



**Auditor of State
Betty Montgomery**

VILLAGE OF MT. ORAB
BROWN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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, 2002 and 2001. 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.

There was insufficient evidence supporting the water, sewer and waste fund receipts recorded as charges for services in the Enterprise Fund in 2001 stated at \$1,397,780. 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, or to satisfy ourselves regarding the validity of the underlying transactions through other auditing procedures. Those receipts represent substantially all operating receipts in 2001 of the Enterprise 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 effects of such adjustments, if any, as might have been determined necessary had we been able to examine certain information regarding the Enterprise Fund receipts in 2001, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2003 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 the audit committee, management, Village Council and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 15, 2003

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$585,041	\$228,588			\$813,629
Special Assessments	3,653		\$60,787		64,440
Intergovernmental Receipts	80,212	117,568		\$541,500	739,280
Charges for Services		20,066			20,066
Fines, Licenses, and Permits	51,692	2,110		19,343	73,145
Earnings on Investments	10,798	198			10,996
Miscellaneous	632				632
Total Cash Receipts	<u>732,028</u>	<u>368,530</u>	<u>60,787</u>	<u>560,843</u>	<u>1,722,188</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	304,651	268,654			573,305
Public Health Services	5,852				5,852
Community Environment	12,836				12,836
Transportation	32,367	81,579			113,946
General Government	172,931	3,973			176,904
Debt Service:					
Principal Payments			35,000		35,000
Interest & Fiscal Payments			41,130		41,130
Capital Outlay	32,251	9,527		527,608	569,386
Total Cash Disbursements	<u>560,888</u>	<u>363,733</u>	<u>76,130</u>	<u>527,608</u>	<u>1,528,359</u>
Total Receipts Over/(Under) Disbursements	<u>171,140</u>	<u>4,797</u>	<u>(15,343)</u>	<u>33,235</u>	<u>193,829</u>
Other Financing Receipts and (Disbursements):					
Advances-In		15,385		39,300	54,685
Other Financing Sources	5,674				5,674
Advances-Out	(54,685)				(54,685)
Other Financing Uses	(4,796)				(4,796)
Total Other Financing Receipts/(Disbursements)	<u>(53,807)</u>	<u>15,385</u>	<u>0</u>	<u>39,300</u>	<u>878</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	117,333	20,182	(15,343)	72,535	194,707
Fund Cash Balances, January 1	98,659	128,719	63,842	74,216	365,436
Fund Cash Balances, December 31	<u><u>\$215,992</u></u>	<u><u>\$148,901</u></u>	<u><u>\$48,499</u></u>	<u><u>\$146,751</u></u>	<u><u>\$560,143</u></u>
Reserves for Encumbrances, December 31	<u><u>\$23,214</u></u>	<u><u>\$378</u></u>			<u><u>\$23,592</u></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
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<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	\$1,858,748		\$1,858,748
Earnings on Investments	\$1,327		\$1,327
Total Operating Cash Receipts	1,860,075	0	1,860,075
Operating Cash Disbursements:			
Personal Services	256,818		256,818
Fringe Benefits	85,750		85,750
Contractual Services	607,396		607,396
Supplies and Materials	172,664		172,664
Capital Outlay	575,667		575,667
Total Operating Cash Disbursements	1,698,295	0	1,698,295
Operating Income	161,780	0	161,780
Non-Operating Cash Receipts:			
Special Assessments	4,572		4,572
Proceeds of Bonds	1,165,000		1,165,000
Proceeds of Loans	24,295		24,295
Other Financing Sources	17,893		17,893
Other Non-Operating Receipts		\$94,068	94,068
Total Non-Operating Cash Receipts	1,211,760	94,068	1,305,828
Non-Operating Cash Disbursements:			
Debt Service - Principal	871,401		871,401
Debt Service - Interest & Fiscal Charges	248,446		248,446
Other Financing Uses	826		826
Other Non-Operating Cash Disbursements		92,120	92,120
Total Non-Operating Cash Disbursements	1,120,673	92,120	1,212,793
Net Receipts Over Disbursements	252,867	1,948	254,815
Fund Cash Balances, January 1	346,665	690	347,355
Fund Cash Balances, December 31	\$599,532	\$2,638	\$602,170
Reserve for Encumbrances, December 31	\$68,091		\$68,091

