonds may become due and payable upon request of the owners, or holders of 25% of the bonds remaining unpaid, or the Trustee for said bondholders. The Village had remedied these deficiencies as of December 31, 1999 by having the required amount of \$50,000 in the Replacement and Improvement Fund.

Additionally, the debt covenants have a requirement to set utility rates sufficient to maintain net income (as defined in the covenant) at 125% of maximum annual debt service. This covenant requires measuring revenues and certain expenses in accordance with generally accepted accounting principles. The Village does not use these principles. The Village is attempting to obtain a waiver for the debt covenant noncompliance from the lender.

11. SUBSEQUENT EVENTS

In November 2001, the Village Clerk-Treasurer contacted the Auditor of State regarding irregularities in the water tap-in fees and water/sewer billing deposits.

In January 2002, the former Board of Public Affairs Clerk admitted during interviews with the Auditor of State staff and the County Prosecutor to misappropriating Village funds from the Water Operating, Sewer Operating, Waste Enterprise Funds and the Mayor's Court fund. A Special Audit is currently being performed by the Auditor of State's office to determine the extent of the loss of public funds of the Village.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Mt. Orab
Brown County
100 South High Street
Mt. Orab, Ohio 45154

To the Village Council:

We have audited the financial statements of the Village of Mt. Orab, Brown County, Ohio (the Village), as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated April 5, 2002, in which we disclaimed an opinion on the Enterprise Fund Type and Agency Fund for lack of supporting documentation for receipts in 1999 and 2000, and noted that the Auditor of State is currently conducting a special audit to investigate admitted fraud related to the Enterprise and Agency Funds. Except for the restrictions on the scope of our audit of enterprise and mayor's court receipts, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-30408-001, 2000-30408-002, and 2000-30408-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated January 30, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village'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 over financial reporting. 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 judgment, 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 2000-30408-001 through 2000-30408-007.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable conditions 2000-30408-004, 2000-30408-005 and 2000-30408-007 are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated April 5, 2002.

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

Jim Petro
Auditor of State

April 5, 2002

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999**

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

FINDING NUMBER 2000-30408-001

Material Noncompliance/Reportable Condition - Expenditures exceeding Appropriations

Ohio Rev. Code, Section 5705.41(B) prohibits a Village from making any expenditure of money unless it has been properly appropriated. The total expenditures exceeded appropriations in the following funds:

Fund	2000 Variance		1999 Variance	
	Dollar	Percentage	Dollar	Percentage
Fire Equipment			50,000	100%
Ohio Public Works	2,985	7%	53,318	29%
Waste			1,065	1%

Appropriations represent authorized expenditure limits. Spending in excess of appropriations circumvents expenditure control and could result in negative fund cash balances.

This condition was the result of the Village making expenditures without monitoring and amending their appropriations. We recommend that the Village Council review appropriations versus expenditures on a monthly basis and approve appropriation amendments as needed in the minute record throughout the year.

FINDING NUMBER 2000-30408-002

Material Noncompliance/Reportable Condition - Debt Covenants

Village of Mt. Orab ordinance number 683 section seven states that “the Village covenants that the sum of \$50,000 shall be paid into the Replacement and Improvement Fund hereby created which shall be held by the Village for the 1997 First Mortgage Water Revenue Bond issue. Thereafter no payments shall be made for so long as a balance of \$50,000 is maintained in the Replacement and Improvement Fund. Payments of \$2,000 are required to be made on the 15th of each month until the account is in excess of \$50,000. Also, interest earnings are required to be retained until the required balance is met.”

In 1999, the Bond Account balance was less than \$50,000 and the required \$2,000 monthly payments were made until the end of May and then were ceased with a balance of \$48,629. No other payments were made to this account even though the bond proceeds account was less than \$50,000. The interest earned on the investments eventually made the account in excess of \$50,000 by the end of December 1999. We recommend the Village make the required payments when this account falls below \$50,000.

FINDING NUMBER 2000-30408-002
(Continued)

In the above ordinances, the Village further covenants that monthly payments to the Bond Account held with the authorized Trustee for the 1997 First Mortgage Water Revenue Bond debt issue are required to be made on the 15th of each month. There was one payment in 2000 and two payments in 1999 that were not made by the 15th.

We recommend that the Village review the water system operations to determine actions necessary for the Village is to continue to meet its debt covenant obligations.

Additionally, the debt covenants have a requirement to set utility rates sufficient to maintain net income (as defined in the covenant) at 125% of maximum annual debt service. Village of Mt. Orab ordinance number 683 section 1 states that "Operating and maintenance expenses mean the ordinary expenses of operating the system in accordance with Generally Accepted Accounting Principles, consistently applied." The Village prepares its financial statements on the cash basis of accounting, which is prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles. Since the Village does not prepare their financial statements in accordance with Generally Accepted Accounting Principles the calculations for setting utility rates may not meet the requirements of the debt covenants and Village ordinances.

We recommend that the Village review their debt covenants and seek permission of the lender to amend debt agreements to reflect debt reporting requirements consistent with their basis of presentation.

