



**Auditor of State
Betty Montgomery**

VILLAGE OF CAIRO
ALLEN COUNTY

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**Auditor of State
Betty Montgomery**

Village of Cairo
Allen County
P.O. Box 198
Cairo, Ohio 45820

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

August 25, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Cairo
Allen County
P.O. Box 198
Cairo, Ohio 45820

To the Village Council:

We have audited the accompanying financial statements of the Village of Cairo, Allen County, (the Village), as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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.

Because of the inadequacy of the accounting records, we were unable to obtain sufficient documentation to support amounts recorded as charges for services for recreation fees in the General Fund for the years ended 2004 and 2003 (stated at \$12,214 and \$8,537, respectively). Village records did not permit us to extend our auditing procedures sufficiently to satisfy ourselves regarding the validity of the receipts through other auditing procedures.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the charges for services for recreation fees in the General Fund had sufficient records and been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Cairo, Allen County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As stated in Note 8, the general fund has operated at a deficit for the audit period, due to expenditures in excess of available resources.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

August 25, 2005

**VILLAGE OF CAIRO
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$40,812			\$40,812
Special Assessments			\$50,379	50,379
Intergovernmental Receipts	33,570	\$27,399		60,969
Charges for Services	12,214			12,214
Fines, Licenses, and Permits	1,912			1,912
Earnings on Investments		242		242
Miscellaneous	717			717
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	89,225	27,641	50,379	167,245
Cash Disbursements:				
Current:				
Security of Persons and Property	20,356			20,356
Public Health Services	615			615
Leisure Time Activities	6,940			6,940
Transportation		19,280		19,280
General Government	61,972	2,512		64,484
Debt Service:				
Principal Payments	5,072		16,940	22,012
Interest Payments	2,173		30,733	32,906
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	97,128	21,792	47,673	166,593
Total Receipts Over/(Under) Disbursements	(7,903)	5,849	2,706	652
Fund Cash Balances, January 1	(4,986)	31,006	50,847	76,867
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>(\$12,889)</u>	<u>\$36,855</u>	<u>\$53,553</u>	<u>\$77,519</u>
Reserves for Encumbrances, December 31	<u>\$2,060</u>	<u>\$167</u>	<u>\$0</u>	<u>\$2,227</u>

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

**VILLAGE OF CAIRO
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$41,458			\$41,458
Special Assessments			\$80,612	80,612
Intergovernmental Receipts	33,705	\$20,112		53,817
Charges for Services	8,537			8,537
Fines, Licenses, and Permits	2,555			2,555
Earnings on Investments	6	197		203
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	86,261	20,309	80,612	187,182
Cash Disbursements:				
Current:				
Security of Persons and Property	22,509			22,509
Public Health Services	1,249			1,249
Leisure Time Activities	7,456			7,456
Transportation		8,515		8,515
General Government	49,525			49,525
Debt Service:				
Principal Payments	9,962		31,050	41,012
Interest Payments	2,947		31,065	34,012
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	93,648	8,515	62,115	164,278
Total Receipts Over/(Under) Disbursements	(7,387)	11,794	18,497	22,904
Fund Cash Balances, January 1	2,401	19,212	32,350	53,963
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>(\$4,986)</u>	<u>\$31,006</u>	<u>\$50,847</u>	<u>\$76,867</u>

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

**VILLAGE OF CAIRO
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Cairo, Allen County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village.

The Village provides general governmental services, including street lighting, park and recreation center operations (leisure time activities), and police services. The Village contracts with Monroe Township to receive 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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The Village maintains all funds in a demand deposit account.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources 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.

Permissive Motor Vehicle License Tax Fund – This fund receives the proceeds of a levied license fee for constructing, maintaining, and repairing Village streets.

**VILLAGE OF CAIRO
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Fund

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant debt service fund:

Debt Retirement Fund – This fund receives the sewer assessments collected by the Allen County Sanitary Engineer for the retirement of the Ohio Public Works Commission, Rural Development, and the Ohio Environmental Protection Agency loans.

