



Dave Yost • Auditor of State

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Germantown
Montgomery County
75 North Walnut Street
Germantown, Ohio 45327

To the honorable Mayor and the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Germantown, Montgomery County, Ohio (the City), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Basis for Adverse Opinion

As described in Note 1 of the financial statements, the City prepared these financial statements using the cash accounting basis. However, Ohio Administrative Code Section 117-2-03 requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

Adverse Opinion

In our opinion, because of the matter described in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements do not present fairly the financial position, results of operations, and cash flows, where applicable of the City as of and for the years ended December 31, 2012 and 2011 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The City also 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013, on our consideration of the City'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 14, 2013

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:						
Property and Other Local Taxes	\$1,364,162	\$267,415		\$15,125		\$1,646,702
Payment in Lieu of Taxes				213,826		213,826
Intergovernmental	380,373	1,296,573		73,042		1,749,988
Special Assessments		92,123	\$147			92,270
Charges for Services	120,000	190,468				310,468
Fines, Licenses and Permits	98,689	3,506				102,195
Rent		2,550				2,550
Donations		4,405				4,405
Earnings on Investments	41,832				\$23	41,855
Miscellaneous	19,374	7,225				26,599
Total Cash Receipts	<u>2,024,430</u>	<u>1,864,265</u>	<u>147</u>	<u>301,993</u>	<u>23</u>	<u>4,190,858</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	811,063	905,002				1,716,065
Community Environment	43,238					43,238
Transportation		224,174		141,601		365,775
General Government	577,386	134,637		169		712,192
Capital Outlay	1,770	196,546				198,316
Debt Service:						
Principal Retirement	652,058	15,000	11,000	175,000		853,058
Interest and Fiscal Charges	39,261	1,500	1,045	53,833		95,639
Total Cash Disbursements	<u>2,124,776</u>	<u>1,476,859</u>	<u>12,045</u>	<u>370,603</u>		<u>3,984,283</u>
Excess of Receipts Over (Under) Disbursements	<u>(100,346)</u>	<u>387,406</u>	<u>(11,898)</u>	<u>(68,610)</u>	<u>23</u>	<u>206,575</u>
Other Financing Receipts (Disbursements):						
Sale of Notes	555,000	180,003				735,003
Transfers In			11,195			11,195
Transfers Out	(11,195)					(11,195)
Total Other Financing Receipts (Disbursements)	<u>543,805</u>	<u>180,003</u>	<u>11,195</u>			<u>735,003</u>
Net Change in Fund Cash Balances	443,459	567,409	(703)	(68,610)	23	941,578
Fund Cash Balances, January 1	<u>868,212</u>	<u>1,187,504</u>	<u>70</u>	<u>(5,828)</u>	<u>15,558</u>	<u>2,065,516</u>
Fund Cash Balances, December 31	<u>\$1,311,671</u>	<u>\$1,754,913</u>	<u>(\$633)</u>	<u>(\$74,438)</u>	<u>15,581</u>	<u>\$3,007,094</u>
Reserve for Encumbrances, December 31	<u>\$13,150</u>	<u>\$34,231</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$47,381</u>

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

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$1,829,871
Miscellaneous	35,672
Total Operating Cash Receipts	1,865,543
Operating Cash Disbursements:	
Personal Services	282,679
Contractual Services	592,174
Supplies and Materials	716,603
Maintenance	62,905
Other	148
Total Operating Cash Disbursements	1,654,509
Operating Income (Loss)	211,034
Non-Operating Receipts (Disbursements):	
Intergovernmental	191,908
Sale of Notes	832,008
Capital Outlay	(797,086)
Principal Retirement	(201,500)
Interest and Other Fiscal Charges	(76,611)
Total Non-Operating Receipts (Disbursements)	(51,281)
Income before Transfers	159,753
Transfers In	12,145
Transfers Out	(12,145)
Net Change in Fund Cash Balances	159,753
Fund Cash Balances, January 1	901,592
Fund Cash Balances, December 31	\$1,061,345
Reserve for Encumbrance, December 31	\$105,179