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
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$590,481	\$195,706			\$786,187
Special Assessments			\$260,530		260,530
Intergovernmental Receipts	64,104	162,573			226,677
Charges for Services	378	22,823			23,201
Fines, Licenses, and Permits	52,992	5,225		\$4,570	62,787
Earnings on Investments	39,202	510			39,712
Miscellaneous	324				324
Total Cash Receipts	747,481	386,837	260,530	4,570	1,399,418
Cash Disbursements:					
Current:					
Security of Persons and Property	344,256	201,684			545,940
Public Health Services	6,053				6,053
Leisure Time Activities		4,455			4,455
Community Environment	15,891				15,891
Transportation	53,132	86,495		3,046	142,673
General Government	143,326	4,122			147,448
Debt Service:					
Principal Payments	15,000		353,000		368,000
Interest Payments	2,372		55,387		57,759
Capital Outlay	37,860	3,000		87,507	128,367
Total Cash Disbursements	617,890	299,756	408,387	90,553	1,416,586
Total Receipts Over/(Under) Disbursements	129,591	87,081	(147,857)	(85,983)	(17,168)
Other Financing Receipts and (Disbursements):					
Proceeds of Notes			140,091		140,091
Advances-In				100,000	100,000
Other Financing Sources	5,030				5,030
Advances-Out	(100,000)				(100,000)
Other Financing Uses	(2,057)				(2,057)
Total Other Financing Receipts/(Disbursements)	(97,027)	0	140,091	100,000	143,064
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	32,564	87,081	(7,766)	14,017	125,896
Fund Cash Balances, January 1, as restated	66,095	41,638	71,608	60,199	239,540
Fund Cash Balances, December 31	\$98,659	\$128,719	\$63,842	\$74,216	\$365,436
Reserves for Encumbrances, December 31	\$4,342	\$1,737			\$6,079

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
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$1,397,780		\$1,397,780
Total Operating Cash Receipts	1,397,780	0	1,397,780
Operating Cash Disbursements:			
Personal Services	259,225		259,225
Fringe Benefits	92,483		92,483
Contractual Services	463,052		463,052
Supplies and Materials	134,856		134,856
Capital Outlay	986,569		986,569
Miscellaneous	2,100		2,100
Total Operating Cash Disbursements	1,938,285	0	1,938,285
Operating (Loss)	(540,505)	0	(540,505)
Non-Operating Cash Receipts:			
Intergovernmental Receipts	66,495		66,495
Special Assessments	3,359		3,359
Proceeds of Bonds	700,000		700,000
Proceeds of Loans	275,705		275,705
Other Financing Sources	7,574		7,574
Other Non-Operating Receipts		\$63,237	63,237
Total Non-Operating Cash Receipts	1,053,133	63,237	1,116,370
Non-Operating Cash Disbursements:			
Debt Service - Principal	887,856		887,856
Debt Service - Interest & Fiscal Charges	99,808		99,808
Other Financing Uses	2,856		2,856
Other Non-Operating Cash Disbursements		64,729	64,729
Total Non-Operating Cash Disbursements	990,520	64,729	1,055,249
Net Receipts (Under) Disbursements	(477,892)	(1,492)	(479,384)
Fund Cash Balances, January 1, as restated	824,557	2,182	826,739
Fund Cash Balances, December 31	\$346,665	\$690	\$347,355
Reserve for Encumbrances, December 31	\$20,276		\$20,276

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, 2002 AND 2001**

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 water and sewer utilities, and police services. 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 are not included in these financial statements. Assets held by custodians are described in Note 9 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

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.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

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.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

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:

McDonalds/Shell Assessment Traffic Light Fund - This fund receives tax assessments for the purpose of road improvements.

68/32 Project Final Assessment Debt Fund - This fund receives tax assessments for the purpose of road improvements.

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:

Brooks-Malott Project Fund - This fund receives Ohio Public Works Commission (OPWC) monies for street improvements.

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

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

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Water Reservoir Project Fund - This fund receives Ohio Public Works Commission (OPWC) monies for creation of a water reservoir.

6. Fiduciary Fund (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following fiduciary fund:

Mayor's Court Fund – This fund receives monies from the Mayor's Court which is distributed to the State and Village.

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 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. These additional encumbrances were included on the financial statements.

