



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



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**REPORT OF INDEPENDENT ACCOUNTANTS**

Village of Gratis  
 Preble County  
 404 Harrison Street  
 P.O. Box 574  
 Gratis, Ohio 45330

To the Village Council:

We have audited the accompanying financial statements of the Village of Gratis, Preble County, Ohio (the Village), as of and for the years ended December 31, 1999 and 1998. 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.

We conducted our audit in accordance with generally accepted auditing standards 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.

The financial statements referred to above do not include all the activity of the Fire Fund and the EMS Fund, both of which are special revenue funds, which should be included to conform with the basis of accounting prescribed or permitted by the Auditor of State. Based on unaudited financial information, if the omitted activity would have been presented, receipts and disbursements would have increased by an amount that could not be determined. The ending balances of the Fire and EMS Funds would have been increased by:

	1998	1999
EMS Fund	\$483	\$749
Fire Fund	\$2,597	\$3,294

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 effect on the financial statements of the omission described in the third paragraph, 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, 1999 and its combined cash receipts and disbursements of the year then ended, and the combined cash balances for the year ended December 31, 1998 and its unclassified cash receipts and disbursements for the year ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2000, 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.

This report is intended solely for the information and use of management, 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

October 19, 2000

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

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$18,371	\$26,255	\$0	\$44,626
Intergovernmental Receipts	58,670	48,288		106,958
Charges for Services		89,562		89,562
Fines, Licenses, and Permits	3,694			3,694
Earnings on Investments	5,230	651		5,881
Miscellaneous	6,493	21,669		28,162
 Total Cash Receipts	92,458	186,425	0	278,883
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	18,956	27,478		46,434
Public Health Services	850	70,836		71,686
Leisure Time Activities	464	2,059		2,523
Transportation		40,621		40,621
General Government	58,733	117		58,850
Debt Service		37,301		37,301
Capital Outlay	3,422	18,445		21,867
 Total Disbursements	82,425	196,857	0	279,282
 Total Receipts Over/(Under) Disbursements	10,033	(10,432)	0	(399)
<b>Other Financing Receipts/(Disbursements):</b>				
Transfers-In		434		434
Transfers-Out	(434)			(434)
 Total Other Financing Receipts/(Disbursements)	(434)	434	0	0
 Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	9,599	(9,998)	0	(399)
 Fund Cash Balances, January 1	13,800	87,421	58	101,279
 <b>Fund Cash Balances, December 31</b>	<b>\$23,399</b>	<b>\$77,423</b>	<b>\$58</b>	<b>\$100,880</b>
 Reserves for Encumbrances, December 31	\$1,681	\$3,412	\$0	\$5,093

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

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

	<u>Enterprise</u>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$234,579
Miscellaneous	<u>94</u>
Total Operating Cash Receipts	<u>234,673</u>
<b>Operating Cash Disbursements:</b>	
Personal Services	32,989
Fringe Benefits	17,384
Contractual Services	33,074
Supplies and Materials	21,095
Capital Outlay	<u>6,584</u>
Total Operating Cash Disbursements	<u>111,126</u>
Operating Income/(Loss)	<u>123,547</u>
<b>Non-Operating Cash Receipts:</b>	
Property Tax and Other Local Taxes	<u>911</u>
Total Non-Operating Cash Receipts	<u>911</u>
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	<u>51,423</u>
Total Non-Operating Cash Disbursements	<u>51,423</u>
Net Receipts Over/(Under) Disbursements	73,035
Fund Cash Balances, January 1	<u>79,883</u>
<b>Fund Cash Balances, December 31</b>	<b><u><u>\$152,918</u></u></b>
Reserve for Encumbrances, December 31	<u><u>\$4,157</u></u>

