

**VILLAGE OF HARVEYSBURG
WARREN COUNTY, OHIO**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2003 AND 2002**



**Auditor of State
Betty Montgomery**

Members of Council
Village of Harveysburg

We have reviewed the Independent Auditor's Report of the Village of Harveysburg, Warren County, prepared by Bastin & Company, LLC for the audit period January 1, 2002 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Harveysburg is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 2, 2005

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**VILLAGE OF HARVEYSBURG
MERCER COUNTY, OHIO**

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Village of Harveysburg
Warren County
79 E. Main Street
Harveysburg, Ohio 45032

To the Village Council:

We have audited the accompanying financial statements of the Village of Harveysburg, Warren County, Ohio, (the Village) as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2003 and 2002, 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 to the financial statements, the Village is experiencing significant fiscal difficulties which raise substantial doubt about its ability to continue as a going concern. Also, the Auditor of State has determined, under the criteria of Ohio Rev. Code, Section 118.03, that the Village is in a state of Emergency Fiscal Condition. This state of Emergency remains in affect as of the date of our audit report. 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 28, 2004 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the 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.

Bastin & Company, LLC

Cincinnati, Ohio
July 28, 2004

**VILLAGE OF HARVEYSBURG
WARREN 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> | | | Total (Memorandum Only) |
|---------------------------------------|--------------------------------|----------------------------|-----------------------------|-------------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| <i>Cash Receipts:</i> | | | | |
| Local Taxes | \$29,735 | \$12,032 | \$ - | \$41,767 |
| Intergovernmental Receipts | 11,992 | 43,038 | - | 55,030 |
| Charges for Services | 77,438 | - | - | 77,438 |
| Fines, Licenses and Permits | 71,915 | 3,372 | - | 75,287 |
| Interest Receipts | 374 | - | - | 374 |
| Miscellaneous | <u>131</u> | <u>-</u> | <u>-</u> | <u>131</u> |
| Total Cash Receipts | <u>191,585</u> | <u>58,442</u> | <u>-</u> | <u>250,027</u> |
| <i>Cash Disbursements:</i> | | | | |
| Current: | | | | |
| Security of Persons and Property | 68,191 | 35,501 | - | 103,692 |
| Public Health and Welfare | 129 | - | - | 129 |
| Basic Utility Services | 19,054 | - | - | 19,054 |
| Transportation | 5,282 | 11,736 | - | 17,018 |
| General Government | <u>82,028</u> | <u>3,358</u> | <u>-</u> | <u>85,386</u> |
| Total Cash Disbursements | <u>174,684</u> | <u>50,595</u> | <u>-</u> | <u>225,279</u> |
| Total Receipts Over Disbursements | <u>16,901</u> | <u>7,847</u> | <u>-</u> | <u>24,748</u> |
| Fund Cash Balance, January 1, 2003 | <u>42,657</u> | <u>(6,150)</u> | <u>(41,266)</u> | <u>(4,759)</u> |
| Fund Cash Balance, December 31, 2003 | <u>\$ 59,558</u> | <u>\$ 1,697</u> | <u>\$(41,266)</u> | <u>\$ 19,989</u> |

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES – ENTERPRISE AND AGENCY FUND TYPES
For The Year Ended December 31, 2003**

| | <u>Enterprise</u> | <u>Agency</u> | Totals (Memorandum <u>Only</u>) |
|--|-------------------|-----------------|--|
| <i>Operating Cash Receipts:</i> | | | |
| Charges for Services | \$ - | \$ - | \$ - |
| Total Operating Cash Receipts | - | - | - |
| <i>Operating Cash Disbursements:</i> | | | |
| Materials and Supplies | - | - | - |
| Total Operating Cash Disbursements | - | - | - |
| Excess of Operating Cash Receipts Over Operating Cash Disbursements | - | - | - |
| <i>Non-Operating Cash Receipts and Disbursements:</i> | | | |
| Other Non-Operating Receipts | - | 97,152 | 97,152 |
| Other Non-Operating Disbursements | - | (87,896) | (87,896) |
| Debt Principal Payments | <u>(8,000)</u> | - | <u>(8,000)</u> |
| Net Cash Receipts Over/ (Under) Cash Disbursements | (8,000) | 9,256 | 1,256 |
| Fund Cash Balance, January 1, 2003 | <u>39,880</u> | <u>2,063</u> | <u>41,943</u> |
| Fund Cash Balance, December 31, 2003 | <u>\$31,880</u> | <u>\$11,319</u> | <u>\$43,199</u> |