A summary of 2002 and 2001 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.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

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:

	2002	2001
Demand deposits	\$897,380	\$452,563
STAR Ohio	264,933	260,228
Total deposits and investments	\$1,162,313	\$712,791

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 is not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$802,000	\$737,702	(\$64,298)
Special Revenue	305,450	383,915	78,465
Debt Service	87,000	60,787	(26,213)
Capital Projects	606,000	600,143	(5,857)
Enterprise	1,718,500	3,071,835	1,353,335
Total	\$3,518,950	\$4,854,382	\$1,335,432

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$762,720	\$643,583	\$119,137
Special Revenue	381,796	364,111	17,685
Debt Service	126,158	76,130	50,028
Capital Projects	617,151	527,608	89,543
Enterprise	2,050,560	2,887,059	(836,499)
Total	<u>\$3,938,385</u>	<u>\$4,498,491</u>	<u>(\$560,106)</u>

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$791,494	\$752,511	(\$38,983)
Special Revenue	311,482	386,837	75,355
Debt Service	402,122	400,621	(1,501)
Capital Projects	29,100	104,570	75,470
Enterprise	1,785,064	2,450,913	665,849
Total	<u>\$3,319,262</u>	<u>\$4,095,452</u>	<u>\$776,190</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$832,120	\$724,289	\$107,831
Special Revenue	330,002	301,493	28,509
Debt Service	457,235	408,386	48,849
Capital Projects	144,891	90,553	54,338
Enterprise	2,544,207	2,949,082	(404,875)
Total	<u>\$4,308,455</u>	<u>\$4,473,803</u>	<u>(\$165,348)</u>

Contrary to Ohio law, appropriations exceeded estimated resources in the Brooks Malott Fund by \$70,000 at December 31, 2001.

Contrary to Ohio law, budgetary expenditures plus encumbrances exceeded appropriations in the Water Reservoir Fund by \$650,757 at December 31, 2001.

Contrary to Ohio law, budgetary expenditures plus encumbrances exceeded appropriations at fiscal year 2002 year-end in the following funds by:

Fund	Excess
Water Reservoir	\$1,011,396
Water Operating	10,461
Water Works Plant Expansion	936

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(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 payments, 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. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
1993 Ohio Water Development Authority Loan	\$1,351,719	2.00%
1996 Sewer Line Extension Special Assessment Bonds	11,000	5.25%
1997 First Mortgage Water Revenue Bonds	975,000	4.90%
1999 Various Purpose General Obligation Bonds	660,000	4.62%
2000 Wastewater Treatment Plant Improvement OPWC Loan	87,062	0.00%
2001 Road Improvement Special Assess. Bonds	135,000	4.90%
2002 Ohio Public Works Commission Reservior Loan	285,000	0.00%
2002 Series First Mortgage Waterworks System Revenue Bonds	1,165,000	5.00%
Total	<u>\$4,669,781</u>	

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.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

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.

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 9.

The 1999 Various Purpose General Obligation Bonds were used for street improvements and sewer line extensions and are payable over a twenty-year period.

The 2000 Wastewater Treatment Plant Ohio Public Works Commissions Loan relates to a sewer plant improvement project. The loan will be repaid in semiannual installments of \$2,488 over 20 years.

The 2001 Road Improvement Special Assessment General Obligation Bonds were used to make improvements to State Route 68 and are payable over a twenty-one year period. These will be repaid via assessments levied against property owners.

The 2002 Reservoir Ohio Public Works Commissions Loan relates to the creation of an upground water reservoir project. The loan will be repaid in semiannual installments of \$15,000 over 20 years.

The 2002 First Mortgage Revenue Bonds were used to refund previously issued Water Reservoir Bond Anticipation Notes which were used to create an upground water reservoir. The Village has agree to various bond covenants, including establishing Reserve Accounts with a 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 9.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

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

Year ending December 31:				
2003	\$149,814	\$4,975	\$3,578	\$126,185
2004	149,814	4,975	3,420	127,548
2005	149,814	4,975	3,263	128,547
2006	149,814	4,975	2,105	129,255
2007	149,814	4,975		129,665
2008-2012	749,047	24,875		642,425
2013-2017		24,875		
Subsequent		12,437		
Total	<u>\$1,498,117</u>	<u>\$87,062</u>	<u>\$12,366</u>	<u>\$1,283,625</u>

	General Obligation Bonds	Road Improv. Special Assessment Bonds	OPWC Reservoir Loan	Water Revenue Bonds Series 2002
Year ending December 31:				
2003	\$62,288	\$11,423	\$7,500	\$95,047
2004	61,027	11,252	15,000	93,988
2005	59,738	11,073	15,000	92,827
2006	63,417	10,882	15,000	91,488
2007	61,843	10,683	15,000	95,007
2008-2012	303,825	50,175	75,000	465,690
2013-2017	300,053	62,810	75,000	465,769
Subsequent	63,120	45,336	67,500	472,264
Total	<u>\$975,311</u>	<u>\$213,634</u>	<u>\$285,000</u>	<u>\$1,872,080</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, 2002 was \$29,000. Assets accumulated to retire this debt are held by a trustee.