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

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>					
Unclassified Receipts	\$77,877	\$351,457	\$1,468	\$0	\$430,802
Total Cash Receipts	<u>77,877</u>	<u>351,457</u>	<u>1,468</u>	<u>0</u>	<u>430,802</u>
<b>Cash Disbursements:</b>					
Unclassified Disbursements	78,238	322,251	1,468		401,957
Total Cash Disbursements	<u>78,238</u>	<u>322,251</u>	<u>1,468</u>	<u>0</u>	<u>401,957</u>
Total Receipts Over/(Under) Disbursements	<u>(361)</u>	<u>29,206</u>	<u>0</u>	<u>0</u>	<u>28,845</u>
<b>Other Financing Receipts/(Disbursements):</b>					
Advances-Out	(5,500)				(5,500)
Total Other Financing Receipts/(Disbursements)	<u>(5,500)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,500)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(5,861)	29,206	0	0	23,345
Fund Cash Balances, January 1	<u>19,661</u>	<u>58,215</u>	<u>0</u>	<u>58</u>	<u>77,934</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$13,800</u></b>	<b><u>\$87,421</u></b>	<b><u>\$0</u></b>	<b><u>\$58</u></b>	<b><u>\$101,279</u></b>

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

**VILLAGE OF GRATIS  
 COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED  
 CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES  
 PROPRIETARY FUND TYPE AND AGENCY FUND  
 FOR THE YEAR ENDED DECEMBER 31, 1998**

	<b>Enterprise</b>	<b>Agency</b>	<b>Totals (Memorandum Only)</b>
<b>Operating Cash Receipts:</b>			
Unclassified Receipts	\$275,924	\$0	\$275,924
Total Operating Cash Receipts	275,924	0	275,924
<b>Operating Cash Disbursements:</b>			
Unclassified Disbursements	156,049	215	156,264
Total Operating Cash Disbursements	156,049	215	156,264
Operating Income/(Loss)	119,875	(215)	119,660
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	119,875	(215)	119,660
Advances-In	5,500		5,500
Net Receipts Over/(Under) Disbursements	125,375	(215)	125,160
Fund Cash Balances, January 1	(45,492)	215	(45,277)
<b>Fund Cash Balances, December 31</b>	<b>\$79,883</b>	<b>\$0</b>	<b>\$79,883</b>

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

**VILLAGE OF GRATIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Gratis, Preble 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, park operations (leisure time activities), fire and emergency squad services, and police 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 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 Deposits**

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

**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 Fund**

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

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

*Fire Fund* - This fund receives real estate and personal property taxes and contracts with Gratis Township to provide for the protection of area citizens.

*EMS Fund* - This fund receives real estate and personal property taxes and contracts with Gratis Township and the Village of West Elkton to provide for the protection of area citizens.

**VILLAGE OF GRATIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. 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.

**4. 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 agency fund:

*Mayor's Court Fund* - This fund is used to account for the collection and distribution of court fines and forfeitures. Mayor's Court was discontinued in December 1997 and the bank account was closed out in April 1998.

**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 use the encumbrance method of accounting during 1998. The Village did not encumber all commitments required by Ohio law during 1999.

A summary of 1999 and 1998 budgetary activity appears in Note 3.

**VILLAGE OF GRATIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**  
**(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**2. EQUITY IN POOLED CASH AND DEPOSITS**

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

	<u>1999</u>	<u>1998</u>
Demand deposits	\$ 253,798	\$ 181,162

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 1999 and 1998 follows:

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 92,925	\$ 92,458	\$ (467)
Special Revenue	180,381	186,859	6,478
Enterprise	246,600	235,584	(11,016)
Total	\$ 519,906	\$ 514,901	\$ (5,005)

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 102,521	\$ 84,540	\$ 17,981
Special Revenue	249,932	200,269	49,663
Enterprise	291,835	166,706	125,129
Total	\$ 644,288	\$ 451,515	\$ 192,773

**VILLAGE OF GRATIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**  
**(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 76,000	\$ 77,877	\$ 1,877
Special Revenue	136,540	351,457	214,917
Debt Service	1,498	1,468	(30)
Enterprise	210,216	275,924	65,708
Total	<u>\$ 424,254</u>	<u>\$ 706,726</u>	<u>\$ 282,472</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 87,900	\$ 78,238	\$ 9,662
Special Revenue	179,789	322,251	(142,462)
Debt Service	1,468	1,468	0
Enterprise	163,927	156,049	7,878
Total	<u>\$ 433,084</u>	<u>\$ 558,006</u>	<u>\$ (124,922)</u>

Expenditures exceeded appropriations for the following funds in 1998: Fire, EMS, Community Center, Water, and Water Debt Service.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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.