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES – ALL GOVERNMENTAL FUND TYPES
For The Year Ended December 31, 2002**

| | <u>Governmental Fund Types</u> | | | Total (Memorandum Only) |
|---|--------------------------------|----------------------------|-----------------------------|-------------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| <i>Cash Receipts:</i> | | | | |
| Local Taxes | \$ 27,189 | \$ 9,956 | \$ - | \$ 37,145 |
| Intergovernmental Receipts | 24,090 | 20,099 | - | 44,189 |
| Charges for Services | 53,394 | - | - | 53,394 |
| Fines, Licenses and Permits | 69,122 | 5,382 | - | 74,504 |
| Interest Receipts | 200 | - | 27 | 227 |
| Miscellaneous | <u>-</u> | <u>362</u> | <u>-</u> | <u>362</u> |
| Total Cash Receipts | <u>173,995</u> | <u>35,799</u> | <u>27</u> | <u>209,821</u> |
| <i>Cash Disbursements:</i> | | | | |
| Current: | | | | |
| Security of Persons and Property | 73,183 | 10,436 | - | 83,619 |
| Public Health and Welfare | 134 | - | - | 134 |
| Community Environment | 317 | - | - | 317 |
| Transportation | 2,273 | 13,037 | - | 15,310 |
| General Government | 78,763 | 2,905 | - | 81,668 |
| Capital Outlay | <u>-</u> | <u>-</u> | <u>48</u> | <u>48</u> |
| Total Cash Disbursements | <u>154,670</u> | <u>26,378</u> | <u>48</u> | <u>181,096</u> |
| Total Receipts Over/ (Under) Disbursements | <u>19,325</u> | <u>9,421</u> | <u>(21)</u> | <u>28,725</u> |
| <i>Other Financing Receipts/ (Disbursements):</i> | | | | |
| Advances-In | - | 900 | - | 900 |
| Advances-Out | <u>(900)</u> | <u>-</u> | <u>-</u> | <u>(900)</u> |
| Total Other Financing Receipts/ (Disbursements) | <u>(900)</u> | <u>900</u> | <u>-</u> | <u>-</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/ (Under) Cash Disbursements And Other Financing Disbursements | 18,425 | 10,321 | (21) | 28,725 |
| Fund Cash Balance, January 1, 2002, restated | <u>24,232</u> | <u>(16,471)</u> | <u>(41,245)</u> | <u>(33,484)</u> |
| Fund Cash Balance, December 31, 2002 | <u>\$ 42,657</u> | <u>\$ (6,150)</u> | <u>\$(41,266)</u> | <u>\$(4,759)</u> |

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES – ENTERPRISE AND AGENCY FUND TYPES
For The Year Ended December 31, 2002**

| | <u>Enterprise</u> | <u>Agency</u> | Totals (Memorandum <u>Only</u>) |
|--|-------------------|-----------------|--|
| <i>Operating Cash Receipts:</i> | | | |
| Charges for Services | \$ - | \$ - | \$ - |
| Total Operating Cash Receipts | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Operating Cash Disbursements:</i> | | | |
| Materials and Supplies | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Operating Cash Disbursements | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess of Operating Cash Receipts Over Operating Cash Disbursements | - | - | - |
| <i>Non-Operating Cash Receipts and Disbursements:</i> | | | |
| Other Non-Operating Receipts | - | 90,842 | 90,842 |
| Other Non-Operating Disbursements | - | (91,626) | (91,626) |
| Debt Principal Payments | <u>(8,000)</u> | <u>-</u> | <u>(8,000)</u> |
| Net Cash Receipts Over/ (Under) Cash Disbursements | (8,000) | (784) | (8,784) |
| Fund Cash Balance, January 1, 2002, restated | <u>47,880</u> | <u>2,847</u> | <u>50,727</u> |
| Fund Cash Balance, December 31, 2002 | <u>\$39,880</u> | <u>\$ 2,063</u> | <u>\$41,943</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HARVEYSBURG
WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2003 And 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Harveysburg, Warren 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. A publicly elected six-member Council directs the Village. The Village provides general government services including police services. The Village contracts with Massie Township 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

