



Dave Yost • Auditor of State



VILLAGE OF GRATIS  
PREBLE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of the Village of Gratis, Preble County, Ohio (the Village), as of and for the year ended December 31, 2012.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fair presenting financial statements 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 Village'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 Village'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 the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

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 presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012, or changes in financial position or cash flows thereof for the year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Gratis, Preble County, Ohio, as of December 31, 2012, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

***Emphasis of Matter***

As discussed in Note 9 to the financial statements, the Village has suffered recurring losses from operations and has a negative General Fund fund balance of (\$15,438). The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 20, 2013

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$20,896	\$29,367		\$50,263
Intergovernmental	36,231	52,023		88,254
Charges for Services		400,643		400,643
Fines, Licenses and Permits	60,203			60,203
Earnings on Investments	364	110		474
Miscellaneous	5,783	18,716		24,499
<i>Total Cash Receipts</i>	<u>123,477</u>	<u>500,859</u>	<u>0</u>	<u>624,336</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	63,951	47,573		111,524
Public Health Services		370,071		370,071
Leisure Time Activities		20		20
Transportation		40,299		40,299
General Government	45,201	331		45,532
Capital Outlay		55,369		55,369
Debt Service:				
Principal Retirement	761	1,092		1,853
Interest and Fiscal Charges	23	210		233
<i>Total Cash Disbursements</i>	<u>109,936</u>	<u>514,965</u>	<u>0</u>	<u>624,901</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>13,541</u>	<u>(14,106)</u>	<u>0</u>	<u>(565)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Refund of Prior Year Expenditures		127		127
Other Financing Sources	400			400
Other Financing Uses		(911)		(911)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>400</u>	<u>(784)</u>	<u>0</u>	<u>(384)</u>
<i>Net Change in Fund Cash Balances</i>	13,941	(14,890)	0	(949)
<i>Fund Cash Balances, January 1</i>	<u>(29,379)</u>	<u>324,815</u>	<u>58</u>	<u>295,494</u>
<b>Fund Cash Balances, December 31</b>				
Restricted	0	307,540	0	307,540
Assigned	0	2,385	0	2,385
Unassigned (Deficit)	<u>(15,438)</u>	<u>0</u>	<u>58</u>	<u>(15,380)</u>
<i>Fund Cash Balances, December 31</i>	<u>(\$15,438)</u>	<u>\$309,925</u>	<u>\$58</u>	<u>\$294,545</u>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

	Proprietary Fund Types	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$414,451		\$414,451
<i>Total Operating Cash Receipts</i>	414,451	0	414,451
<b>Operating Cash Disbursements</b>			
Personal Services	75,247		75,247
Employee Fringe Benefits	12,578		12,578
Contractual Services	120,026		120,026
Supplies and Materials	38,762		38,762
<i>Total Operating Cash Disbursements</i>	246,613	0	246,613
<i>Operating Income (Loss)</i>	167,838	0	167,838
<b>Non-Operating Receipts (Disbursements)</b>			
Refund of Prior Year Expenditures	249		249
Miscellaneous Receipts	14,544		14,544
Capital Outlay	(32,890)		(32,890)
Principal Retirement	(44,522)		(44,522)
Interest and Other Fiscal Charges	(24,910)		(24,910)
Other Financing Sources		65,877	65,877
Other Financing Uses		(73,428)	(73,428)
<i>Total Non-Operating Receipts (Disbursements)</i>	(87,529)	(7,551)	(95,080)
<i>Income (Loss) before Capital Contributions, Special Item, Extraordinary Item, Transfers and Advances</i>	80,309	(7,551)	72,758
Transfers In	7,150		7,150
Transfers Out	(7,150)		(7,150)
<i>Net Change in Fund Cash Balances</i>	80,309	(7,551)	72,758
<i>Fund Cash Balances, January 1</i>	257,965	10,726	268,691
<i>Fund Cash Balances, December 31</i>	<u>\$338,274</u>	<u>\$3,175</u>	<u>\$341,449</u>

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



**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Gratis, Preble County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, emergency medical services, fire services and police services.

The Village participates in the Public Entities Pool of Ohio, a risk sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Note 8 to the financial statements provides additional information for this entity.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except the financial statements do not include debt service funds external custodians maintain. Note 6 to the financial statement describes these assets.

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village 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, as the Auditor of State prescribes or permits.