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

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:						
Property and Other Local Taxes	\$1,407,220	\$266,059		\$7,837		\$1,681,116
Payment in Lieu of Taxes				\$207,903		\$207,903
Intergovernmental	272,835	1,169,698		73,800		1,516,333
Special Assessments		90,841	\$362			91,203
Charges for Services		19,160				19,160
Fines, Licenses and Permits	23,078	1,423				24,501
Rent		1,100				1,100
Donations		4,260				4,260
Earnings on Investments	45,177				\$51	45,228
Miscellaneous	44,564	60,303				104,867
Total Cash Receipts	<u>1,792,874</u>	<u>1,612,844</u>	<u>362</u>	<u>289,540</u>	<u>51</u>	<u>3,695,671</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	783,901	800,797				1,584,698
Community Environment	29,778					29,778
Transportation		176,955		124,746		301,701
General Government	734,199	107,834		87		842,120
Capital Outlay	65,098	128,883				193,981
Debt Service:						
Principal Retirement	701,116	15,000	10,000	155,000		881,116
Interest and Fiscal Charges	39,761	2,175	1,495	60,653		104,084
Total Cash Disbursements	<u>2,353,853</u>	<u>1,231,644</u>	<u>11,495</u>	<u>340,486</u>		<u>3,937,478</u>
Excess of Receipts Over (Under) Disbursements	<u>(560,979)</u>	<u>381,200</u>	<u>(11,133)</u>	<u>(50,946)</u>	<u>51</u>	<u>(241,807)</u>
Other Financing Receipts (Disbursements):						
Sale of Notes	595,000					595,000
Transfers In			11,195			11,195
Transfers Out	(11,195)					(11,195)
Total Other Financing Receipts (Disbursements)	<u>583,805</u>		<u>11,195</u>			<u>595,000</u>
Net Change in Fund Cash Balances	22,826	381,200	62	(50,946)	51	353,193
Fund Cash Balances, January 1	<u>845,386</u>	<u>806,304</u>	<u>8</u>	<u>45,118</u>	<u>15,507</u>	<u>1,712,323</u>
Fund Cash Balances, December 31	<u>868,212</u>	<u>1,187,504</u>	<u>70</u>	<u>(5,828)</u>	<u>15,558</u>	<u>2,065,516</u>
Reserve for Encumbrances, December 31	<u>\$8,148</u>	<u>\$23,880</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$32,028</u>

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

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$1,800,710
Miscellaneous	39,890
Total Operating Cash Receipts	1,840,600
Operating Cash Disbursements:	
Personal Services	315,242
Contractual Services	1,116,768
Supplies and Materials	68,606
Maintenance	43,850
Total Operating Cash Disbursements	1,544,466
Operating Income (Loss)	296,134
Non-Operating Receipts (Disbursements):	
Intergovernmental	67,579
Capital Outlay	(227,876)
Principal Retirement	(206,514)
Interest and Other Fiscal Charges	(85,801)
Total Non-Operating Receipts (Disbursements)	(452,612)
(Loss) before Transfers	(156,478)
Transfers In	12,145
Transfers Out	(12,145)
Net Change in Fund Cash Balances	(156,478)
Fund Cash Balances, January 1	1,058,070
Fund Cash Balances, December 31	\$901,592
Reserve for Encumbrances, December 31	\$1,036

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

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 City of Germantown, Montgomery County, (the City) as a body corporate and politic. Pursuant to the provisions of Article XVIII of the Constitution of Ohio, the voters of the City adopted a charter for the government of the City in 1976. The form of government provided in the charter is known as Mayor-Council-Manager. A publicly-elected seven-member Council directs the Village; six are individuals elected as council members and one is separately elected Mayor. Council appoints a City Manager who is responsible to Council for the administration of all City affairs. The City provides water and sewer utilities, refuse services, park operations, pool operations, and police, fire and emergency medical services.

The City participates in the Public Entities Pool of Ohio (PEP). Note 8 to the financial statements provides additional information for this entity.

Public Entity Risk Pool:

The Public Entities Pool of Ohio (PEP) provides property and casualty coverage for its members.

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

B. Accounting Basis

These financial statements follow the regulatory cash accounting basis. This basis is similar to the cash receipts and disbursements accounting basis. The City 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 include adequate disclosure of material matters under the regulatory cash accounting basis.

C. Deposits and Investments

The City's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Certificates of deposit and U.S. money market accounts are recorded at cost.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted for specified purposes other than debt service or capital projects. The City had the following significant Special Revenue Funds:

Senior Citizens Center Fund - This fund receives levied tax money from German Township for the operation of a community senior citizens center.

Street Fund – This fund receives gasoline tax and motor vehicle license tax money for constructing, maintaining, and repairing City streets.

Police Levy Fund – This fund receives levied tax money to equip, maintain, and provide police services to the City

Fire Services Fund – This fund receives levied tax money from German Township to provide fire protection services to City and Township residents.

Emergency Medical Services Fund – This fund receives contributions from Germantown Rescue Squad, Inc. and charges fees to provide emergency medical protection services to City residents.

3. Debt Service Fund

This fund accounts for and reports financial resources that are accumulated for expenditure for principal and interest.

4. Capital Project Funds

These funds account for and report financial resources that are accumulated for the expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The City had the following significant capital project funds:

Street Capital Improvements Fund – This fund receives contributions to provide for maintenance and improvement of streets.

Hickory Point TIF District – This fund receives payment in lieu of property tax revenues from Associate Construction, Inc. for annual debt payments on public infrastructure improvement bonds.

5. Permanent Funds

These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs (for the benefit of the City or its citizenry). The City had the following significant permanent fund:

Covered Bridge Fund – This fund receives interest earned on invested donations to provide for the maintenance of the covered bridge located in the City.