**VILLAGE OF GRATIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**  
**(Continued)**

**5. DEBT**

Debt outstanding at December 31, 1999 was as follows:

	Principal	Interest Rate
Sewer Revenue Bonds	\$ 419,000	5.00%
Community Center Loan	7,943	5.75%
Sewer Debt Loan	25,033	6.00%
Ambulance Loan	64,357	6.25%
Fire Truck Loan	27,744	5.50%
Utility Billing Software Lease	12,280	5.70%
Water Revenue Bonds	105,000	varies
Total	\$ 661,357	

The Sewer Revenue Bonds relate to mortgage revenue bonds issued in 1980. The bonds will be repaid in annual installments over 40 years.

The Community Center Loan was obtained in 1997 to fund improvements for the Village's community center.

The Sewer Debt Loan was obtained in 1998 to pay the annual installment due on the Sewer Revenue Bonds.

The Ambulance Loan was obtained in 1998 to purchase an ambulance for the Village. The loan is to be repaid in twelve semi-annual installments of \$8,421, including interest.

The Fire Truck Loan was obtained in 1998 to purchase a fire truck for the Village. The loan is to be repaid in semi-annual installments of \$3,960, excluding interest.

The Utility Billing Software Lease was obtained in 1999 when the Village purchased new utility billing software. The lease is to be repaid in monthly installments of \$549, including interest. The first installment is due July 15, 2000. The lease has an option to purchase. During the life of the lease, upon 30 days written notice the Village shall have the option to pay, in addition to the rental payment, the purchase option price of the utility billing software.

The Water Revenue Bonds relate to mortgage revenue bonds issued in 1998 to fund improvements to the Village's water system. The bonds will be repaid in semi-annual installments over 15 years.

**VILLAGE OF GRATIS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999 AND 1998**  
**(Continued)**

**5. DEBT (Continued)**

Amortization of the above bonds and loans, including interest, is scheduled as follows:

Year ending December 31:	Sewer Revenue Bonds	Community Center Loan	Sewer Debt Loan	Ambulance Loan	Fire Truck Loan	Water Works Revenue Bonds
2000	\$ 32,950	\$ 8,400	\$ 26,535	\$ 16,841	\$ 9,337	\$ 10,820
2001	32,350	0	0	16,841	8,901	10,595
2002	32,750	0	0	16,841	8,466	10,357
2003	33,100	0	0	16,841	4,094	10,112
2004	32,400	0	0	7,331	0	9,862
Subsequent	<u>522,950</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>109,475</u>
Total	<u>\$ 686,500</u>	<u>\$ 8,400</u>	<u>\$ 26,535</u>	<u>\$ 74,695</u>	<u>\$ 30,798</u>	<u>\$ 161,221</u>

**6. RETIREMENT SYSTEMS**

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

Contribution rates are also prescribed by the Ohio Revised Code. For 1999 and 1998, members of PERS contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 1999.

**7. RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

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

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

**8. DEBT SERVICE TRUSTEED FUNDS**

The 1998 Water Revenue Bond agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 1999, the custodian held \$11,683 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

**9. COMPLIANCE**

The Village of Gratis prepared unclassified financial statements for the year ended December 31, 1998. This presentation is a material departure from the presentation prescribed by the Auditor of State in Sections 117-05-01 through 117-05-18 of the Ohio Administrative Code. Those Sections of the Ohio Administrative Code require classifying receipts by source and disbursements by program.



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

Village of Gratis  
Preble County  
404 Harrison Street  
P.O. Box 574  
Gratis, Ohio 45330

To the Village Council:

We have audited the accompanying financial statements of the Village of Gratis, Preble County, Ohio (the Village), as of and for the years ended December 31, 1999 and 1998, and have issued our report thereon dated October 19, 2000, which was qualified due to the omission of activity from the Fire Fund and the EMS Fund. We conducted our audit in accordance with generally accepted auditing standards 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*. The instances of noncompliance are described in the accompanying schedule of findings as items 1999-30368-001, 1999-30368-002, 1999-30368-004, and 1999-30368-005.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 19, 2000.