**C. Cash and Deposits**

Village's funds are pooled in checking and savings accounts with local commercial banks.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

Fire Fund –This fund receives real estate and personal property taxes and contracts with Gratis Township to provide for the protection of area citizens.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

EMS Fund – This fund receives real estate and personal property taxes and contracts with Gratis Township and the Village of West Elkton to provide for the protection of area citizens.

**3. Capital Project Funds**

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had a Capital Project Fund used to construct a capital improvement.

**4. 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 Village 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..

**5. Fiduciary Funds**

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the collection and distribution of Mayor's court fines and fees.

**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 object level of control, and appropriations may not exceed estimated resources. The Village 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 unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

VILLAGE OF GRATIS  
PREBLE COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact. The Village did not have nonspendable fund balances.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements. The Village did not have committed fund balances.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant, and Equipment**

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

**H. 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.

**2. Equity in Pooled Deposits**

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

Demand deposits	\$530,414
Other time deposits (savings and NOW accounts)	105,580
Total deposits	635,994

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

**3. Budgetary Activity**

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

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$158,762	\$123,877	(\$34,885)
Special Revenue	300,074	500,986	200,912
Enterprise	338,933	436,394	97,461
Total	\$797,769	\$1,061,257	\$263,488

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**3. Budgetary Activity (Continued)**

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$125,200	\$109,936	\$15,264
Special Revenue	540,283	515,876	24,407
Capital Projects	58	0	0
Enterprise	547,102	356,085	191,017
Total	\$1,212,643	\$981,897	\$230,688

Contrary to Ohio law, at December 31, 2012, the General Fund had a cash deficit balance of \$15,438.

Supplemental appropriations were not passed in accordance with 5705.40.

Budgetary activity was not properly integrated into the accounting system in accordance with Ohio Administrative Code 117-2-02(C)(1).

**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 Village.

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

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

**5. Debt**

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Sewer Revenue Bonds	\$212,000	5.00%
Ohio Public Works Commission Loan	\$84,931	0.00%
Ohio Water Development Authority Loan	\$549,355	4.42%
Ford Truck Loan	10,736	4.50%
Total	\$857,022	

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**5. Debt (Continued)**

The Sewer Revenue Bonds relate to mortgage revenue bonds issued in 1980. The bonds will be repaid in annual installments over 40 years. The bonds are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

The bonds are collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

Ohio Public Works Commission (OPWC) loan was obtained in 2005 in the amount of \$102,947 for water treatment storage and distribution improvements. Starting in July 2009, the loan will be repaid in semi-annual installments of \$2,574 over 20 years.

The Ohio Water Development Authority (OWDA) loan was obtained in 2004 in the amount of \$768,390 for water system improvements. The loan had a negative disbursement of \$138,008 in February 2008, which brought the disbursed funds and capitalized interest at December 31, 2009 to \$610,552, and was a reduction of the principal balance. The loan will be repaid over 30 years. The loan is collateralized by water and sewer receipts. The Village had agreed to set water rates sufficient to cover bond payment requirements.

The Ford truck loan was obtained in March 2010 for \$17,147 for the purpose of acquiring a new truck. The loan is to be repaid in annual installment payments of \$3,906 over 5 years. The loan is collateralized by the truck.

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

Year ending December 31:	Sewer Revenue Bonds	OPWC	OWDA	Ford Truck Loan
2013	\$32,600	\$5,147	\$36,937	\$3,906
2014	32,500	5,147	36,937	3,906
2015	33,350	5,147	36,937	3,906
2016	33,100	5,147	36,937	
2017	32,800	5,147	36,937	
2018-2021	98,050	25,737	184,686	
2022-2027		25,737	184,686	
2028-2032		7,721	184,686	
2033-2037			166,218	
Total	\$262,400	\$84,930	\$904,961	\$11,718

**6. Debt Service Trust Funds**

The 1998 Water Revenue bond agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2012, the custodian held \$0 in Village assets. The bond agreement also required the Village to establish a debt service reserve fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2012, the custodian held \$0 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements. The Water Revenue bonds were paid off during the 2012.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**7. Retirement Systems**

The Village's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. 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 OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

**8. Risk Management**

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

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

The Village 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), 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.

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, 2010, 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.

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, 2011 (the latest information available):

	<u>2011</u>
Assets	\$33,362,404
Liabilities	<u>(14,187,273)</u>
Net Assets	<u>\$19,175,131</u>

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**8. Risk Management (Continued)**

At December 31, 2011 the liabilities above include approximately \$13 million and \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.1 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2011. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village's share of these unpaid claims collectible in future years is approximately \$15,000.