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F 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.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

7. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

8. RISK POOL MEMBERSHIP

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association with approximately 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 coverage, 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. Effective September 1, 2002, the Plan retains 5% of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5% of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55% and 65% of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65% is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Village also provides health and life insurance to full-time employees through a private carrier.

9. 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, 2002, the custodian held \$190,964 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

The Village has also defeased the Sewer Plant 1964 bonds. At December 31, 2002, the custodian held \$49,071 in Village assets to retire the 1964 bonds.

The 2002 First Mortgage 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, 2002, the custodian held \$100,607 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

**VILLAGE OF MT. ORAB
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

10. RELATED ORGANIZATION

The Mt. Orab Port Authority is a related organization to the Village of Mt Orab. The Mayor of the Village is responsible for appointing three Board of Directors of the Port Authority; however, Village cannot influence the Port Authority's operation nor does the Port Authority represent a potential financial benefit or burden to the Village of Mt Orab.

11. PROIR PERIOD ADJUSTMENT

In order to correctly reflect fund activity, the Boyd Road Sewer Assessment Fund was reclassified from the Debt Service funds to the Enterprise funds in the amount of \$854 and Water Reservoir Project Fund was reclassified from the Capital Projects funds to the Enterprise funds in the amount of \$495,565.

	Debt Service Fund Type	Capital Projects Fund Type	Enterprise Fund Type
Fund Balance – December 31, 2000	\$ 72,462	\$ 555,764	\$ 328,138
Boyd	(854)		854
Water Reservoir	<u>0</u>	<u>(495,565)</u>	<u>495,565</u>
Fund Balance – January 1, 2001	<u>\$ 71,608</u>	<u>\$ 60,199</u>	<u>\$ 824,557</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT 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 accompanying financial statements of the Village of Mt. Orab, Brown County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated July 15, 2003, in which we qualified on the Enterprise Fund Type for lack of supporting documentation for operating receipts in 2001. Except for the restrictions on the scope of our audit of enterprise fund type 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*, and which are described in the accompanying schedule of findings as items 2002-004 through 2002-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 15, 2003.

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 a reportable condition. 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. These reportable conditions are described in the accompanying schedule of findings as items 2002-001 through 2002-003.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. These material weaknesses are described in the accompanying schedule of findings as items 2002-001 and 2002-002. 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 July 15, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 15, 2003

VILLAGE OF MT. ORAB
BROWN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001

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

FINDING NUMBER 2002-001

Material Weakness

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

- Bank deposits for customer utility payments during 2001 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 are 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 from whom the tap-in fee was collected). 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 during 2001 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.
- The meter reading printouts could not be located for fiscal year 2001.

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 qualified our audit opinion for the Combined Enterprise Funds in fiscal year 2001.

The following internal control deficiencies over the collection of Water and Sewer receipts were noted during the audit period:

- During 2001, 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.
- The Application for Municipal Water/Sewer Service which is issued when a tap-in is collected was not always complete.
- Adequate records were not maintained to support \$19,957 of noncash adjustments made to customer accounts by the Board of Public Affairs (BPA). All 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 in 2001 for the Board of Public Affairs documenting actions they have taken.

**FINDING NUMBER 2002-001
(Continued)**

- Nonsufficient funds (NFS) checks were netted out of the current deposit in the Water Operating Fund.
- No one performed a reconciliation between the Village's books and the utility report.
- Some adjustments did not have supporting documentation. We reviewed the readings, usage and amount billed per the system for reasonableness. We also inquired with the Village and concluded that the employees have the ability to change any data in the utility software.
- During 2001, there was no segregation of duties for the receipting and posting 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. During 2002, several employees started collecting receipts at the window.

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

- A system for initiating and approving all 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.
- NSF checks should be tracked separately and posted to all necessary funds. 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.
- Minutes should be maintained of the BPA's meetings. 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.
- To detect any discrepancies, the Village's books should be reconciled to the Utility books. We recommend that the Village Clerk perform a monthly reconciliation between the Village's records and the Utility Report and have Council approve the reconciliation.
- The Village should implement procedures for making any changes to standing data in the utility system due to approved adjustments.
- The receipting and posting functions should be performed by separate individuals. Officials should identify the duties that need to be separated, and implement a policy that the same person cannot perform the segregated duties on a specific day. Officials should also periodically review the records to determine accuracy and to assure themselves that proper procedures are followed.