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 or object level of control, and appropriations may not exceed estimated resources. Village 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. The Village did not use the encumbrance method of accounting; however, obligations outstanding at December 31, 2004, have been reported as Reserves for Encumbrances on the financial statements.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**VILLAGE OF CAIRO
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2004	2003
Demand deposits	\$77,519	\$76,867

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$68,367	\$89,225	\$20,858
Special Revenue	15,000	27,641	12,641
Debt Service	40,472	50,379	9,907
Total	\$123,839	\$167,245	\$43,406

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$62,776	\$99,188	(\$36,412)
Special Revenue	14,370	21,959	(7,589)
Debt Service	46,000	47,673	(1,673)
Total	\$123,146	\$168,820	(\$45,674)

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$55,585	\$86,261	\$30,676
Special Revenue	11,124	20,309	9,185
Debt Service	30,900	80,612	49,712
Total	\$97,609	\$187,182	\$89,573

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$64,499	\$93,648	(\$29,149)
Special Revenue	25,152	8,515	16,637
Debt Service	60,522	62,115	(1,593)
Total	\$150,173	\$164,278	(\$14,105)

**VILLAGE OF CAIRO
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

During both 2004 and 2003, a deficit balance existed in the general fund.

Contrary to Ohio law, expenditures exceeded appropriations in the General, Street Construction Maintenance and Repair, Permissive Motor Vehicle License Tax, and Debt Service Funds during 2004; and in the General and Debt Service Funds, during 2003. In addition, actual receipts exceeded estimated resources in the General Fund, Street Construction Maintenance and Repair, Permissive Motor Vehicle License Tax, and Debt Service Funds during 2004 and 2003, and amended certificates were not obtained when additional funds were available for appropriation.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Gym Floor Replacement Note	\$23,126	4.95%
Ohio Public Works Commission Loan Assistance	184,150	0%
Sanitary Sewer System Revenue Bonds	<u>639,000</u>	4.75%
Total	<u><u>\$846,276</u></u>	

On September 9, 2004, the Village refinanced the promissory note for the purpose of replacing the gymnasium floor in the recreational building. The note is payable from the general fund over a term of 60 monthly installments of principal and interest.

The Ohio Public Works Commission (OPWC) loan and the sanitary sewer revenue bond issue relates to the construction of a sanitary sewer system that was mandated by the Ohio Environmental Protection Agency.

**VILLAGE OF CAIRO
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT (Continued)

The OPWC granted \$254,000 in loans to the Village for this project. The loans will be repaid in semiannual installments of \$6,350, over 20 years. The sanitary sewer revenue bonds were purchased by the United States Department of Agriculture/Rural Development.

This loan and the bond issue are collateralized by a sewer rate surcharge. The Village has agreed to set sewer rates sufficient to cover debt service requirements.

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>Gym Floor Replacement</u>	<u>OPWC Loan</u>	<u>Sanitary Sewer System Bonds</u>	<u>Totals</u>
2005	\$5,492	\$12,700	\$38,353	\$56,545
2006	5,492	12,700	37,973	\$56,165
2007	5,492	12,700	38,593	\$56,785
2008	5,492	12,700	38,165	\$56,357
2009	4,119	12,700	38,738	\$55,557
Subsequent		120,650	1,108,710	\$1,229,360
Total	26,087	184,150	1,300,532	\$1,510,769
Less Interest	(2,961)		(661,532)	(\$664,493)
Principal Balance	<u>\$23,126</u>	<u>\$184,150</u>	<u>\$639,000</u>	<u>\$846,276</u>

6. RETIREMENT SYSTEMS

The Village officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

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.

**VILLAGE OF CAIRO
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

8. DEFICIT BALANCE

The Village general fund has operated with a deficit balance from January 1, 2003 through August 31, 2005. The Auditor of State has performed a review of the financial status of the Village through August 31, 2005, and has chosen not to place the Village in fiscal watch or emergency, but has accepted its plan to alleviate the deficits and will monitor the progress of the Village and the implementation.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Cairo
Allen County
P.O. Box 198
Cairo, Ohio 45820

To the Village Council:

We have audited the financial statements of the Village of Cairo, Allen County, (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated August 25, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Also, an opinion qualification was issued because we were unable to obtain sufficient documentation to support amounts recorded as charges for services for recreation fees in the General Fund. In addition, we noted that the general fund was operating at a deficit. Except as discussed in the preceding sentences, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2004-006 and 2004-007.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider the reportable conditions listed above to be material weaknesses.