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The City had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Refuse Fund - This fund receives charges for services from residents to cover refuse service costs.

Swimming Pool Fund – This fund receives charges for services from residents and levied tax money from German Township to cover costs for operating the City pool.

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, object level of control, and appropriations may not exceed estimated resources. The City 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 City to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The City did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2012	2011
Demand deposits	\$ 735,081	\$ 568,710
Non-negotiable certificates of deposit	203,545	303,545
Other time deposits (savings accounts)	744,540	743,187
Total deposits	<u>1,683,166</u>	<u>1,615,442</u>
U.S. Government Money Market	523,062	64,830
Negotiable certificates of deposit	1,862,211	1,286,836
Total investments	<u>2,385,273</u>	<u>1,351,666</u>
Total deposits and investments	<u><u>\$4,068,439</u></u>	<u><u>\$2,967,108</u></u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: Various financial institutions hold the City's negotiable certificates of deposit in book-entry form, in the name of the City's financial institution. The financial institution maintains records identifying the City as owner of these investments.

Investments in U.S. government money market accounts are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,258,990	\$2,579,430	\$320,440
Special Revenue	1,775,152	2,044,268	269,116
Debt Service		11,342	11,342
Capital Projects	393,040	301,993	(91,047)
Enterprise	2,440,775	2,901,604	460,829
Permanent		23	23
Total	<u>\$6,867,957</u>	<u>\$7,838,660</u>	<u>\$970,703</u>

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,239,953	\$2,149,121	\$ 90,832
Special Revenue	1,706,775	1,511,090	195,685
Debt Service	11,495	12,045	(550)
Capital Projects	361,833	370,603	(8,770)
Enterprise	2,134,134	2,847,030	(712,896)
Permanent			
Total	<u>\$6,454,190</u>	<u>\$6,889,889</u>	<u>(\$435,699)</u>

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,219,931	\$2,387,874	\$167,943
Special Revenue	1,507,733	1,612,844	105,111
Debt Service	11,495	11,557	62
Capital Projects	306,933	289,540	(17,393)
Enterprise	1,996,695	1,920,324	(76,371)
Permanent	50	51	1
Total	\$6,042,837	\$6,222,190	\$179,353

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,286,035	\$2,373,196	(\$ 87,161)
Special Revenue	1,548,268	1,255,524	292,744
Debt Service	11,495	11,495	
Capital Projects	348,728	340,486	8,242
Enterprise	2,022,487	2,077,838	(55,351)
Permanent			
Total	\$6,217,013	\$6,058,539	\$158,474

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water fund by \$628,831 and \$121,533 for the years ended December 31, 2012 and 2011, respectively. Budgetary expenditures exceeded appropriations by \$87,161 in the general fund at December 31, 2012. There were also other less significant instances in which budgetary expenditures exceeded appropriation authority for other funds at December 31, 2012 and 2011. Also contrary to Ohio law, at December 31, 2012 and 2011, the Water fund had a cash deficit balance of \$66,902 and \$143,804, respectively. The street capital improvement fund had a negative fund balance of \$98,222 at December 31, 2012. There were also other less significant instances in which funds had a cash deficit balance at December 31, 2012 and 2011.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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 City.

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

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

5. LOCAL INCOME TAX

The City levies a municipal income tax of 1.25 percent on substantially all earned income arising from employment, residency, or business activities within the City as well as certain income of residents earned outside of the City.

Employers within the City withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Project #CD02J	\$ 23,208	0%
Ohio Public Works Commission Project #CD02L	53,186	0%
Ohio Public Works Commission Project #CD04J	40,666	0%
Ohio Public Works Commission Project #CD06J	47,137	0%
Ohio Public Works Commission Project #CD08J	37,466	0%
Ohio Public Works Commission Project #CD14L	1,394,246	0%
Ohio Public Works Commission Project #CT08D	71,204	1%
Ohio Public Works Commission Project #CT08F	91,311	1%
Municipal Building Bonds, Series 2007A	595,000	4.125% - 4.25%
Weaver Road Special Assessment Bonds, Series 1995	10,000	6.10%
Hickory Pointe Project General Obligation Bonds, Series 2006	1,005,000	4.45%
Various Purpose General Obligation Bonds, Series 2008B	60,000	4.50%
Various Purpose Bond Anticipation Notes, Series 2012	555,000	1.24%
Market Street Utility Improvement Bond Anticipation Note, Series 2012	600,000	1.25%
Water System Improvement Bond Anticipation Note, Series 2012	412,000	1.75%
Mortgage Revenue Bonds, Series 1982	681,000	5%
Advance Refunding Bonds, Series 2007A	805,000	4.25%
Total	<u><u>\$6,481,424</u></u>	

OPWC Project #CD02J consists of a loan to fund the North Walnut Street Reconstruction Project. The debt will be repaid from revenues of the City's general fund.