**FINDING NUMBER 2002-001
(Continued)**

These conditions were also described in our audit of the 2000 and 1999 financial statements. However, the audit report was not released until May 2002. The Village demonstrated improvements in the following areas:

- Meter reading printouts were maintained for fiscal year 2002.
- During 2002, the Village started maintaining the Water Meter Installation Record to reconcile tap ins purchased to those installed. Additionally, the four part Utility Usage Agreement which is issued when a tap-in is collected is signed and dated by the applicant, as well as, stamped paid, initialed and dated by the clerk collecting the tap-in money. We recommend that this report also we reconciled to what is posted to the Village ledgers for tap in receipts.
- The Village started maintaining BPA minutes for 2002, however, official actions such as approval of each adjustment to customer's accounts should be documented.

FINDING NUMBER 2002-002

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 during most of the audit period. 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 during 2001.
- The Mayor's Court account is reconciled monthly by the Mayor's Court clerk, but it is not reviewed by anyone else.

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 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.

**FINDING NUMBER 2002-002
(Continued)**

These conditions were also described in our audit of the 2000 and 1999 financial statements. However, the audit report was not released until May 2002. The Village demonstrated improvements in the following areas since July 2002:

- Two individuals are performing Mayor's Court duties and these individuals alternate monthly as a means of deterring fraud.
- Deposit slips break out cash and check amounts.
- Personal checks were not being cashed.
- The Mayor's Court monthly reconciliations are being reviewed.

FINDING NUMBER 2002-003

Reportable Condition

The Village does not maintain accountability of unwritten tickets. Several tickets are kept in each patrol car. Once the ticket is issued for a violation, the police officer turns the ticket into the department. This results in a lack of accountability over the tickets. We recommend the Village Police Department maintain accountability of all tickets issued to officers. This list should include sequential ticket numbers and dates issued to officers.

FINDING NUMBER 2002-004

Noncompliance Citation

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

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Village may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 dollars, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

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

**FINDING NUMBER 2002-004
 (Continued)**

Contrary to the above requirement, the availability of funds were not certified for all year-end commitments. Furthermore, the Village did not certify the availability of funds during the audit period and neither of the two exceptions provided for above were utilized. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. Therefore, we recommend the Village obtain approved purchase orders, which contain the Clerk/Treasurer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

Ohio Rev. Code, Section 5705.36, requires the fiscal officer to certify to the County Auditor on or about January 1 the amount available for expenditures in each fund in the budget, with year-end balances. Due to not certifying all year end commitments, incorrect amounts were certified to the County Auditor for January 1, 2002 and 2003.

FINDING NUMBER 2002-005

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, states that the total appropriations from each fund should not exceed the total estimated revenue. Appropriations exceeded estimated resources in the Brooks Malott Fund by \$70,000 at December 31, 2001. We recommend that the Village monitor budgetary activity and take corrective action.

FINDING NUMBER 2002-006

Noncompliance Citation

Ohio Rev. Code, Section 5705.41 (B), provides that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures plus encumbrances exceeded appropriations at fiscal year-end 2001 in the following funds:

Fund	Expenditures	Appropriations	Variance
Water Reservoir	\$ 1,487,757	\$ 837,000	\$ 650,757

Expenditures plus encumbrances exceeded appropriations at fiscal year-end 2002 in the following funds:

Fund	Expenditures	Appropriations	Variance
Water Reservoir	\$ 1,236,403	\$ 225,007	\$ 1,011,396
Water Operating	877,215	866,754	10,461
Water Works Plant Expansion	68,736	67,800	936

The Water Reservoir variances were due to the Village renewing a note and not properly appropriating and posting the payoff of the original note. The Clerk should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

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**VILLAGE OF MT. ORAB
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30408-001	Revised Code 5705.41(B). Exp. > Appr.	No	Not Corrected. Reported as a noncompliance citation in the report.
2000-30408-002	Debt Covenants – net income 125% of debt payments and payments required to be made on the 15 th of each month.	No	Partially Corrected. Net Income meets 125% criteria. Payment by the 15 th reported as a recommendation in the management letter.
2000-30408-003	Revised Code 5705.42. OPWC funds paid directly to the contractor were not recorded.	Yes	Corrected.
2000-30408-004	Utility receipts internal control weaknesses.	No	Partially Corrected. Reported as a material weakness in the 2002-2001 report.
2000-30408-005	Mayor's Court receipts internal control weaknesses.	No	Partially Corrected. Reported as a material weakness in the 2002-2001 report.
2000-30408-006	Invoices not reviewed and purchase requisitions were not approved by the department heads.	No	Not Corrected. Reported as a recommendation in the 2002-2001 management letter.
2000-30408-007	No segregation of duties for receipting of water and sewer payments.	No	Partially Corrected. Reported as a material weakness in the 2002-2001 report.



**Auditor of State
Betty Montgomery**

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VILLIAGE OF MOUNT 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
AUGUST 21, 2003**