In a separate letter to the Village's management dated August 25, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-001 through 2004-005. Also, in a separate letter to the Village's management dated August 25, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than those specified parties.



Betty Montgomery
Auditor of State

August 25, 2005

**VILLAGE OF CAIRO
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Pursuant to 731.13, Ohio Rev. Code, a Village Ordinance was passed establishing Council Members compensation at a rate of \$45 per meeting attended as documented in the official record of proceedings. Council members were paid in excess of the meetings officially documented as follows:

1. During 2003, Rodney Wise, Council Member was compensated in error for three meetings that he did not attend, or which did not occur, that results in an overpayment in the amount of \$135.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby rendered against Rodney Wise, Council Member, for money illegally expended, in the amount of One hundred thirty five dollars (\$135.00), and in favor of the Cairo Village treasury.

2. During 2003, Jim King, Council Member was compensated in error for two meetings that he did not attend, or which did not occur, that results in an overpayment in the amount of \$90.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby rendered against Jim King, Council Member, for money illegally expended, in the amount of Ninety dollars (\$90.00), and in favor of the Cairo Village treasury.

3. During 2003 and 2004, Mike Ebling, Council Member was compensated in error for four meetings that he did not attend, or which did not occur, that results in an overpayment in the amount of \$180.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby rendered against Mike Ebling, Council Member, for money illegally expended, in the amount of One hundred eighty dollars (\$180.00), and in favor of the Cairo Village treasury.

4. During 2003, Lance Downey, Council Member was compensated in error for three meetings that he did not attend, or which did not occur, that results in an overpayment in the amount of \$135.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby rendered against Lance Downey, Council Member, in the amount of One hundred thirty five dollars (\$135.00), and in favor of the Cairo Village treasury.

5. During 2003, Cindy High, Council Member was compensated in error for three meetings that she did not attend, or which did not occur, that results in an overpayment in the amount of \$135.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery is hereby rendered against Cindy High, Council Member, for money illegally expended, in the amount of One hundred thirty five dollars (\$135.00), and in favor of the Cairo Village treasury.

FINDING NUMBER 2004-002

Deficit General Fund Balance

Ohio Revised Code Section 5705.10, states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. Money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative cash fund balance in any fund indicates that money from one fund was used to cover the expenses of another fund.

The general fund had a deficit cash fund balance of \$12,889 and \$4,986 at December 31, 2004 and 2003, respectively, which indicates that special purpose funds were used to cover the expenditures of the general fund.

FINDING NUMBER 2004-003

Issuance of Amended Official Certificates of Estimated Resources

Ohio Rev. Code Section 5705.36, allows all subdivisions to request increased amended certificates of estimated resources or reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. The amended certificate for the years 2004 and 2003 listed the estimated receipts as follows:

	Budgeted Receipts	Actual Receipts	Variance
2004			
General	\$68,367	\$89,225	\$20,858
Street Construction	13,330	20,306	6,976
Permissive Tax	0	5,665	5,665
Debt Service	40,472	50,379	9,907
2003			
General	\$55,585	\$86,261	\$30,676
Street Construction	3,800	16,131	12,331
State Highway	7,324	1,338	(5,986)
Permissive Tax	0	2,840	2,840
Debt Service	30,900	80,612	49,712

The Village should obtain an amended certificate of estimated resources whenever it is determined that the revenue collected will be greater than the amount certified in the prior issued certificate of estimated resources when the intention is to appropriate or expend the additional funds.

FINDING NUMBER 2004-004

Expenditures Limited by Appropriations

Ohio Rev. Code Section 5705.41 (B), states that no subdivision or taxing unit is to expend money unless it has been appropriated. The following funds had expenditures plus encumbrances that exceeded appropriations:

	<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
2004	General	\$62,776	\$99,188	(\$36,412)
	Street Construction	8,370	13,033	(4,663)
	Permissive Tax	0	8,065	(8,065)
	Debt Service	46,000	47,673	(1,673)
2003	General	64,499	93,648	(29,149)
	Debt Service	60,522	62,115	(1,593)

Failure to limit expenditures by the approved appropriations could result in deficit spending which could lead to deficit cash fund balances.