OPWC Project #CD02L consists of a loan to fund the Dayton Pike Resurfacing Project. The debt will be repaid from revenues of the City's general fund.

OPWC Project #CD04J consists of a loan to fund the Cherry Street Improvement Phase I Project. The debt will be repaid from revenues of the City's general fund.

OPWC Project #CD06J consists of a loan to fund the Cherry Street Improvement Phase II Project. The debt will be repaid from revenues of the City's general fund.

OPWC Project #CD08J consists of a loan to fund the East Market Street Improvement Phase I Project. The debt will be repaid from the revenues of the City's general fund.

OPWC Project #CD14L consists of a loan to fund the Dayton Pike Water Storage Tank Project. The debt will be repaid from revenues of the City's water system.

OPWC Project #CT08D consists of a loan to fund the Hillcrest Drive Sewer System. The debt will be repaid from revenues of the City's sewer system.

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. DEBT (Continued)

OPWC Project #CT08F consists of a loan to fund the Water Booster Station Improvements. The debt will be repaid from revenues of the City's water system.

Municipal Building Bonds consist of general obligation bonds issued for the purpose of constructing a new municipal building. These bonds are direct obligations of the City for which the City's full faith and credit are pledged and are payable from taxes levied on all taxable property in the City.

Weaver Road Special Assessment Bonds consist of general obligation bonds issued for Weaver Road improvements. These bonds are direct obligations of the City for which the City's full faith and credit are pledged and are payable from taxes levied on all taxable property in the City.

Hickory Pointe Bonds consist of general obligation bonds issued for the Hickory Pointe public infrastructure improvements. These bonds will be repaid from payment in lieu of taxes revenues from the City's Hickory Pointe TIF District fund.

Various Purpose General Obligation bonds consist of general obligation bonds issued to fund construction projects and various improvements (North Walnut Street Improvement, Tractor, South Butter Street Sanitary Improvement, Warren Street Improvement, and Cherry Street Sanitary Sewer Improvement). These bonds will be repaid from revenues generated by the City's general fund, street fund, and sewer system.

Various Purpose Bond Anticipation Notes consist of short-term notes issued to fund Cherry Street and State Route 4 improvements. These bonds have been issued for a period of less than one year and will be repaid through re-issuance of the obligation and revenues of the City's general fund.

Market Street Utility Improvement Bond Anticipation Note consists of a short-term note issued to fund the reconstruction of the East Market Street water main and sanitary sewer force main. These bonds have been issued for a period of one year and will be repaid through re-issuance of obligation and revenues of the City's street fund and water and sewer operation.

Water System Improvement Bond Anticipation Note consists of a short-term note issued to fund the purchase and installation of new water meters. These bonds have been issued for a period of less than one year and will be repaid through re-issuance of the obligation and revenues of the City's water system.

Mortgage Revenue Bonds consists of revenue bonds issued for the improvement of the City's water system. Property and revenue of the City's water system has been pledged to repay this debt.

Advance Refunding Bonds were issued as a result of the Sanitary Sewer Improvement Bonds being partially refunded. These bonds were for the improvement of the City's sewer system. Property and revenue of the City's sewer system has been pledged to repay this debt.

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

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. DEBT (Continued)

Year ending December 31:	OPWC #CD02J	OPWC #CD02L	OPWC #CD04J	OPWC #CD06J	OPWC #CD08J
2013	\$ 5,157	\$ 8,182	\$ 7,394	\$ 8,570	\$ 6,812
2014	5,157	8,182	7,394	8,570	6,812
2015	5,157	8,182	7,394	8,570	6,812
2016	5,157	8,182	7,394	8,570	6,812
2017	2,580	8,182	7,394	8,570	6,812
2018-2019		12,276	3,696	4,287	3,406
Total	\$23,208	\$53,186	\$40,666	\$47,137	\$37,466

Year ending December 31:	OPWC #CD14L	OPWC #CT08D	OPWC #CD08F	Municipal Building Bonds	Weaver Road Bonds
2013	\$ 73,381	\$ 6,852	\$ 7,508	\$ 55,131	\$ 5,610
2014	73,381	6,852	7,508	53,931	5,305
2015	73,381	6,852	7,508	52,694	
2016	73,381	6,852	7,508	56,419	
2017	73,381	6,852	7,508	54,975	
2018-2022	366,905	34,260	37,540	271,287	
2023-2027	366,905	3,426	18,770	271,237	
2028-2031	293,531				
Total	\$1,394,246	\$71,946	\$93,850	\$815,674	\$10,915

Year ending December 31:	Hickory Pointe Bonds	Various Purpose GO Bonds	Various Purpose BANs	Market Street Utility BAN	Water System Improvement BAN
2013	\$ 251,045	\$63,300	\$561,261	\$607,500	\$413,352
2014	281,820				
2015	295,672				
2016	298,253				
Total	\$1,126,790	\$63,300	\$561,261	\$607,500	\$413,352

