



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
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	3
Combined Statement of Unclassified Cash Receipts, Unclassified Cash Disbursements and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 1998	4
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, 1997	5
Combined Statement of Unclassified Cash Receipts, Unclassified Cash Disbursements and Changes in Fund Cash Balances – All Proprietary and Similar Fiduciary Fund Types – For the Year Ended December 31, 1997	6
Notes to the Financial Statements	7
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Leesburg
Highland County
57 South Fairfield Street
Leesburg, Ohio 45135

To the Village Council:

We have audited the accompanying financial statements of the Village of Leesburg, Highland County, Ohio (the Village), as of and for the years ended December 31, 1998 and 1997. 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 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 audits provide a reasonable basis for our opinion.

The Village did not provide sufficient documentation supporting receipts of the water, sewer and solid waste funds as recorded in the Enterprise Fund. Without this evidential matter, we were not able to audit the financial statements of the Enterprise Funds or to satisfy ourselves regarding the validity of the receipts through other auditing procedures.

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 Village's Enterprise Funds, on which we express no opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 1998 and 1997, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

As discussed in Note 10, an agreed-upon procedures engagement is being conducted by the Auditor of State Office over the Village's utility receipts.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 1999 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 the audit committee, management, and Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

December 7, 1999

**COMBINED STATEMENT OF UNCLASSIFIED RECEIPTS,
UNCLASSIFIED 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>
Cash Receipts:					
Unclassified	\$174,457	\$43,709	\$0	\$0	\$218,166
Total Cash Receipts	174,457	43,709	0	0	218,166
Cash Disbursements:					
Unclassified	152,089	29,046	0	0	181,135
Total Disbursements	152,089	29,046	0	0	181,135
Total Receipts Over/(Under) Disbursements	22,368	14,663	0	0	37,031
Fund Cash Balances January 1, 1998	16,769	11,697	1,415	4,783	34,664
Fund Cash Balances, December 31, 1998	<u>\$39,137</u>	<u>\$26,360</u>	<u>\$1,415</u>	<u>\$4,783</u>	<u>\$71,695</u>

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

**COMBINED STATEMENT OF UNCLASSIFIED RECEIPTS,
UNCLASSIFIED DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Unclassified	<u>\$404,579</u>	<u>\$0</u>	<u>\$404,579</u>
Total Operating Cash Receipts	404,579	0	404,579
Operating Cash Disbursements:			
Unclassified	<u>459,189</u>	<u>5,156</u>	<u>464,345</u>
Total Operating Cash Disbursements	<u>459,189</u>	<u>5,156</u>	<u>464,345</u>
Operating Income/(Loss)	(54,610)	(5,156)	(59,766)
Fund Cash Balances, January 1, 1998	<u>143,917</u>	<u>5,156</u>	<u>149,073</u>
Fund Cash Balances, December 31, 1998	<u>\$89,307</u>	<u>\$0</u>	<u>\$89,307</u>
Reserve for Encumbrances, December 31, 1998	<u>\$9,686</u>	<u>\$0</u>	<u>\$9,686</u>

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

**COMBINED STATEMENT OF UNCLASSIFIED RECEIPTS,
UNCLASSIFIED DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Unclassified	\$147,955	\$45,497	\$0	\$12,135	\$205,587
Total Cash Receipts	147,955	45,497	0	12,135	205,587
Cash Disbursements:					
Unclassified	136,499	38,537	0	1,558	176,594
Total Disbursements	136,499	38,537	0	1,558	176,594
Total Receipts Over/(Under) Disbursements	11,456	6,960	0	10,577	28,993
Fund Cash Balances January 1, 1997	5,313	4,737	1,415	(5,794)	5,671
Fund Cash Balances, December 31, 1997	<u>\$16,769</u>	<u>\$11,697</u>	<u>\$1,415</u>	<u>\$4,783</u>	<u>\$34,664</u>
Reserves for Encumbrances, December 31, 1997	<u>\$10,146</u>	<u>\$173</u>	<u>\$0</u>	<u>\$0</u>	<u>\$10,319</u>