The Village should limit all expenditures to within the approved appropriation amounts. When expenditures will exceed the approved appropriations, and additional revenues are available, an amended certificate should be obtained and supplemental appropriations approved by Council.

FINDING NUMBER 2004-005

Certification of Expenditures

Ohio Rev. Code Section 5705.41 (D) states that no order or contract involving the expenditure of money is to be made unless there is 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 encumbrances.

An exception to this requirement provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of the warrant (“Then and Now”). The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$1,000 (\$3,000 after April 7, 2003), may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Certification that funds were available for expenditure was not obtained for 100 percent of the expenditures in both 2004 and 2003.

**FINDING NUMBER 2004-005
(Continued)**

In addition, there was no evidence of certification that funds were available at the time of making the obligation and at the time of payment ("then and now"), nor the subsequent approval within thirty days from the Village Council for all amounts over one thousand dollars. Also, a system of encumbering was not in place. This limits the fiscal officer's ability to certify that the amount was in the treasury or in process of collection to the credit of an appropriate fund free from any previous encumbrances.

The lack of proper certifications has resulted in the Village obligating funds in excess of fund balances resulting in a deficit general fund cash balance.

The Village should establish procedures, and utilize purchase orders, for obtaining certification prior to incurring an obligation, and/or for subsequent certification and approval as provided by the exception noted above. Also, a system of encumbering should be placed in operation to allow the fiscal officer to track the amount of outstanding encumbrances and available unencumbered balances, thus allowing for accurate certifications and to prevent possible overspending of resources and/or the obligation of amounts in excess funds available.

FINDING NUMBER 2004-006

Fiscal Responsibility

During the audit period, the Village had two clerks, with the first clerk being responsible for the period of January 1, 2003 through March 31, 2004, and the second being responsible subsequent to April 1, 2004. During the tenure of the prior clerk financial records were not adequately maintained and Council had not held anyone accountable for the presentation of accurate financial information and proper monitoring duties were not performed to determine that the required records were being maintained.

The accounting records for the year 2003 and through March 31, 2004 were not available when the new clerk took office in April of 2004, and the records needed to be reconstructed by the new clerk. The lack of adequate records and the subsequent reconstruction resulted in the Village general fund operating at a deficit, and in various liabilities for which there were no records to argue the position of the Village.

In addition, the lack of records resulted in Council obligating funds that were not available, because decisions were made based on non-existent or inaccurate data which resulted in deficit spending and going concern issues. The lack of proper and correct financial information impeded the ability of officials to act responsibly in conducting Village affairs and has resulted in the current fiscal status of the Village.

It is Council's responsibility to monitor monthly reports and check to determine that related documents agree. It is important that Council monitor financial activity closely, and at each regular monthly meeting, at a minimum, Council should require that the bank reconciliation and the detailed budget and actual receipt and disbursement reports be provided. The monthly bank reconciliation should be reviewed to ensure it agrees with the fund balances. The reconciling items should be reviewed to verify there are no unexplained items, and/or that the explanations are factual. The detailed budget versus actual reports should be reviewed to determine that revenues are in line with estimates and that expenditures are within appropriations and if necessary, appropriate action taken.

**FINDING NUMBER 2004-006
(Continued)**

Council should initial and date the reports as proof of their review and the signed copies should be included in the minute book. Council should carefully review the aforementioned information and make appropriate inquiries to help determine its continued integrity; and, Council should be aware on a continuing basis of the records maintained on the financial position of the Village in order to make informed decisions to manage the Village, such as the following:

- Are current receipts sufficient to cover expenditures?
- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received?
- When cash is available, is the Village maximizing its return on invested cash balances?
- Are the Village records and reports maintained and presented in a manner that provides accurate and meaningful information to Council?

Ohio Rev. Code Section 118.02 and 118.03 establish the guidelines regarding fiscal watch and fiscal emergency situations. The Village general fund has operated with a deficit balance for this reporting period and through August 31, 2005. The Auditor of State performed a review of the financial status of the Village through August 31, 2005. Since the Village has taken steps to correct its problems, the Auditor of State has chosen not to place the Village in fiscal watch or emergency, but plans to monitor the progress of the Village in implementing a plan to eliminate the deficit balances.