Year ending December 31:	Mortgage Revenue Bonds	Advance Refunding Bonds
2013	\$ 88,050	\$ 74,000
2014	88,350	77,400
2015	88,500	70,544
2016	88,500	73,844
2017	88,350	71,988
2018-2022	440,050	368,488
2023-2027		367,712
Total	\$881,800	\$1,103,976

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

7. RETIREMENT SYSTEMS

The City's certified Fire Fighters belong to the Police and Fire Pension Fund (OP&F). The City's Police Officers belong to the Ohio Public Employees Retirement System – Law Enforcement (OPERS – LE). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the City contributed to OP&F an amount equal to 24% of full-time fire fighters' wages. For 2012 and 2011, OPERS-LE members contributed 11.61% of their gross salaries and the City contributed an amount equaling 18.10% of participants' gross salaries. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the City contributed an amount equaling 14% of participants' gross salaries. The City has paid all contributions required through December 31, 2012.

8. RISK MANAGEMENT

A. Risk Pool Membership

The City is exposed to various risks of property and casualty losses, and injuries to employees.

The City insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

B. Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

C. Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011:

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. RISK MANAGEMENT (Continued)

	2012	2011
Assets	\$34,389,569	\$33,362,404
Liabilities	(14,208,353)	(14,187,273)
Net Position	\$20,181,216	\$19,175,131

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the City's share of these unpaid claims collectible in future years is approximately \$66,000

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP	
2012	2011
\$77,232	\$73,723

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



Dave Yost • Auditor of State

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

City of Germantown
Montgomery County
75 North Walnut Street
Germantown, Ohio 45327

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the City of Germantown, Montgomery County, (the City) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated October 14, 2013, wherein we noted the City uses cash accounting basis other than generally accepted accounting principles. We provided an adverse opinion on the financial statements because, Ohio Administrative Code Section 117-2-03 requires these statements to follow accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-001 through 2012-004 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the City'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, opining 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 2012-003 through 2012-008.

Entity's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the City's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

October 14, 2013

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

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

FINDING NUMBER 2012-001

MATERIAL WEAKNESS

The City presented its 2012 and 2011 financial statements on a cash basis of accounting instead of generally accepted accounting principles. Additionally, for the year ended December 31, 2011, the City was required to adopt the provisions of Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. However, the City did not adopt this GASB statements. The following material errors were noted in the financial statements that required audit adjustments to properly present the financial activity of the City on accompanying financial statements:

The City improperly classified several line items during 2011 and 2012. Improperly posted items include:

The following errors were noted with the financial statements:

1. A receipt was received from the State during December of 2011 in the amount of \$45,295. The receipt was not recorded in the accounting system until January of 2012. This resulted in an understatement of revenue and ending fund balance in 2011 and overstatement of revenue in 2012 for the General Fund in the amount of \$45,295.
2. Capital projects fund tax increment financing receipts were incorrectly posted to miscellaneous revenues instead of payments in lieu of taxes revenue in 2011 and 2012 in the amounts of \$207,903 and \$213,826, respectively.
3. A transfer out of an enterprise fund into another enterprise in the amount of \$8,525 was incorrectly classified as other expenses instead of transfers out.

The following errors noted in the 2012 and 2011 financial statements were determined to be immaterial and did not require audit adjustments:

1. Ohio Public Works Commission (OPWC) made payments on behalf of the City to vendors for a project in the amount of \$115,084 during 2011. The City did not record this on-behalf activity as receipts or expenditures on its financial statements. A portion of this activity in the amount of \$9,948 was not recorded on the City's accounting system. Per Auditor of State Bulletin 2002-004, such transactions should be recorded by the City on its accounting system as a memo expenditure and memo receipt and the activity should also be accounted for on the City's financial statements because the City received the benefit of the transactions. This resulted in an understatement of \$115,084 in capital outlay expenditures and loan proceeds in the enterprise fund for 2011.
2. General fund municipal court fines and fees were incorrectly posted as intergovernmental revenue instead of fines, licenses and fees during 2011 and 2012 in the amounts of \$21,444 and \$21,522, respectively.
3. General fund Liquor and beer permits were incorrectly posted to fines, licenses and fees instead of intergovernmental revenue during 2011 and 2012 in the amounts of \$3,766 and \$5,409, respectively.
4. General fund Homestead & Rollback receipts were incorrectly posted to taxes revenue instead of intergovernmental revenue in 2011 and 2012 in the amounts of \$50,026 and \$48,888, respectively.
5. A special revenue fund grant receipt was incorrectly posted to miscellaneous revenue instead of intergovernmental revenue in 2011 in the amount of \$10,242.
6. During 2011 dog license fees in the amount of \$6,460 was improperly posted as intergovernmental revenue instead of fines license and fees in the general fund.

**FINDING 2012-001
(Continued)**

Policies and procedures should be established and implemented to verify that financial transactions are posted to the correct account and line item. Additionally, the City should establish and implement policies and procedures to verify that all new reporting requirements are properly incorporated in the financial statements. Failure to do so could result in material misstatements on the financial statements.