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

**COMBINED STATEMENT OF UNCLASSIFIED RECEIPTS, UNCLASSIFIED DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR
FIDUCIARY FUND TYPES - FOR THE YEAR ENDED DECEMBER 31, 1997**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Unclassified	<u>\$459,169</u>	<u>\$8,163</u>	<u>\$467,332</u>
Total Operating Cash Receipts	459,169	8,163	467,332
Operating Cash Disbursements:			
Unclassified	<u>494,977</u>	<u>9,884</u>	<u>504,861</u>
Total Operating Cash Disbursements	<u>494,977</u>	<u>9,884</u>	<u>504,861</u>
Operating Income/(Loss)	(35,808)	(1,721)	(37,529)
Fund Cash Balances, January 1, 1997	<u>179,725</u>	<u>6,877</u>	<u>186,602</u>
Fund Cash Balances, December 31, 1997	<u>\$143,917</u>	<u>\$5,156</u>	<u>\$149,073</u>
Reserve for Encumbrances, December 31, 1997	<u>\$16,545</u>	<u>\$0</u>	<u>\$16,545</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Leesburg, Highland 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. An elected Village Clerk is responsible for fiscal control of the resources of the Village. The Village provides general governmental services, including street maintenance, police protection, and water and sewer utilities.

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).

The Village does not classify receipts and disbursements using the chart of accounts prescribed by the Ohio Administrative Code Sections 117-5-10 and 117-5-11. Cash receipts and disbursements in the accompanying financial statements are presented as unclassified.

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

C. Cash and Deposits

The Village funds are invested in two "Now" checking accounts with a local commercial bank, and a certificate of deposit account with a local commercial bank. Certificates of deposit are valued at cost. The Village pools its cash for investment purposes to capture the highest rate of return. Investment income is distributed to Village funds based upon the Ohio statutes.

D. Fund Accounting

The Village uses fund accounting to segregate cash and deposits 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.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

State Highway Improvement Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing State Highways running through the Village.

3. 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 Funds:

Farmers Home Administration, Candle-lite Access Street Improvement Project Fund - To account for the monies received from the Farmers Home Administration for the cost of new capital improvements to Centerfield Road in the Village of Leesburg.

Water Plant Project Fund - This fund receives monies from the Ohio Water Development Authority for the cost of new capital improvements to the Village's Water Plant.

Water Project Fund - This fund receives a proportion of water utility charges for services from residents for the cost of capital improvements to the Village's water system.

Sewer Project Fund - This fund receives a proportion of sewer utility charges for services from residents for the cost of capital improvements to the Village's sewer system.

4. 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.

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

Solid Waste Fund - This fund receives charges for services from residents to cover the cost of garbage collection within the village.

Water Debt Service Fund - used to accumulate resources for payment of revenues bonds to fund an improvement to the Village's existing water plant.

Sewer Debt Service Fund - used to accumulate resources for payment of notes for the Village's waste water treatment improvements.

5. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village's Mayor's Court is an agency fund which accounts for the monies collected by Mayor's Court for fines and forfeitures.

The Mayor's Court was suspended by Council in July 1997.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

A summary of 1998 and 1997 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation and Sick Leave

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

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	<u>1998</u>	<u>1997</u>
Demand deposits	\$ 114,906	\$ 139,435
Certificates of deposit	<u>46,096</u>	<u>44,302</u>
Total deposits	<u>\$ 161,002</u>	<u>\$ 183,737</u>

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 1998 and 1997 follows:

1998 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 178,524	\$ 174,457	\$ (4,067)
Special Revenue	52,000	43,709	(8,291)
Enterprise	<u>421,012</u>	<u>404,579</u>	<u>(16,433)</u>
Total	<u>\$ 651,536</u>	<u>\$ 622,745</u>	<u>\$ (28,791)</u>