FINDING NUMBER 2004-007

Recreation Income

The accuracy of the recreation income in the general fund could not be determined because adequate supporting documentation did not exist. Duplicate receipts were no longer issued to the recreation hall users after March 2004, and the reservation calendar had been destroyed. When duplicate receipts were being issued, there were instances where some were not being written for users. Also, there was no evidence of a policy or the procedures to follow to provide the support and evidence regarding the handling or depositing of recreation income. In addition, collections were being held at least one month prior to deposit.

The failure to adopt a policy which establishes standard procedures and proper safeguards could lead to and an increased risk of theft or loss due to the amount of cash being collected and held. In addition, the lack of timely deposit of collections also increases the risk of theft and a loss of revenue in the form of interest earnings.

FINDING NUMBER 2004-007
(Continued)

A policy should be adopted by Council which should include the following requirements at a minimum:

- 1) a three part duplicate receipt be issued for each collection; the first copy should be given to the user (if the original cannot be given to the user, it should remain in the duplicate receipt book), the second part to the treasurer so that each individual collection may be entered in the cash book; and the third part should remain intact in the duplicate receipt book;
- 2) a monthly reservation calendar be meticulously maintained that documents each usage of the recreation hall, and such should be retained for audit;
- 3) a sign-in, sign-out sheet be posted in the recreation center, and each user of the facilities should be required to at a minimum sign-in when using the facilities, which should also be retained for audit;
- 4) the method of safeguarding the collections until deposit and the requirement that deposits must be made within three business days, and if the collection is over \$1,000, the following business day;
- 5) prior to a deposit being made, the duplicate receipts be compared with the reservation calendar and the sign-in sheet to verify all that users have made payment. An itemized list should then be prepared by duplicate receipt number and amount of collection. In addition, the list should also indicate the users, during that time frame who did not pay and the amount;
- 6) when receiving the deposit and the itemized list, the clerk should verify the numerical sequence of the copies of the duplicate receipts and reconcile them with the amount received. Collections should be entered into the cashbook by individual user in order to maintain a proper record. In addition, the users on the itemized list that have not paid should be billed;
- 7) A monthly itemized list of recreation activity, which includes amounts received and amounts due, be provided to Council.

**VILLAGE OF CAIRO
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2002-001	Undeposited Recreation Center Receipts - Finding Repaid Under Audit	Yes	
2002-002	Ohio Rev. Section Code 9.38, Timely Deposits	No	Partially Corrected – reported in a separate letter to management of the Village.
2002-003	Ohio Rev. Section 145.48, timely remittance of employer PERS contributions	Yes	
2002-004	Ohio Rev. Section 149.351(a), Destruction of Records	No	Repeated as finding 2004-006 and 007.
2002-005	Ohio Rev. Section 733.28, maintaining Village Records	No	Repeated as finding 2004-006.
2002-006	Ohio Rev. Section 5705.09, Fund Establishment	Yes	
2002-007	Ohio Rev. Section 5705.10, Proper Use of Revenue	No	Repeated as finding 2004-002.
2002-008	Ohio Rev. Section 5705.36, Amended Certificate of Estimated Resources	No	Repeated as finding 2004-003.
2002-009	Ohio Rev. Section 5705.39, Appropriations Exceeded Estimated Resources	Yes	
2002-010	Ohio Rev. Section 5705.41(B), Expenditures Limited by Appropriations	No	Repeated as finding 2004-004.
2002-011	Ohio Rev. Section 5705.41(D), Prior certification of availability of funds prior to entering into purchase obligations.	No	Repeated as finding 2004-005.
2002-012	Ohio Rev. Section 5735.28, proper allocation of Gasoline and Motor Vehicle License Tax	Yes	
2002-013	Ohio Rev. Section 5747.07, timely remittance of State Income Tax withholdings.	Yes	
2002-014	Bond Covenant / Establishment of Bond Reserve Fund	Yes	
2002-015	Agreement of Records with Bank Reconciliations	Yes	
2002-016	Establish accounting controls over Recreational Rental Income	No	Repeated as finding 2004-007.
2002-017	Maintaining supporting documentation for all payments.	No	Partially Corrected – reported in a separate letter to management of the Village.
2002-018	Monitoring of Monthly Financial Reports	No	Repeated as finding 2004-006.



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VILLAGE OF CAIRO

ALLEN 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 13, 2005**