### 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 judgement, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 1999-30368-002, 1999-30368-003, 1999-30368-004, and 1999-30368-005.

Village of Gratis  
Preble County  
Report of Independent Accountants on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
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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 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. However, of the reportable conditions described above, we consider items 1999-30368-002 and 1999-30368-003 to be material weaknesses.

We also noted other matters involving the internal control structure over financial reporting that do not require inclusion in this report that we have reported to the management of the Village in a separate letter dated October 19, 2000.

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

October 19, 2000

**VILLAGE OF GRATIS  
SCHEDULE OF FINDINGS  
DECEMBER 31, 1999 AND 1998**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 1999-30368-001**

**Compliance - Uniform System of Accounting**

Ohio Rev. Code, Section 117.43, authorizes the Auditor of State to prescribe by rule, requirements for accounting and financial reporting for public offices other than state agencies. The Auditor of State has prescribed a uniform accounting system for villages which is set forth in Ohio Administrative Code Chapter 117-5. The Village did not comply in the following instances in 1998:

- A. Ohio Admin. Code, Sections 117-5-05, 117-5-06, and 117-5-08, establish guidelines for the proper coding and classification of disbursements.

The Village's current system of accounting does not provide for the proper classification of disbursements.

- B. Ohio Admin. Code, Section 117-5-10, requires that a village post to each receipts account the estimated amount of money to be received into the account as specified by the County Budget Commission. Also, receipts should be entered in the "Amount Received" column and in the "Credit" column and subtracted from the budget estimate amount ("Balance").

The Village did not post estimated receipts to the receipts ledger.

- C. Ohio Admin. Code, Section 117-5-13, provides that each village must use purchase orders, as prescribed, for all expenditures.

The Village did not use any purchase orders in 1998.

- D. Ohio Admin. Code, Section 117-5-11, requires a village to maintain an appropriation ledger in a complete and accurate form as prescribed.

The Village did not maintain a complete, accurate and reliable appropriation ledger.

The incompleteness and inaccuracy of the Village's receipt and appropriation ledgers resulted in discrepancies between these records and the annual financial report for 1998.

To aide in the accurate classification of receipts and disbursements on the Village's annual financial report, we recommend the Village maintain receipt and appropriation ledgers as prescribed by the Ohio Admin. Code. Encumbrances and disbursements should be posted to the appropriation ledger resulting in declining unencumbered balances. Receipts should be posted by fund and line item, with a running balance maintained. Receipts received and checks written should be posted in chronological and numerical order. At year-end, the totals from these ledgers should be carried forward to the annual financial report.

**VILLAGE OF GRATIS  
SCHEDULE OF FINDINGS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**FINDING NUMBER 1999-30368-002**

**Compliance and Internal Control Material Weakness - Off the Books Accounts**

Ohio Admin. Code, Section 117-5-09, requires each expenditure of village money and each receipt of village money be recorded in the village's financial records. Sections 117-5-02 through 08 prescribe the fund and account classifications to be used.

The Village Fire Department has two separate bank accounts, in which the activity is not reflected in the Village's financial records or statements. Such activity should be included within the Fire Fund in order to conform with the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting.

Without the knowledge of Village officials, the Fire Department collected donations and other monies and deposited these funds into the bank accounts noted above. They also expended funds utilizing the above accounts without the use of purchase orders or approvals.

The Village's EMS Department has a separate account which is not a part of the Village's accounting system and thus, the activity is not reflected on the Village's financial statements. Such activity should be included within the EMS Fund in order to conform with the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting.

The EMS Department has been invoicing its own billings for services for ambulance runs, and not submitting copies to the Village Clerk. The EMS Department has been keeping the remittances from those billings, depositing those funds and others, such as donations, in a separate account that Village officials were unaware of. The EMS Department has been expending the funds, without Village approval, or use of purchase orders, which circumvents the internal control system of the Village.

We recommend all Fire Department and EMS Department receipts and expenditures be accounted for on the Village's financial records. All accounting entries should be posted in chronological order and reflect year-to-date totals. The Fire Department and EMS Department records should be reconciled with the bank activity on a monthly basis. Failure to record all financial activity for the above mentioned funds could result in misappropriation of funds and inaccurate reporting of village activity.

