



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF POTSDAM
MIAMI COUNTY

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
www.auditor.state.oh.us

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Potsdam
Miami County
P.O. Box 52
Potsdam, Ohio 45361

To the Village Council:

We have audited the accompanying financial statements of the Village of Potsdam, Miami County, (the Village), as of and for the years ended December 31, 2001 and 2000. 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 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 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 accounting principles generally accepted in the United States of America.

In our opinion, 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, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Note 9, the Village has concerns about their ability to make payments when due. Accordingly, there is substantial doubt about the Village's ability to continue as going concern. Management's plans in regards to these matters are discussed in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 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, 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

July 22, 2002

**VILLAGE OF POTSDAM
MIAMI 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**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts:					
Property Tax and Other Local Taxes	\$ 7,288				\$ 7,288
Intergovernmental Receipts	20,808	7,395			28,203
Charges for Services	739				739
Fines, Licenses, and Permits		744			744
Earnings on Investments	28				28
Miscellaneous	1,362				1,362
	<hr/>				
Total Cash Receipts	30,225	8,139			38,364
Cash Disbursements:					
Current:					
Security of Persons and Property	11,196	4,140			15,336
Transportation		545			545
General Government	3,406	800			4,206
Debt Service:					
Principal Payments	7,104		5,000		12,104
Interest Payments	417		4,763		5,180
Capital Outlay				1,820	1,820
	<hr/>				
Total Cash Disbursements	22,123	5,485	9,763	1,820	39,191
	<hr/>				
Total Receipts Over/(Under) Disbursements	8,102	2,654	(9,763)	(1,820)	(827)
Other Financing Receipts/(Disbursements):					
Sale of Fixed Assets	2,900				2,900
Transfers-In			9,763		9,763
Transfers-Out	(9,763)				(9,763)
Other Sources	1,235				1,235
Other Uses	(1,127)				(1,127)
	<hr/>				
Total Other Financing Receipts/(Disbursements)	(6,755)		9,763		3,008
	<hr/>				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	1,347	2,654		(1,820)	2,181
	<hr/>				
Fund Cash Balances, January 1, 2001	2,188	32,324	0	5,029	39,541
	<hr/>				
Fund Cash Balances, December 31, 2001	\$ 3,535	\$ 34,978	0	\$ 3,209	\$ 41,722
	<hr/>				
Reserves for Encumbrances, December 31, 2001	\$ 3,095	\$ 680		\$ 165	\$ 3,940
	<hr/>				

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

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL 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	\$ 6,938				\$ 6,938
Intergovernmental Receipts	24,322	7,713			32,035
Charges for Services	1,060				1,060
Fines, Licenses, and Permits	118				118
Miscellaneous	8,372	782			9,154
	<hr/>				
Total Cash Receipts	40,810	8,495			49,305
Cash Disbursements:					
Current:					
Security of Persons and Property	18,541	4,140			22,681
Transportation	22	1,499			1,521
General Government	13,948	2,321		14,574	30,843
Debt Service:					
Principal Payments	6,691		5,000		11,691
Interest Payments	897		5,518		6,415
	<hr/>				
Total Cash Disbursements	40,099	7,960	10,518	14,574	73,151
	<hr/>				
Total Receipts Over/(Under) Disbursements	711	535	(10,518)	(14,574)	(23,846)
Other Financing Receipts/(Disbursements):					
Sale of Fixed Asset		2,005			2,005
Transfers-In			10,518		10,518
Transfers-Out	(2,852)			(7,666)	(10,518)
Refund of Prior Year Receipts	(24,465)			(78)	(24,543)
	<hr/>				
Total Other Financing Receipts/(Disbursements)	(27,317)	2,005	10,518	(7,744)	(22,538)
	<hr/>				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(26,606)	2,540		(22,318)	(46,384)
	<hr/>				
Fund Cash Balances January 1, 2000	28,794	29,784	0	27,347	85,925
	<hr/>				
Fund Cash Balances, December 31, 2000	\$2,188	\$32,324	\$0	\$5,029	\$39,541
	<hr/> <hr/>				
Reserves for Encumbrances, December 31, 2000	\$ 729				\$ 729
	<hr/> <hr/>				

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

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Potsdam, Miami County, (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 police protection. The Village contracts with the Village of Laura to provide fire protection services.

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

B. Basis of Accounting

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

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

C. Cash and Investments

Certificates of deposits are valued at cost.

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 Fund:

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

3. Debt Service Fund

These funds are used to accumulate resources for the payment of note indebtedness. The Village had the following significant Debt Service Fund:

Debt Service Fund received resources for the payment of a note used for the purchase and remodeling of the Municipal building.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Capital Projects 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 Projects Fund

Municipal Building Construction Fund - This fund received proceeds from the sale of notes. The proceeds are being used to construct and remodel a new municipal building.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function 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.