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

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

Street Construction, Maintenance and Repair Fund

This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Police Levy Fund

This fund receives tax levy proceeds to provide police protection for the Village.

Permissive Tax Fund

This fund receives monies for road repairs.

3. Capital Project Fund

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Permanent Improvement Fund

This fund accounts for funds used to construct a new municipal garage.

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 Fund:

Water Fund

This fund receives charges for services from residents to cover the cost of providing this service.

5. Fiduciary Fund (Agency Fund)

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

Mayors Court Agency Fund

The Village acts in an agency capacity and accounts for fines collected by the Mayor's Court and distributed to the Village and State agencies.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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 re-appropriated in the subsequent year.

A summary of 2003 and 2002 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. Accumulated Leave

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

H. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

2. EQUITY IN POOLED CASH AND DEPOSITS

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

| | <u>2003</u> | <u>2002</u> |
|-----------------|------------------------|------------------------|
| Mayor's Court | \$11,319 | \$ 2,063 |
| Demand deposits | <u>51,869</u> | <u>35,121</u> |
| Total deposits | <u><u>\$63,188</u></u> | <u><u>\$37,184</u></u> |

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

| 2003 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|-------------------|------------------|-------------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$214,520 | \$191,585 | (\$22,935) |
| Special Revenue | 60,143 | 58,442 | (1,701) |
| Total | <u>\$274,663</u> | <u>\$250,027</u> | <u>(\$24,636)</u> |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|-------------------------|------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$180,370 | \$174,684 | \$5,686 |
| Special Revenue | 59,706 | 50,595 | 9,111 |
| Enterprise | 8,000 | 8,000 | - |
| Total | <u>\$248,076</u> | <u>\$233,279</u> | <u>\$14,797</u> |

| 2002 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|-------------------|------------------|-----------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$164,170 | \$173,995 | \$9,825 |
| Special Revenue | 25,860 | 36,699 | 10,839 |
| Capital Projects | 54 | 27 | (27) |
| Total | <u>\$190,084</u> | <u>\$210,721</u> | <u>\$20,637</u> |

| 2002 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|-------------------------|------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$157,726 | \$155,570 | \$2,156 |
| Special Revenue | 34,705 | 26,378 | 8,327 |
| Capital Projects | 48 | 48 | - |
| Enterprise | 8,000 | 8,000 | - |
| Total | <u>\$200,479</u> | <u>\$189,996</u> | <u>\$10,483</u> |

4. PROPERTY TAX

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

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, billing, collecting, and distributing all property taxes on behalf of the Village.

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|--------------------------|------------------|----------------------|
| Warren County Water Debt | \$31,522 | 0.00% |
| Police Cruiser Lease 1 | 13,815 | 9.00% |
| Police Cruiser Lease 2 | 20,186 | 7.45% |
| Total | <u>\$65,523</u> | |

A USDA Rural Development Loans (reflected above as the Warren County Water Debt) was obtained by the Village in July 1989. These loans were acquired by the Village for improvements to their water tower and system. The Village did not comply with the debt covenants related to these loans as follows:

In years prior to 2000, the Village did not maintain rates to collect revenues sufficient to pay all expenses incident to the operation of the system; the Village also did not maintain complete books and records relating to the operation of the system and its financial affairs and disbursements were made from the reserve fund without the required permission of the FMHA.

These loans were assumed by Warren County in January 2000 when the County assumed the water operations of the Village. As part of the agreement with Warren County, the Village was to transfer all monies within the water fund to the County and transfer unpaid amounts to the County. Any unpaid amounts would be certified to the County Auditor for collection.