1998 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 144,978	\$ 152,089	\$ (7,111)
Special Revenue	63,355	29,046	34,309
Enterprise	<u>579,089</u>	<u>468,875</u>	<u>110,214</u>
Total	<u>\$ 787,422</u>	<u>\$ 650,010</u>	<u>\$ 137,412</u>

1997 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 200,990	\$ 147,955	\$ (53,035)
Special Revenue	51,000	45,497	(5,503)
Capital Projects	0	12,135	12,135
Enterprise	<u>398,716</u>	<u>459,169</u>	<u>60,453</u>
Total	<u>\$ 650,706</u>	<u>\$ 664,756</u>	<u>\$ 14,050</u>

1997 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 198,015	\$ 146,645	\$ 51,370
Special Revenue	54,629	38,710	15,919
Capital Projects	0	1,558	(1,558)
Enterprise	516,143	511,522	4,621
Fiduciary	<u>0</u>	<u>9,884</u>	<u>(\$9,884)</u>
Total	<u>\$ 768,787</u>	<u>\$ 698,435</u>	<u>\$ 70,352</u>

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)**

During 1998, expenditures exceeded appropriations in the General Fund. During 1997, expenditures exceeded appropriations in the Capital Projects Fund. At December 31, 1998 purchase commitments had been made in the Enterprise Fund of \$9,686 and at 1997 in the General Fund of at least \$10,146, Special Revenue of \$173 and Enterprise Funds of at least \$16,545. Unrecorded commitments at year end will be improperly charged against appropriations in the subsequent year.

4. PROPERTY TAX

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

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 1998 was as follows:

	Principal	Interest Rate
Farmers Home Administration Loan	\$ 438,000	5%
Mortgage Revenue Bonds	103,400	6%
Ohio Public Works Commission	274,500	0%
Ohio Water Development Authority	255,710	6.56%
Fifth Third Bank Note - Building	4,499	7%
Fifth Third Bank Note - Cruiser	16,333	6.25%
Total	\$ 1,092,442	

During 1982, the Village obtained a loan in the amount of \$573,500, from the Farmers Home Administration (FHA), to fund an improvement project on the Village's existing wastewater treatment plant. This loan is being paid back over a period of 38 years. During 1986, the Village issued 40 year, first mortgage water system revenue bonds, in the amount of \$116,000, to fund an improvement to the Village's existing water plant. The first mortgage revenue bonds and the Farmers Home Administration loan are being paid back in on yearly installment and both are being paid to General Electric Capital Corporation.

During 1996, the Village received O.P.W.C. and O.W.D.A. loans in the amounts of \$305,000 and \$295,050 respectively for Water and Wastewater Treatment Improvements. Debt payments on these two loans did not start until 1997.

During 1996, the Village obtained a \$10,000 loan at 7% interest from Fifth Third Bank. The proceeds of this note were used to purchase a building for the Fire Department .

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

During October 1998, the Village obtained a \$19,599 note at 6.25% interest from Fifth Third Bank. The proceeds of this note were used to purchase a new police cruiser.

Amortization of the above debt, including interest of \$547,671, is scheduled as follows:

Year ending December 31:	FHA Loan	Mortgage Revenue Bonds	OPWC Loan	OWDA Loan	Fifth Third Building Loan	Fifth Third Cruiser Loan	Totals
1999	\$ 33,900	\$ 7,708	\$ 15,250	\$ 31,501	\$ 4,007	\$ 7,277	\$ 99,643
2000	34,300	7,714	15,250	31,501	492	7,277	96,534
2001	34,650	7,718	15,250	31,501	0	3,639	92,758
2002	33,950	7,716	15,250	31,501	0	0	88,417
2003	34,250	7,708	15,250	31,501	0	0	88,709
Subsequent	546,350	177,444	198,250	252,008	0	0	1,174,052
Total	<u>\$717,400</u>	<u>\$ 216,008</u>	<u>\$274,500</u>	<u>\$409,513</u>	<u>\$ 4,499</u>	<u>\$ 18,193</u>	<u>\$1,640,113</u>