Officials' Response: See pages 27 and 28.

FINDING NUMBER 2012-002

MATERIAL WEAKNESS

Monthly reconciliations are a basic internal control that should be performed accurately and reviewed in a timely and manner. Once the books are reconciled, the previous month should be closed on the accounting system to prevent posting of transactions in the wrong period.

The City did not reconcile its bank accounts to its accounting system from November 2011 through December 2012 until well after December 31, 2012. Once the bank reconciliations were performed, only two accounts (general account and payroll account) were actually reconciled as the City did not prepare a reconciliation between the total bank/investment accounts and the City's total fund balance according to its accounting system. Due to the City not performing monthly bank reconciliations, the City failed to properly detect its failure to record the following transactions in the correct period:

- 2011 EMS receipts in the amount of \$19,160 that were deposited into the City's bank account in November and December 2011 were posted to the City's accounting system in February 2012. An audit adjustment was made to post the receipts to the correct period in the special revenue funds.
- December 16, 2011, a general fund intergovernmental receipt in the amount of \$45,295 was not recorded in the City's accounting system until January 2012. An audit adjustment was made to post the receipt to the correct period in the general fund.
- January 2012 expenditures in the amount of \$116,432 were erroneously posted to December 2011. This resulted in the 2011 ending fund balance being understated and expenditures being overstated and 2012 beginning balance and expenditures being understated by the following amounts:
 - General Fund \$27,547
 - Special Revenue Funds \$80,714
 - Enterprise Fund \$8,171

The misstatements to expenditures and ending/beginning fund balance were immaterial to the 2011 and 2012 financial statements and the statements have not been adjusted to present the correct balances.

Additionally, as of June 7, 2013, the City had not closed out fiscal year 2011 or fiscal year 2012, thus allowing the City to post transactions to previous years several months after the year end. This allowed the City to present various versions of accounting ledgers and financial statements for audit.

Failure to perform accurate and timely monthly reconciliations and closing month end books increases the risk of undetected errors, irregularities or fraud going undetected. This also reduces the reliability of the financial information that is being utilized by the City's management.

**FINDING 2012-002
(Continued)**

The City should develop policies and implement procedures to verify that accurate bank reconciliations are completed in a timely manner and include all accounts held by the City. Additionally, an independent review of the bank reconciliations should be performed for accuracy and completeness. The City Council should also review bank reconciliations as part of monthly financial reports. Month end books should be closed shortly after reconciliation has been performed. This will allow for the data integrity of the financial system and prevent unauthorized changes after month end.

Officials' Response: See pages 27 and 28.

FINDING NUMBER 2012-003

NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code Section 5705.10(D) states that except as otherwise provided by resolution adopted pursuant to section 3315.01 of the Revised Code, all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. Except as otherwise provided by resolution adopted pursuant to section 3315.01 of the Revised Code or as otherwise provided by section 3315.40 of the Revised Code, all revenue derived from a source other than the general property tax, for which the law does not prescribe use for a particular purpose, including interest earned on the principal of any special fund, regardless of the source or purpose of the principal, shall be paid into the general fund.

Additionally, **Ohio Rev. Code Section 5731.48(A)(1)** requires estate taxes to be deposited to the general fund of the City.

During 2012, the City posted \$95,128 in local government funding and \$263,723 in estate tax receipts to the street capital improvement fund instead of the general fund. Also, the 2012 Cable franchise fees in the amount of \$11,450 was incorrectly posted as intergovernmental revenue in the special revenue street fund instead of fines, licenses and fees in the general fund. Erroneous postings result in unreliable information for financial decision making purposes. The City's financial statements and accounting records have been adjusted to reflect this error.

Policies and procedures should be established and implemented to verify that all revenues are timely posted to correct funds. Failure to do so could result in the City spending receipts on unallowable purposes and finding for adjustments in future audits that might result in negative fund balances.

Officials' Response: See pages 27 and 28.

FINDING NUMBER 2012-004

NONCOMPLIANCE AND MATERIAL WEAKNESS

Ohio Rev. Code Section 117.43(A) states that the auditor of state may prescribe by rule, requirements for accounting and financial reporting for public offices other than state agencies. Rules adopted pursuant to this section may refer to publications of government agencies or private organizations recommending systems or standards to be followed in governmental accounting and financial reporting. **Ohio Admin. Code 117-2-03(B)** states that all counties, cities and school districts, including educational service centers and community schools, shall file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

**FINDING NUMBER 2012-004
(Continued)**

The City prepared its financial statements using the cash accounting basis. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The financial statements do not include management's discussions and analysis which is not part of the basic financial statements; however, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. The audit opinion was modified due to the City's failure to present financial statements in accordance with GAAP. During 2011, the City was required to implement Government Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. However, the accompanying financial statements are not presented in accordance with the provisions of this statement.