Contrary to the covenants noted above, the Village did not transfer all water fund monies to Warren County and unpaid balances were not identified for certification to the County Auditor for collection in 2001 or 2000. The Village agreed to pay \$68,368, to the County, at a rate of \$8,000 per year until paid in full. At December 31, 2003, the Village had paid \$36,846 of the obligation.

The Village entered into a Police Cruiser Lease in July 2001 and a second Police Cruiser lease in May 2002. Payments on the leases are made from the general fund. The Village will own the vehicles at the end of the lease.

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

| <u>Year ending December 31:</u> | <u>Warren County</u> | <u>Police Cruiser Lease 1</u> | <u>Police Cruiser Lease 2</u> |
|---------------------------------|--------------------------|-----------------------------------|-----------------------------------|
| 2004 | \$8,000 | \$6,204 | \$5,556 |
| 2005 | 8,000 | 6,204 | 5,556 |
| 2006 | 8,000 | 3,102 | 5,556 |
| 2007 | 7,522 | 0 | 5,556 |
| 2008 | 0 | 0 | 1,389 |
| Total | <u>\$31,522</u> | <u>\$15,510</u> | <u>\$23,613</u> |

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

The Ohio Revised Code also prescribes contribution rates. For 2003 and 2002, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. Members of OPERS contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries for 2003. The Village has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

Commercial Insurance

The Village maintains comprehensive insurance coverage with the Simpkins Insurance Agency for all real and personal property, including automobile coverage for the following risks:

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

8. PRIOR PERIOD ADJUSTMENT

The Fund Cash Balance as of January 1, 2002 of the General Fund and the Enterprise fund have been restated from those previously reported to correct for prior year debt payments made from the General Fund in error.

As stated in Note 5, as part of the agreement with Warren County, the Village was to transfer all monies within the water funds to the County and transfer unpaid amounts to the County. Prior to 2002, the Village made \$12,846 of the required payments from the General Fund instead of the Water Enterprise Fund. As a result, the Fund Cash Balance of the General fund has been increased by \$12,846 with an offsetting decrease to the Enterprise Fund as of January 1, 2002.

9. FISCAL EMERGENCY DETERMINATION/GOING CONCERN

On December 19, 2000, the Local Government Services Division of the Auditor of State's Office issued a report to officials of the Village, which details the criteria and results of a fiscal watch review. The conclusion of this report was that fiscal watch conditions existed under Ohio Revised Code Sections 118.022(A) (2) and 118.022 (A) (3) and the Village was declared to be under fiscal watch.

On September 20, 2001, the Local Government Services Division of the Auditor of State's Office issued a report to officials of the Village, which details the criteria and results of the fiscal emergency review. The conclusion of this report was that fiscal emergency conditions existed under Sections 118.03(A) (5), 118.03(A) (6) and 118.03 (B) and the Village was declared under fiscal emergency.

As of December 31, 2003:

- The amount of the Village's total debt is \$65,523.
- The Village had negative cash fund balances of \$26,483 in the Street Fund and \$41,266 in the Capital Projects Fund.

For the year ended December 31, 2003:

- The Village had deficiencies of disbursements and other financing disbursements over receipts and other financing sources of \$175 in the State Highway Improvement Fund, \$7,042 in the Permissive Motor Vehicle License Fund, \$898 in the Law Enforcement Trust Fund, and \$846 in the Federal Grant Fund.

For the year ended December 31, 2002:

- The Village had deficiencies of disbursements and other financing disbursements over receipts and other financing sources of \$21 in the Capital Projects Fund, \$771 in the Permissive Motor Vehicle License Fund and \$289 in the Law Enforcement Fund.

The Village remains under Fiscal Emergency as of December 31, 2003.

Bastin & Company, LLC

Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Village of Harveysburg
Warren County
79 E. Main Street
Harveysburg, Ohio 45032

To the Village Council:

We have audited the accompanying financial statements of the Village of Harveysburg, Warren County, Ohio (the Village) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated July 28, 2004 which had an emphasis of the matter that the Village was experiencing significant fiscal difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-2007.