These matters came to our attention while testing the compliance with debt agreements. Noncompliance could result in default on the debt and require the Village to make immediate payment of the 1997 bonds.

FINDING NUMBER 2000-30408-003

Material Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.42, states when the United States government or the state or any department, division, agency, authority, or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purpose by the taxing authority of the subdivision, and is deemed in process of collection within the meaning of section 5705.41 of the Revised Code.

As further discussed in Auditor of State bulletin 2000-008, the fiscal officer shall record the appropriations in accordance with the terms and conditions of the grant or project agreement. In addition, prior to recording the appropriations, Ohio Rev. Code, Section 5705.40, requires the legislative authority to pass a resolution amending its appropriation measure.

Funds paid directly to the contractor from the State of Ohio Public Works Commission (OWPC) were not recorded, nor was the loan money included in the appropriations by the Village Council for fiscal year 2000 and 1999. Under the OPWC program, the Village was awarded a loan for certain improvements, with payments made directly to the vendors by the State of Ohio. Loan related receipts and disbursements in the amount of \$43,736 for 2000 and \$85,113 for 1999 have been recorded on audited financial statements for these years.

We recommend that the Village Clerk record all OPWC monies paid to contractors on behalf of the Village. The Village should also include all OPWC monies in its annual budget and continue to monitor the budgetary activity by obtaining any necessary appropriation amendments.

FINDING NUMBER 2000-30408-004

Water Operating, Sewer Operating and Waste Utility Receipts- Material Weakness

During testing of the utility receipts, we found the following discrepancies:

- Bank deposits for customer utility payments included customer checks for Tap-in fee receipts, which are not part of the customer utility payments. Tap -in fees are generally made by check and should be deposited separately since they are not part of the customer utility payment system. These fees should be separately identified and posted by the Clerk to the accounting system. The checks comprising a deposit designated as tap-in fees did not correspond with the source documentation for the tap-in fee (i.e. check names on deposit did not match the documentation of whom the tap-in fee was collected from). Additionally, we found that some tap-in checks were included in the bank deposits for customer utility payments to cover cash shortages in these utility payment deposits.
- The checks deposited with batches of customer utility payments did not match customer names on billing stubs included in the batches. The cash amount actually deposited for utility payments was relatively small and did not agree to cash payment amounts noted on the utility system.
- In January 2002, the former Board of Public Affairs Clerk admitted to misappropriating funds from the Water Operating, Sewer Operating and Waste Enterprise Funds.

As a result of the above discrepancies, we were unable to obtain sufficient information regarding the receipts recorded for the Water Operating, Sewer Operating and Waste Enterprise Funds and have expressed no opinion for the Combined Enterprise Funds. We have initiated a special audit as a result of these discrepancies to determine the extent of the loss of public funds due the Village.

Few internal controls were noted to be in operation for the collection of Water and Sewer receipts. This creates an environment in which fraud and accounting errors could remain undetected. The following internal control deficiencies over the collection of Water and Sewer receipts were noted:

- There was no comparison of tap in fees paid by customers by the Utility clerk with tap-ins installed by the Water Department Superintendent. The Water Department Superintendent assumed that all the tap-in fees had been paid at the time that the agreement was signed. However there was no indication on the tap-in agreement that the amount was paid.
- Adequate records were not maintained to support noncash adjustments made to customer accounts by the Board of Public Affairs (BPA). Noncash adjustments made to individual customer accounts were not approved by the BPA or reviewed by anyone other than the individual making the adjustment to the customers account. Minutes were not maintained for the Board of Public Affairs documenting actions they have taken.
- Customer utility payment batch sheets were not printed out and maintained with the water utility billing stubs to document the batch number and the detail of customer accounts comprising the batch. Individuals inputting batches into the computer utility system do not have passwords and could use the computer system under other employees' names making it difficult to determine who posted customer utility payments to the Village's utility computer system.

FINDING NUMBER 2000-30408-004
(Continued)

- Deposit slips did not always provide the detail to indicate the cash amount in the deposit, as well as the detail listing of the customer checks and their amounts in the deposit.. Non-sufficient funds (NFS) checks were netted out of the current deposit. Personal checks were being cashed at the Village out of the utility cash drawer.

We understand the Village implemented procedures to address the above weaknesses in February 2002.

To enhance accountability over Water and Sewer receipts, we recommend the following controls be implemented:

- The Village should initiate a system of internal control over the tap-in fee receipts. We recommend that the Utility Clerk and the Water Department reconcile tap-in fees paid to tap ins installed to ensure all fees are collected prior to installation and that customers that delay installation are given proper credit for prepayment of their tap-in fee. A pre-numbered duplicate receipt book should be maintained to record tap-in fees paid. The Utility Usage Agreement which is issued when a tap-in is collected should be stamped paid, initialed and dated by the clerk collecting the tap-in money. These utility usage agreements should be pre-numbered and kept in a secure location. These should be signed and dated by the applicant.
- A system for making and initiating noncash adjustments made to customer utility accounts receivable should be created. Any requests for re-reads/adjustments should be documented. Once the reader has re-read a customer's meter, he should initial and document a resolution of the discrepancy in writing (i.e. original reading correct or water leak and recommendation of adjustment to be made). Any noncash adjustment to a users' account recommended by the Water Department should be indicated and initialed by someone at the Water Plant. The BPA should review and approve all adjustments to customer accounts and document these approvals in the BPA minute record.
- Deposit slips should detail cash amount and list the customer checks included in the deposit along with their amounts. NSF checks should be tracked separately. The Utility Clerk should initial as proof that the batch sheet reconciled with the utility billing stubs collected and stamped dated that day. The method of payment should be noted on the stub and input into the utility computer system. Each stub should be initialed by the individual entering that batch on the batch sheet and deposit slip should be initialed by the individual making that deposit. Personal checks should not be cashed from the cash drawer. Each individual inputting batches in the utility system should have their own password and input batches only under their name.
- Minutes should be maintained of the BPA's meetings. Official actions such as approval of adjustments to customer's accounts should be documented. The Board should review financial information at each meeting. There should be a comparison between water usage and billing. Tap-in information should be reviewed. This would help the Board to make decisions with regards to the need for capital expenditures.

FINDING NUMBER 2000-30408-005

Mayor's Court Receipts - Material Weakness

During our testing of the Mayor's Court we found the following:

- There was no segregation of duties for the Mayor's Court. The Mayor's Court Clerk handles all the financial record keeping of the court which includes receipting and depositing of the court's monies and reconciling the bank account.
- Deposits were not made timely, usually there were only four deposits a month. Once the deposits were prepared they were not stored in a secure location prior to deposit with the bank. Cash amounts and checks were not always broken out on the Mayor's Court deposit slips.
- Personal checks were cashed out of the Mayor's Court cash drawer for employees.
- The Mayor's Court account is reconciled monthly by the Mayor's Court clerk, but it is not reviewed by anyone else.
- White out correction fluid was used in the cashbook in 2000 and 1999.
- In January 2002, the former Board of Public Affairs Clerk admitted to misappropriating funds from the Mayor's Court account.

As a result of the above discrepancies, we were unable to obtain sufficient information regarding the receipts recorded for the Mayor's Court and have expressed no opinion on the Mayor's Court Receipts. Very few internal controls were noted to be in operation for the Mayor's Court. This causes significant concern and may create an environment which promotes future fraud. Additionally, we have initiated a special audit as a result of these discrepancies to determine the extent of the loss of public funds due the Village.

To improve accountability over Mayor's Court revenues and reduce the chance of errors occurring and not being detected, the Village should implement the following procedures which should help improve control over the Mayor's Court functions:

- Procedures should be established that provide an adequate segregation of duties. These procedures could include a detailed assignment of specific duties pertaining to one area (i.e. depositing, receipting, etc.), periodic spot checks by someone independent of a specific function, and periodic spot checks by officials to assure that proper procedures are followed by employees.
- Deposit slips should indicate the cash amount and list the checks included in the deposit and their amounts. Deposits should be made within 24 hours of receipt, and receipts not deposited, should be safeguarded to prevent misappropriation of funds.
- Personal checks should not be cashed from the Mayor's Court cash drawer.
- Monthly reconciliations should be reviewed and initialed by the Mayor.
- White out correction fluid should not be used in the cashbook. Corrections should be made by marking out the transactions and denoting the correct entries. This could create the appearance of falsifying records and thus should not be used.

FINDING NUMBER 2000-30408-006

Non Payroll Expenditures - Reportable Condition

During our review of the non payroll expenditure procedures, we noted the following weaknesses:

- There was no indication on the invoice that a review was performed to ensure that all items were received.
- Purchase requisitions were not approved by department heads.

These weaknesses could result in payment for goods or services not received or unauthorized payments or purchases. To improve accountability over non-payroll expenditures:

- Invoices or packing slips should be marked as received when the goods or services have been received.
- Purchases should be initiated by the department heads, the department head should sign the requisition as evidence that it is an legitimate expenditure for the department.

FINDING NUMBER 2000-30408-007

Segregation of Duties/Oversight - Material Weakness

There is no segregation of duties for the receipting of water and sewer payments. The Board of Public Affairs (BPA) Clerk collected the receipts, posted the receipts and made any necessary adjustments to the utility billing system as needed.

This lack of segregation of duties and management oversight resulted in the misappropriation of utility receipts. A special audit is currently being performed by the Auditor of State's office to determine the extent of the loss of public funds of the Village.

To maintain accountability and to strengthen internal accounting controls, the receipting function and the posting function should be performed by separate individuals. Noncash Adjustments to utility accounts should be documented, reviewed and approved by the Board of Public Affairs in the BPA minute record. Officials should periodically review the records to determine accuracy and to assure themselves that proper procedures are followed.

We understand the Village implemented procedures to address the above weakness in February 2002.

VILLAGE OF MT. ORAB
BROWN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2000 AND 1999

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1998-30408-001	Revised Code 5705.41(D), failure to certify funds	No	Partially corrected, We reported this finding in the management letter.



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VILLAGE OF MT. ORAB

BROWN 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 9, 2002**