Additionally, **Ohio Rev. Code Section 117.38** requires the financial reports to be certified by the proper officer or board and filed with the auditor of state within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles are required to file their reports within one hundred fifty days after the close of the fiscal year. At the time the report is filed with the auditor of state, the chief fiscal officer, except as otherwise provided in section 319.11 of the Revised Code, is required to publish notice in a newspaper published in the political subdivision or taxing district, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision or taxing district. The notice is required to state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer. The Revised Code also provides for entities other than a state agency, that does not file its financial report at the time required by this section to pay to the auditor of state twenty-five dollars for each day the report remains unfiled after the filing date; provided, that the penalty payments shall not exceed the sum of seven hundred fifty dollars.

The City did not file its cash financial reports with the Auditor of State until April 11, 2013 for both 2011 and 2012. Additionally, there was no indication that the City published a notice that its annual report was available for public inspection.

The City should prepare its financial statements within the required time frame and in accordance with generally accepted accounting principles (GAAP) to help provide the users with more timely, meaningful and complete financial statements. Once the financial statements have been prepared, they should be filed with the Auditor of State and a notice should be published in a local newspaper. This will allow the concerned citizens to inspect the City's financial statements and allow for an open government.

Officials' Response: See pages 27 and 28.

FINDING NUMBER 2012-005

NONCOMPLIANCE

Germantown Income Tax Ordinance Section 181.05(a) states that each person 18 years of age or older who engages in business or other activity or whose income, salary, wage, commission or other compensation is subject to the tax imposed by this chapter, shall, whether or not a tax be due thereon, make and file a return on or before April 30 of the year following the effective date of this chapter, and on or before April 30 of each year thereafter.

**FINDING NUMBER 2012-005
(Continued)**

We selected 13 residents with utility accounts (Water, Sewer, Sanitation) to verify that required tax returns had been filed. There was no indication that four of these residents filed their tax returns for 2011 and 2012. Further, the Village did not implement procedures to verify that all qualifying residents filed an income tax return pursuant to Ordinance Section 181.05(a).

Procedures, such as comparing the income tax returns received to the utility customer listing or state income tax listing should be implemented to verify that all residents file returns by the April deadline. Implementation of such procedures would help detect tax evasions and delinquencies and should increase the tax revenue for the City.

Officials' Response: See pages 27 and 28.

FINDING NUMBER 2012-006

NONCOMPLIANCE

Ohio Rev. Code Section 5705.41 (D) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment 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. Further, contracts and orders for expenditures lacking prior certification should be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates and super blanket certificates, which are provided for in the sections **5705.41(D)(1)** and **5705.41(D)(3)**, respectively, of the Ohio Revised Code.

Then and Now Certificate: If the fiscal officer can certify that both at the time the contract or order was made ("then") and at the time that the fiscal officer is completing the certification ("now"), that 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 City can authorize the drawing of a warrant for the payment of the amount due. The City has thirty days from the receipt of such certificate to approve payment by resolution or ordinance. Amounts of less than \$3,000 may be paid by the fiscal officer without resolution or ordinance 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 City.

Blanket Certificate: Fiscal officers may prepare "blanket" certificates for certain a sum not exceeding an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not extending beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate: The City may also make expenditures and contract for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. The certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

**FINDING NUMBER 2012-006
(Continued)**

The City did not properly encumber 21 out of the 32 expenditures (65.6%) tested for this compliance requirement. Additionally, the City had more than one blanket purchase order outstanding for each appropriation line item. Finally, the City Council did not approve a maximum amount for blanket purchase orders.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to ensure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility that City funds will exceed budgetary spending limits, the City's Finance Director should certify that the funds are or will be available prior to the obligation by the City. When prior certification is not possible, "then and now" certification should be used. The City should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Finance Director should sign the certification at the time the City incurs a commitment, and only when requirements of 5705.41(D) are satisfied. The approved purchase commitments should be posted to the proper appropriation code, to reduce the available appropriation.

Officials' Response: See pages 27 and 28.

FINDING NUMBER 2012-007

NONCOMPLIANCE

Ohio Rev. Code Section 5705.10(H) requires that money paid into any fund shall be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund. The City was carrying a negative fund cash balance of \$98,222 in the Street Capital Improvement Fund, \$9,160 in the Pool Capital Improvement Fund, \$66,902 in the Water Fund, and \$2,344 in the Swimming Pool Fund at December 31, 2012. The City was also carrying a negative fund cash balance of \$29,662 in the Street Capital Improvement Fund, \$12,617 in the Pool Capital Levy Fund, \$143,804 in the Water Fund, and \$35,552 in the Swimming Pool Fund at December 31, 2011.

The City should develop and implement procedures to monitor cash fund balances to avoid negative cash fund balances. When expenditures are anticipated to temporarily exceed available resources, the City should consider a transfer or advance from the General Fund.

Officials' Response: See pages 27 and 28.