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 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 the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2003-008 through 2003-009

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 considered to be material weaknesses. However, we believe one of the reportable conditions described above is a material weakness as described in the accompanying schedule of findings as items 2003-008.

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

Bastin & Company, LLC

Cincinnati, Ohio

July 28, 2004

**VILLAGE OF HARVEYSBURG
WARREN COUNTY
SCHEDULE OF FINDINGS
December 31, 2003 and 2002**

FINDING NUMBER 2003-001

Material Noncompliance

Ohio Rev. Code, Section 5705.41 (D), states that no subdivision or taxing authority unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same...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. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officers’ certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Village Council, if such expenditure is otherwise valid.

The Village fiscal officer did not certify the availability of funds for 96% of the commitments tested.

FINDING NUMBER 2003-002

Material Noncompliance

Ohio Rev. Code, Section 5705.10, provides that money paid into any fund shall be used only for purposes for which such fund is established.

As of December 31, 2003, the Village had a deficit cash balance of \$260 in the Federal Grant Fund, \$26,483 in the Street Construction Fund and \$41,266 in the Capital Project Fund.

As of December 31, 2002, the Village had a deficit cash balance of \$40,791 in the Street Construction fund and \$41,266 in the Capital Projects Fund.

A deficit cash balance indicates money from another fund(s) has been used to pay the obligations of the aforementioned funds.

FINDING NUMBER 2003-003

Material Noncompliance

Ohio Rev. Code, Section 5705.39, states that the total appropriations from each fund should not exceed the total of estimated resources available (cash available at the beginning of the year plus estimated receipts for the year).

Appropriations exceeded estimated resources in the following funds during 2002:

| Fund | Estimated Resources | Appropriations | Variance |
|----------------------------|---------------------|----------------|-----------|
| Federal Grant | \$ - | \$ 7,380 | (\$7,380) |
| SCRM | (31,560) | 13,000 | (44,561) |
| Mayors Court Computer Fund | - | 3,250 | (3,250) |
| Capital Projects | (41,191) | 48 | (41,239) |

FINDING NUMBER 2003-004

Material Noncompliance

Ohio Revised Code Section 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated.

Expenditures exceeded appropriations at the legal level of control in the following fund during 2002.

| Fund | Appropriations | Expenditures | Variance |
|---------------|----------------|--------------|----------|
| Federal Grant | \$7,380 | \$7,510 | (\$130) |

FINDING NUMBER 2003-005

Material Noncompliance Reportable Condition

The Village did not follow required budgetary procedures designed to control receipting and expending of monies. Ohio Rev. Code, Section 5705.36, requires the fiscal officers to certify to the county auditor that total amount from all sources that are available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year. During 2002, the Village issued letters to the County Auditor requesting modifications to the original Certificate of Estimated Resources but did not obtain an approved Certification from the County Auditor for these amended amounts from all sources available for expenditures.

FINDING NUMBER 2003-006

Material Noncompliance

Ohio Rev. Code, Section 9.38, states public money must be deposited with the clerk of the public office or to a designated depository on the business day of the receipt, if the total amount of such moneys received exceeds \$1,000. If the total amount does not exceed \$1,000, the public official has the option of either depositing the money on the next business day following the day of receipt or adopting a policy permitting a different time period. The alternate time period, however, shall not exceed three business days following the day of receipt. Further, the policy must include procedures to safeguard the money until the time of deposit.

The Mayor's Court receipts were not deposited consistently in accordance with the above requirement.

FINDING NUMBER 2003-007

Material Noncompliance

Ohio Rev. Code, Section 733.40, states that all such fines and forfeitures collected shall be paid into the Village Treasury on the first Monday of each month.

Contrary to this section, the Mayor's Court fines and forfeitures we noted instances where payments were not paid into the Village Treasury on the first Monday of each month.