A summary of 2001 and 2000 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

The carrying amount of cash and investments at December 31 was as follows:

	2001	2000
Demand deposits	\$30,940	\$28,759
Certificates of deposit	10,782	10,782
Total deposits	<u>\$41,722</u>	<u>\$39,541</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$34,330	\$34,360	\$30
Special Revenue	9,616	8,139	(1,477)
Debt Service	10,800	9,763	(1,037)
Total	<u>\$54,746</u>	<u>\$52,262</u>	<u>(\$2,484)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$36,317	\$36,108	\$ 209
Special Revenue	15,800	6,165	9,635
Debt Service	10,800	9,763	1,037
Capital Projects	5,030	1,985	3,045
Total	<u>\$67,947</u>	<u>\$54,021</u>	<u>\$13,926</u>

2000 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$40,180	\$40,810	\$630
Special Revenue	8,200	10,500	2,300
Debt Service	10,800	10,518	(282)
Total	<u>\$59,180</u>	<u>\$61,828</u>	<u>\$2,648</u>

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 68,218	\$ 68,145	\$ 73
Special Revenue	18,621	7,960	10,661
Debt Service	10,800	10,518	282
Capital Projects	<u>27,347</u>	<u>22,318</u>	<u>5,029</u>
Total	<u>\$124,986</u>	<u>\$108,941</u>	<u>\$16,045</u>

4. PROPERTY TAX

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

Tangible personal property 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, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Municipal Building Bond Anticipation Note	\$90,000	5.46%
Ford Motor Credit Company Lease Agreement	<u>1,845</u>	8.45%
Total	<u>\$91,845</u>	

The Municipal Building Note related to the purchase and remodeling of a new municipal building. The notes were issued July 7, 1999, through Fifth Third Bank. The notes will be repaid in semiannual installments of \$5,000, plus interest, over five years with a balloon payment of \$75,000 due in 2004. The note is a general obligation of the Village.

The lease-purchase agreement relates to a cruiser the Village purchased on May 20, 1999. The Agreement requires quarterly payments of \$1,872 including interest over three years.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

5. DEBT (Continued)

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

<u>Year ending December 31:</u>	<u>Municipal Building Notes</u>	<u>Ford Motor Credit Company Lease</u>
2002	\$ 9,846	\$1,872
2003	9,573	0
2004	84,300	0
Total	<u>\$103,719</u>	<u>\$1,872</u>

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Public Employees Retirement System (PERS) of Ohio. PERS is cost-sharing, multiple-employer plan. This plan provides 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 2001 and 2000, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of PERS participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced employer contributions to 8.13% effective July 1, 2000 through December 31, 2000. The Village has paid all contributions required through December 31, 2001.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

8. CONTINGENT LIABILITIES

A state law, breach of contract claim, has been brought forward by the Village's current Chief of Police and former police officers, *Robert J. Chaney, et al. v Village of Potsdam, et al.*

The claim arises from the Village disbanding the operation of the Police Department for financial reasons. Specifically, the Village returned grant monies that was offered to it by the federal government, since the Village could not sustain its obligations under the grant. The individuals are seeking monies for time worked that has been unpaid.

Legal counsel has indicated that a likely outcome in favor of the Plaintiffs could be awarded by the courts in an estimated range of \$15,000 and \$30,000.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

9. MANAGEMENT PLANS REGARDING FISCAL CONCERNS

The Village had the following fiscal concerns as of the year ended December 31, 2001:

- The General fund is obligated to pay police officers for services rendered during fiscal year 2000; however, the return of grant monies created a shortage of funds in the General fund, these obligations will be paid when funds become available. As of December 31, 2001, officers have received an estimated 30% of the wages due them;
- A balloon payment of \$75,000 on the Village's municipal building is due during 2004;
- The Village is projecting a deficit fund balance in the General Fund by April 30, 2002.

The Village has taken the following steps to address these concerns:

- Management plans to alleviate the projected deficit by reducing personnel costs, and other expenditures, and by selling unneeded assets such as the Village's municipal building and a police cruiser. Although the Village has advertised the sale of these assets, to date, no bids have been accepted for the purchase of either of these assets.
- Council has granted the Clerk permission to seek alternative financing with the financial institution for refinancing the municipal building note.



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One First National Plaza
130 West Second Street
Suite 2040
Dayton, Ohio 45402
Telephone 937-285-6677
800-443-9274
Facsimile 937-285-6688
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Potsdam
Miami County
P.O. 52
Potsdam, Ohio 45361

We have audited the accompanying financial statements of the Village of Potsdam (the Village), as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated July 22, 2002, in which we noted there is substantial doubt about the Village's ability to continue as a going concern. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-30355-001.

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. 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 no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated July 22, 2002.

This report is intended solely 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

July 22, 2002

VILLAGE OF POSTDAM
MIAMI COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001 AND 2000

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

FINDING NUMBER 2001-30355-001

Ohio Rev. Code Section 5705.41 (D) provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money without attaching thereto the certificate of the fiscal officer of the subdivision that the amount required to meet the same in the fiscal year in which the contract is made 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. Contracts and orders for expenditures lacking prior certification should be null and void.

This section also provides an exception to this requirement:

If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that these funds were properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000, the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

For the period tested, 16.67% of expenditure transactions examined were not properly certified in violation of the above section of revised code. The Village should adopt policies and procedures to ensure compliance with the above section of revised code.

**VILLAGE OF POSTDAM
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001 AND 2000**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-30355-001	Ordinance 7-06-98 Finding for recovery for overpayment of uniform allowance	No	Not Corrected – Village has no intention of pursuing this matter
1999-30355-002	Ohio Rev. Code, Section 5705.41(D); Failure to comply with certification requirements and procedures	No	Not Corrected – Repeated in current audit Finding number 2001-30355-001
1999-30355-003	Ohio Admin. Code Sections 117-5-01 to 117-5-18; Clerk maintaining financial records	Yes	
1999-30355-004	Sufficient payroll records were not maintained.	Yes	



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VILLAGE OF POTSDAM

MIAMI 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 27, 2002**