FINDING NUMBER 2012-008

NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit shall make an expenditure of money unless it has been appropriated.

Budgetary expenditures exceeded adopted appropriations in the following funds and amounts:

FINDING NUMBER 2012-008
(Continued)

Fund	Appropriation	Budgetary Expenditure	Variance
2012			
Debt Service	\$ 11,495	\$ 12,045	(\$ 550)
Street Capital Improvement	133,000	141,601	(8,601)
Recreation	84,834	116,762	(31,928)
Pool Capital Improvement		13,486	(13,486)
Pool Capital levy		28,570	(28,570)
Water Tower Painting		3,425	(3,425)
Water	562,068	1,190,899	(628,831)
Sewer	635,269	695,504	(60,235)
Refuse	463,185	465,340	(2,155)
Swimming Pool	113,803	116,368	(2,565)
2011			
General Fund	2,286,035	2,373,196	(87,161)
Pool Capital Levy		10,946	(10,946)
Water	496,752	618,285	(121,533)
Refuse	431,358	441,970	(10,612)
Storm Water Drainage	52,245	61,191	(8,946)
Swimming Pool	98,903	108,206	(9,303)

Failure to contain budgetary expenditures within approved appropriations could lead to negative fund balances.

The City should implement procedures to routinely monitor budgeted vs. actual expenditures to verify that budgetary expenditures do not exceed appropriations for any fund, at any time.

Officials' Response: See pages 27 and 28.

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Income Tax Ordinance Section 181.05(a) – Residents required to file an income tax return	No	Repeated as finding number 2012-005
2010-002	Income Tax Revenues – Transactions could not be verified to any supporting documentation	Yes	

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

OFFICIALS' RESPONSES

Response to Finding 2012-001

Pursuant to becoming a City, Germantown is transitioning to a new financial reporting system required by the Ohio Revised Code for Cities. As a part of this transition, the City converted to a new computer software program. This transition, along with the computer software conversion, contributed to the improperly classified line items.

Please note that the line items were only incorrect on the financial statements. The coding on the system was correct. The financial statement was coded using the same template as used in prior years. This template will be revised as a part of the new conversion. Also, note that these line items had no effect on total revenue or on the cash balances that were reported, but were merely line items reclassified from one revenue line item to another revenue line item.

Response to Finding 2012-002

There were significant implementation problems associated with the software conversion, including problems related to posting dates for transactions. However, the new software has aided the Finance Department greatly in resolving the bank reconciliation issues. Subsequent to the year ended December 31, 2012, the bank reconciliation issues were rectified and currently bank reconciliations are complete each month within five business days of month end.

Response to Finding 2012-003

The City planned to use local government funding and estate tax receipts for street capital improvements and cable franchise fees for street maintenance. In the future these revenues will be recorded in the general fund and then transferred to the street fund/street capital fund.

Please note that there was no risk of spending for unallowable purposes since it is permissible to make the above transfers which results in the same effect as directly recording and spending these items in the street fund/street capital fund.

Also, the City has established and implemented policies and procedures to verify that all revenues are posted to correct funds, including a written coding document to aide in posting revenues.

Response to Finding 2012-004

Germantown is transitioning to the new financial reporting system as required by the Ohio Revised Code for Cities. In the future the financial statements will be filed with the Auditor of State in accordance with established due dates.

Response to Finding 2012-005

The City has established procedures to verify that all residents file income tax returns. These procedures include comparing the income tax returns received to the utility customer listing and/or the state income tax listing provided to the City by the Ohio Department of Taxation. There are various circumstances that may result in no return being filed. Additionally, the City uses a cost/benefit approach to ensure that the benefits of such procedures exceed the related costs.

Once the names of the four residents mentioned above are provided to our Finance Department, the City will follow up to verify that legitimate reasons exist for the returns not to be filed.

**CITY OF GERMANTOWN
MONTGOMERY COUNTY**

**OFFICIALS' RESPONSES
(Continued)**

Response to Finding 2012-006

The City believes that current procedures related to blanket certificates provide satisfactory control while fulfilling cost/benefit constraints. The City will endeavor to reduce the rate of standard purchase orders that do not properly encumber expenditures in accordance with the compliance requirements.

Response to Finding 2012-007

Since the general fund has a positive balance, all negative fund cash balances obviously have been covered by the general fund. Also, since general fund money can be used for any purpose, there is no risk that money is being used for unallowable purposes.

In the past the City has carefully considered whether an advance from the general fund would provide a preferable methodology to cover anticipated temporary shortages in other funds. The City has concluded that the resulting negative balances better highlight such shortages and also result in a much more efficient monitoring process than setting up advances to multiple funds.

Response to Finding 2012-008

Once the City's software conversion and new reporting system are fully implemented, the City will be much better equipped to monitor budgeted versus actual expenditures.



Dave Yost • Auditor of State

CITY OF GERMANTOWN

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 19, 2013**