6. RETIREMENT SYSTEMS

The Village's full-time police officers belong to the Police and Firemen's Disability and Pension Funds (PFDPF). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PFDPF and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including 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 1998 and 1997, members of PFDPF contributed 10% of their wages to the PFDPF. The Village contributed an amount equal to 19.5% of their wages. PERS members 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 PERS contributions required through December 31, 1998. The Village underpaid the employers portion of PFDPF contributions required through December 31, 1998 by \$1,093.

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 medical and dental insurance to full-time employees through private carriers.

8. YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Village's operations as early as fiscal year 1999.

The Village has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting Village operations:

The Village began leasing the Auditor of State's Uniform Accounting Network (UAN) system for its financial operations. The Auditor of State is responsible for remediating this system and is solely

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

responsible for any costs associated with this project. The Auditor of State released a validated and tested version of UAN in 1999 which has been installed by the Village.

The Village Utility Department leases its billing and collection software from Software Solutions, Inc. Software Solutions, Inc. is responsible for remediating this system and is solely responsible for any costs associated with this project. Software Solutions has released a validated and tested version of the utility system in 1999 which under the advise of Software Solutions, Inc. will not be installed until December 1, 1999, after the current billings cycle.

The management of the Village has also identified two external mission critical systems which may be affected by the issue: the accounting systems of Highland County and the State of Ohio. The Village receives tax settlement and local government assistance monies from Highland County and gas tax and rollback and homestead monies from the State of Ohio. These monies represent significant sources of revenue for the Village. These entities are responsible for remediating their systems and are solely responsible for any costs associated with this project.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the Village is or will be Year 2000 ready, that the Village's remediation efforts will be successful in whole or in part, or that parties with whom the Village does business will be Year 2000 ready.

9. LEGAL NONCOMPLIANCE

The Village was not in compliance with Ohio law or Administrative Code as in the following areas:

- Records were not retained as required by Ohio law;
- The availability of funds was not certified for all commitments;
- Certain funds had negative cash balances during the audit period;
- An increased certificate of estimated resources was not obtained when actual receipts exceeded estimated receipts; and in certain funds the expenditures exceeded appropriations. Appropriations also exceeded estimated resources in certain funds; and
- Accounting journals and ledgers did not comply with the uniform system prescribed by Ohio Administrative Code.

10. SUBSEQUENT EVENTS

Beginning at January 1, 1999, the Village began leasing the States Uniform Accounting Network for its accounting and payroll module.

In April 1999, the Village Council implemented a 1/2% income tax to provide funds for the purposes of general municipal operation, and capital improvements for the Village.

In September, the Village borrowed \$200,000 at 5% for a period of two years. The note was issued by 5/3rd Bank and the first payment of \$53,210 is due March 2000. The proceeds of the note were used to update the fire hydrants located in the Village.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND 1997
(Continued)

The Village engaged the Auditor of State to conduct agreed-upon procedures to investigate a possible theft from the Water, Sewer and Solid Waste Funds. The results of the agreed-upon procedures were not complete as of December 7, 1999. A separate report on the results of the agreed-upon procedures will be issued by the Auditor of State at a later date.

The Village Clerk has not reconciled the Village accounts to depository balances for any month in 1999.



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

Village of Leesburg
Highland County
57 South Fairfield Street
Leesburg, Ohio 45135

To the Village Council:

We have audited the accompanying financial statements of the Village of Leesburg, Highland County, Ohio (the Village), as of and for the years ended December 31, 1998 and 1997, and have issued our report dated December 7, 1999, wherein we expressed no opinion on Enterprise funds because of a lack of sufficient supporting evidence. Except as discussed in the preceding sentence, 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. 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 1998-30436-001 through 1998-30436-007. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated December 7, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Jeffersonville'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 1998-30436-001 through 1998-30436-008.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following items 1998-30436-001 and 1998-30436-007 to be a material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Village in a separate letter dated December 7, 1999.