We also recommend that the Fire Department and the EMS Department submit copies of their run sheets to the Village Clerk. Run sheets are necessary for the Clerk to calculate payroll based upon number of runs, and to verify ambulance billings. Run Sheets are also important in determining that revenue is properly stated and past due accounts are collected. Village Council should determine what type of billing system should be put in place to bill for and collect for ambulance runs.

The Community Center also had an external bank account. However, all activity for the Community Center is reflected on the financial statements. The Community Center account was closed in May 1999. The remaining bank account balance was reflected as a receipt on the Village's books.

We recommend that the Village implement a policy concerning all Village financial activity. All financial activity of the Village should be accurately presented in the Village's financial statements and reviewed by Council for reasonableness. For instance, since the Village has ambulance services for the community, it would be expected that there would be some billings and collections for these services. Council should actively participate and observe to determine what type of financial activity is going on in the Village.

**VILLAGE OF GRATIS  
SCHEDULE OF FINDINGS  
DECEMBER 31, 1999 AND 1998  
(Continued)**

**FINDING NUMBER 1999-30368-003**

**Internal Control Material Weakness - Segregation of Duties**

The small size of the Village's staff does not allow for an adequate segregation of duties. The Clerk/Treasurer handles all the financial record keeping including receipting, posting, and reconciling to the depository. This allows for potential diversion of funds through possible alteration of source documents. Also, bookkeeping errors may and did occur without detection in a timely manner. It is therefore important that Council (or the Board of Public Affairs, for water and sewer activity) monitor financial activity to make sure that proper records are being kept and are up to date.

Since there has been a high rate of turnover in the Clerk-Treasurer position, Village officials should take a more active role in Village activity. During 1998, financial records required reconstruction and receipts and disbursements were presented as unclassified. Although there has been significant improvement in record keeping since the Village began utilizing the UAN computerized system in 1999, Village Officials should be more vigilant in monitoring the financial activity of the Village and in overseeing the work of the Village Clerk.

To establish accountability and internal accounting controls, officials should periodically review the records to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer. For each regular Council meeting, the Clerk/Treasurer should provide Council with detailed budget and actual financial statements, lists of investments, cash balances, checks paid, and bank reconciliations. For each regular meeting of the Board of Public Affairs, the Clerk/Treasurer should provide a delinquent accounts receivable report and any debit/credit adjustments, along with a summary of monthly water and sewer billings. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.

**FINDING NUMBER 1999-30368-004**

**Compliance and Internal Control Reportable Condition - Certification of Funds**

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 Council 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, the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

The Village did not certify funds or utilize any of the above exceptions in 1998. Of 30 expenditures tested for 1999, seven were not properly certified.

**VILLAGE OF GRATIS  
SCHEDULE OF FINDINGS  
DECEMBER 31, 1999 AND 1998  
(Continued)  
FINDING NUMBER 1999-30368-004 (Continued)**

Failure to properly certify funds can result in overspending funds and negative cash fund balances.

We recommend the Village properly certify funds by obtaining approved purchase orders, which contain the Clerk's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

**FINDING NUMBER 1999-30368-005**

**Compliance and Internal Control Reportable Condition - Appropriations vs. Expenditures**

Ohio Rev. Code, Section 5705.41(B), requires that a subdivision may not make an expenditure unless it has been properly appropriated.

In 1998 expenditures exceeded appropriations in the Fire Fund by \$35,668.01, EMS Fund by \$68,442.96, Community Center Fund by \$45,712, Water Fund by \$11,371.09, and Water Debt Service Fund by \$10,560.71.

Failure to properly appropriate funds could result in overspending and negative cash fund balances.

Village Officials have a responsibility to ensure funds are not expended if appropriations have not been made or funds are not available to cover the expenditures. The Mayor should review all disbursements before signing the vouchers to ensure that the funds have been appropriated and are available.

We recommend the Village adopt procedures to help ensure that no expenditures are made unless they have been properly appropriated.



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**VILLAGE OF GRATIS**

**PREBLE 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  
NOVEMBER 14, 2000**