FINDING NUMBER 2003-008

Material Weakness

During 2002 and 2003, we noted the following conditions that are evidence of a lack of adequate segregation of duties and/or a lack of adequate oversight and review by appropriate personnel:

- Errors were made in the filing of payroll tax forms (941).
- Christmas bonuses were not properly reported as wages to employees for tax purposes.
- Vehicle lease payments were occasionally not paid on time.
- Village Council did was not being provided adequate monthly budgetary and actual expenditure reports for review.
- A monthly reconciliation of permits issued to applicable fees collected was not being performed.
- A monthly reconciliation of the Mayor's Court account, related activities and open items was not being prepared.

The small size of the Village staff does not allow for adequate segregation of duties during the normal course of operations. As a result, errors may occur and not be detected.

Village Council needs to take a more active roll in monitoring and approving the financial activity of the Village by periodically reviewing and approving the activities of the Village Clerk. The Clerk should provide Council all critical documents for their approval such as detailed budget and actual reports, bank account reconciliations (operating and Mayors Court), listings of monthly receipts and disbursements and any other critical compliance type documents. Council's approval of these documents should be noted in the minutes of Council meetings.

FINDING NUMBER 2003-009

Reportable Condition

During 2002 and 2003 time sheets were not required or used to support Village employees' hours and pay.

All employees should be required to submit properly completed and approved time sheets to report hours worked and leave time taken to support the proper payment and recoding of payroll and benefit costs.

**VILLAGE OF HARVEYSBURG
WARREN COUNTY
SCHEDULE OF PRIOR YEAR FINDINGS
December 31, 2003 and 2002**

| Finding Number | Finding Summary | Fully Corrected? | Status Explanation: |
|----------------|--|------------------|--|
| 2001-30483-001 | Material Noncompliance – Timely deposits | No | Not Corrected – Instances were noted where Mayor’s court receipts were not timely deposited. Re-issued as finding 2003-006. |
| 2001-30483-002 | Material Noncompliance – Proper Certification of Funds/Encumbering | No | Not Corrected – Instances were noted where Village officials did not certify contracts and/or purchase orders. Re-issued as finding 2003-001. |
| 2001-30483-003 | Material Noncompliance – Debt covenants not complied with | Yes | Corrective Action Taken – Warren County has assumed the loan and the County and Village have entered into a re-payment agreement. |
| 2001-30483-004 | Material Noncompliance – Use of funds for proper purpose | No | Not Corrected – Certain funds still have deficit cash balances. Re-issued as finding 2003-003. |
| 2001-30483-005 | Material Noncompliance – Expenditures exceeded appropriations | No | Instance of non-compliance were noted during the audit period. Re-issued as finding 2002-004 |
| 2001-30483-006 | Material Noncompliance – Appropriations exceeded estimated resources | No | Not Corrected – Instances were noted where appropriations exceeded estimated resources. Re-issued as finding 2003-003. |
| 2001-30483-007 | Material Noncompliance – Mayor’s Court payments to Village not timely | No | Not Corrected – Instances were noted where Mayor’s court did not make timely payments. Re-issued as finding 2003-007. |
| 2001-30483-008 | Material Weakness – Accounting procedures over internal controls | No | Partially Corrected – With State oversight and ongoing training of the Village’s Clerk, internal controls have been partially strengthened, however certain conditions remain. Re-issued as finding 2003-008 |
| 2001-30483-009 | Material – Noncompliance Reportable Condition – Village did not follow proper budgetary procedures | No | Partially Corrected – Village did obtain certification for 2003 but not for amendments to estimated resources for 2002. Re-issued as finding 2003-005 |
| 2001-30483-010 | Reportable Condition – Inadequate separation of duties | No | Not Corrected – With State oversight and ongoing training of Clerk, segregation of duties have improved, however certain conditions remain. Re-issued as finding 2003-008. |
| 2001-30483-011 | Material Weakness – Documentation for gym rentals | Yes | Corrective Action Taken – The Village has entered into a formal contract for the monthly rental charges of the gym. |



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**VILLAGE OF HARVEYSBURG
PREBLE COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 22, 2005**