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

December 7, 1999

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 1998-30436-001

Ohio Rev. Code, Section 149.351, provides that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Rev. Code, Sections 149.38 to 149.42. The Village Utility Clerk did not retain the receipt records for the Utility Department. Without maintaining financial documents, monies could be diverted without the knowledge of Village officials. We recommend that all financial documents and records of the Village be maintained and financial transactions monitored by Village officials. Village Council should also develop policies and procedures to ensure that complete documentation is being maintained by the officials. Officials should review documentation on a periodic basis and these reviews should be initialed by the reviewer.

FINDING NUMBER 1998-30436-002

Ohio Rev. Code, Section 5705.41(D), states that no order or contracts involving the expenditure of money is to be made unless there is attached thereto a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

This Section provides for the following 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 there were funds 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.

Of the expenditures tested, 100% did not contain either the prior certification or then and now certification of the fiscal officer.

Effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending funds. The Village should prepare 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 1998-30436-003

Ohio Rev. Code, Section 5705.10, provides that money paid into a fund must be used only for the purposes for which such fund has been established. The General Fund had a negative fund balance from January through September 1997, and the Street Improvement Fund had a negative fund balance throughout the month of January 1997, which indicates that money from another fund was used to cover the expenditures of these funds. Council members should monitor monthly financial statements presented by the Clerk and if necessary, exercise authority of Section 5705.14 to advance general operating monies for certain purposes until sufficient operating revenues are recorded.

**SCHEDULE OF FINDINGS
DECEMBER 31, 1998 AND 1997
(Continued)**

FINDING NUMBER 1998-30436-004

Ohio Rev. Code, Section 5705.36, provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Actual receipts exceeded estimated receipts in the Street Improvement Fund by \$1,558 and the Water Plant Project Fund by \$54,701 during 1997. These additional receipts were expended but an increased amended certificate was not obtained. Section 5705.36 also provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriations. Actual receipts were less than estimated receipts in amounts that reduced available resources below the amount appropriated in the Street Construction, Maintenance and Repair Fund by \$15,701 and the Sewer Revenue Fund by \$2,323 in 1998, in the General Fund by \$47,351, and the Street Construction, Maintenance and Repair Fund by \$9,120 in 1997, and an amended certificate was not obtained. The Village Clerk and Council members should monitor budgetary activity during the year and assure that the amended certificates are requested when needed.

FINDING NUMBER 1998-30436-005

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. Expenditures exceeded appropriations in the General Fund by \$7,111 in 1998, and in the Street Improvement Fund by \$1,558, and the Water Plant Project Fund by \$54,701 in 1997. Failure to limit expenditures to the amount appropriated could result in expenditure commitments exceeding resources available. Council should implement the use of purchase orders and the encumbrance method of accounting to assure that funds are available to pay for all purchase commitments.

FINDING NUMBER 1998-30436-006

Ohio Rev. Code, Section 5705.39, provides that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditures as certified by the budget commission. Village Council appropriated funds in excess of the amounts certified by the budget commission in the General Fund by \$4,101, Street Construction Maintenance and Repair Fund by \$783, Water Revenue Fund by \$15,094, Garbage Revenue Fund by \$1,962, Water Project Fund by \$10,488, Sewer Project Fund by \$2,505, and Water Deposits Trust Fund by \$435 during 1998. Council should review the amounts certified by the budget commission before making appropriations.

FINDING NUMBER 1998-30436-007

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 system of accounting for villages which is set forth in Ohio Administrative Code Chapter 117-5. The Village did not comply in the following instances:

117-5-09 (A), Ohio Admin. Code, requires each village to record each expenditure of village money and each receipt of village money in a cash journal.