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.

<u>Contributions to PEP</u>
<u>2012</u>
15,887

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.

**9. Fiscal Distress**

The Village incurred operating losses and negative fund balances. A summary follows:

- The Village had a negative fund balance of (\$15,438) for the General Fund at December, 31, 2012.

The Village had operating losses as follows for 2012: Street Construction, Maintenance and Repairs - \$376; Fire Fund - \$22,420; EMS Billing - \$21,556 and Community Center Fund - \$19.

Village management's plan to address this issue includes selling a police cruiser, selling land, freezing General Fund expenditures, and collecting the former Fiscal Officer's PERS, which may be awarded to the Village due to her guilty plea of theft in office.

**10. Noncompliance**

The Village did not properly increase water rates in accordance with Ordinance 2010-001.





# 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*

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village 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 Village of Gratis, Preble County, Ohio (the Village), as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated August 20, 2013, wherein we noted the Village followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1. We also noted the Village has suffered recurring losses from operations and has a negative General Fund fund balance.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Village'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 Village'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 Village's financial statements. We consider findings 2012-001 and 2012-006 through 2012-007 described in the accompanying schedule of findings to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 2012-001 through 2012-005.

***Entity's Response to Findings***

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village'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 Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 20, 2013

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012**

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

**FINDING NUMBER 2012-001**

**Noncompliance Citation / Material Weakness**

The Village approved a 3% increase in water rates in January 2010 via Ordinance 2010-001; however, the Village erroneously increased the rates 13% instead of 3%. In February 2012, the Village determined customers were charged incorrect water rates from February 2010 through February 2012, and the Village began calculating adjustments and crediting utility customers accounts during 2012 for the excess charge. We tested 15 utility customer accounts that were adjusted during 2012, and 13 of the accounts tested had adjustments that were incorrectly calculated, resulting in excess credits totaling \$1,258. The incorrect adjustments were made because: the Village calculated the adjustment on the amount paid instead of the amount billed; the Village used the wrong rate schedule to calculate the credit; and the Village incorrectly calculated the amount billed for usage in excess of the rate schedule. Failure to ultimately charge customers the correct approved rate could result in receipts insufficient to cover costs and lead to negative fund balances. We recommend that all customers be billed according to the approved utility rates and we recommend that the Village implement controls to ensure the correct rates have been entered into the system. We also recommend that the Village review their calculations for the credits given to customers during 2012 and ensure that all amounts are accurate.

**Officials' Response:**

We disagree and feel we should have calculated on the amounts paid.

**AOS Conclusion:** The Village incorrectly charged their customers an incorrect rate which caused the customers to be billed incorrectly. Therefore the amount billed is what should have been corrected.

**FINDING NUMBER 2012-002**

**Noncompliance Citation**

**Ohio Admin. Code Section 117-2-02(C)(1)** states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Appropriations were not accurately posted to the financial accounting system at December 31, 2012 as follows:

Fund	Approved Appropriations	Estimated Appropriations posted to the UAN System	Variance
Water Operating	\$170,580	\$162,080	\$8,500
Trash Operating	56,813	76,873	(20,060)

**FINDING NUMBER 2012-002  
 (Continued)**

Estimated receipts were not accurately posted to the financial accounting system at December 31, 2012 as follows:

<b>Fund</b>	<b>Estimated Receipts</b>	<b>Estimated Receipts posted to the UAN System</b>	<b>Variance</b>
Trash	\$ 63,000	\$53,000	\$10,000
Water Operating	122,342	132,342	(10,000)

We also noted that certain original permanent appropriations and amended appropriations were not posted to the financial system during the audit period. Failure to properly post appropriations and estimated receipts can result in an inability to monitor unrealized budgetary receipts and remaining uncommitted balances of appropriations timely and accurately. We recommend the Village accurately post appropriations and estimated receipts to the financial accounting system.

**Officials' Response:**

We are working on this and have corrected 2013's budget for Trash and are working on the General Fund.

**FINDING NUMBER 2012-003**

**Noncompliance Citation**

**Ohio Rev. Code, Section 5705.41(D)(1)**, prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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 sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that 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 Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a 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 Village.