(C) At the close of each month, all "Debit" and "Credit" columns shall be ruled off on the same line, totaled, and the totals for the month entered. The year-to-date totals shall be entered on the next line and the columns again ruled off. The difference between the month's debits and credits shall be added to or subtracted from the previous month's balance and the new balances entered in the proper column.

(D) The total of all fund balances in the cash journal must reconcile with the cash balance, the total of all fund credits must reconcile with the total cash debit, the total of all funds debits must reconcile with the cash credit, and that the cash balance plus outstanding warrants must agree with the depository balance plus undeposited funds in the hands of the clerk or in transit to the depository.

SCHEDULE OF FINDINGS

**DECEMBER 31, 1998 AND 1997
(Continued)**

FINDING NUMBER 1998-30436-007 (Continued)

The cash journal entries on the cash side did not equal entries on the funds side and the cash journal fund total did not balance with the bank. The Cash journal did not always contain month-to-date fund balances, and instances were noted where the fund balances as presented were not accurately footed. The Village cash journal balance was not always reconciled to the depository at month-end. Without maintaining a cash journal as required, the Clerk and Council members could not know accurate fund balances available for operating purposes and the records needed for informed decision making are not available. An accurate cash journal should be maintained as required by the Ohio Admin. Code.

117-5-11 (A)(C)(D), Ohio Administrative Code, requires each village to maintain an appropriation ledger, that each expenditure or encumbrance charged against an appropriation account be posted and subtracted from the appropriated balance producing a declining unencumbered balance, and that appropriate columns be totaled and reconciled monthly and yearly.

The appropriation ledgers did not contain encumbrances, declining unencumbered balances or totals for some accounts, and expenditures posted in the appropriation ledger did not balance with the expenditures posted in the cash journal. Without the detailed information of the types of Village expenditures, Council members cannot make informed decisions regarding Village finances. An appropriation ledger should be maintained as required by the Ohio Admin. Code.

117-5-13(B)(C), Ohio Administrative Code prescribes the triplicate form to be used as the purchase order and indicates that the third copy of the form must be attached to the voucher along with the invoice. Each executed purchase order shall provide the date, appropriation fund code classification, executed clerk's certificate and other required information.

Of the expenditures tested, 100% of all expenditures tested were made without the execution of a purchase order. We recommend that the Village Clerk maintain purchase orders in accordance with the Ohio Administration Code.

To determine the accuracy of the ledgers and to ensure the Village is in compliance with the Ohio Administrative Code, periodic reviews should be performed by the Village officials. Documents reviewed should be initialed by the reviewer indicating approval. Failure to properly monitor Village activity could result in overspending funds, negative cash fund balances and unauthorized expenditures.

FINDING NUMBER 1998-30436-008

Utility Department

The current system of monitoring utility receipts does not provide any means of assurance that the amount of cash collected corresponded to the correct amount of utilities billed. In addition, subsidiary ledgers were not adequately maintained to account for the monthly utility activity as utility records were not reconciled to the Village's records.

To improve accountability over utility revenues and lessen the chance of errors occurring and not being detected, the Village should implement the following procedures which should improve control over the utility functions:

1. An accurate subsidiary ledger should be maintained to account for the utility receipts. This ledger should include the customer's name, usage, amount billed, date paid, the amount of receipts collected and the amount outstanding;
2. All entries should be posted in chronological order, reflect a month-to-date and year-to-date totals;
3. The subsidiary ledgers should be reconciled with deposits on a monthly basis;

SCHEDULE OF FINDINGS

**DECEMBER 31, 1998 AND 1997
(Continued)**

FINDING NUMBER 1998-30436-008 (Continued)

4. Payment stubs should be stamped with the date they are received; and
5. Council should periodically review the accuracy of the utility department receipts.

Implementation of these procedures should add a substantial measure of control to the utility receipts, as well as provide assurance that the utility department activity is properly recorded on the Village's ledgers and financial reports.



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VILLAGE OF LEESBURG

HIGHLAND 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
DECEMBER 30, 1999**