**FINDING NUMBER 2012-003  
(Continued)**

2. **Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of 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 running 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.
3. **Super Blanket Certificate** – The Village may also make expenditures and contracts 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. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

21 of the 31 transactions tested were not properly encumbered. An additional transaction was only partially encumbered and another transaction did not have a Purchase Order at all. Also during 2012 the Village used a Super Blanket Certificate for one disbursement tested that was predictable, but not recurring. Overall 24 out of 31 (77%) transactions we tested contained errors related to dates and use of Purchase Orders.

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used properly, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village 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 fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials’ Response:**

We are doing this.

**FINDING NUMBER 2012-004**

**Noncompliance Citation**

**Ohio Revised Code Section 5705.10(H)** requires that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. At December 31, 2012, the General Fund had a negative cash balance of (\$15,439).

We recommend the Village monitor financial activity and implement their plan to decrease negative cash balances.

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

**Officials' Response:**

Council is working on a plan to bring the General Fund back to a positive balance.

**FINDING NUMBER 2012-005**

**Noncompliance Citation**

**Ohio Rev. Code, Section 5705.40**, states that any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. "Transfers" may be made by resolution or ordinance from one appropriation item to another. Subject to certain limitations, the annual appropriation measure may contain an appropriation for contingencies.

Per Auditor of State Bulletin 97-010, budgeted expenditures coincide with either the final appropriations the legislative body passed prior to fiscal year-end or the sum of those final appropriations plus encumbrances carried forward from the prior year. Appropriation amendments retroactive to the prior year are not valid.

Council did not document in the minutes approval for supplemental appropriations posted to the accounting system on January 25, 2012, January 31, 2012, February 27, 2012, May 25, 2012, and June 14, 2012. Also, the Village did not document approval for various supplemental appropriations posted between November 8, 2012 and December 31, 2012. Finally, Council documented in the December 20, 2012 minutes approval of Supplemental Appropriations; however, the Village did not identify approved amounts in the minutes or approved resolution.

Failure to document approval of supplemental appropriations within the fiscal year could result in inaccurate budgets and reduces management's ability to monitor the actual financial results against the budget. We recommend that Council document approval of all supplemental appropriations prior to fiscal year end.

**Officials' Response:**

Council will document approval of all supplemental appropriations.

**FINDING NUMBER 2012-006**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacked management oversight in the posting of financial activity. We noted significant posting errors related to certain revenue line items. These errors resulted in the following adjustments to the Village's revenue line items and fund balances:

- General Fund Tax Revenue was decreased by \$8,123; Miscellaneous Revenue increased by \$225; Intergovernmental Revenue was increased by \$3,656; and Fund Balance was decreased by \$4,242.

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

- Street Fund Tax Revenue was decreased \$8,439; Intergovernmental Revenue was increased \$7,933 and Fund Balance was decreased \$506.
- State Highway Fund Intergovernmental Revenue was decreased by \$877; Fund Balance was increased \$38; and Intergovernmental Revenue increased \$915.
- Fire Fund Intergovernmental Revenue was increased by \$2,387 and Fund Balance was increased by \$2,387.
- EMS Fund Intergovernmental Revenue was increased by \$1,855 and Fund Balance was increased by \$1,855.
- Water Operating Fund Charges for Services was increased by \$468 and Fund Balance was increased by \$468.
- Sewer Debt Service Fund Tax Revenue was decreased by \$272 and Charges for Services was increased by \$272.

Adjustments were posted to the financial statements and Village ledgers, where appropriate.

The lack of proper management oversight over posting of revenue could result in material financial statement misstatements. We recommend that all revenue activity be accurately posted. For guidance, the Village should utilize the Village Officer's Handbook available at [www.auditor.state.oh.us/publications](http://www.auditor.state.oh.us/publications).

**Officials' Response:**

The new Fiscal Officer will keep better control over these postings.

**FINDING NUMBER 2012-007**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacked management oversight in the posting of financial activity. We identified the following posting errors related to Village debt activity:

- General Fund Debt Service - Principal was increased and General Fund Debt Service-Interest was decreased by \$41 to correct Cruiser Loan payments. Also, a late fee of \$15 was posted to General Fund Debt Service-Principal in error.
- Water Debt Fund Debt Service - Loan payments were erroneously posted to Sewer Debt Fund Principal (\$47), Water Operating Fund Principal (\$833), and Water Operating Fund Interest (\$47) rather than Water Debt Fund Principal (\$857) and Water Debt Fund Interest (\$70).
- The OWDA Water Tower Loan payments were posted to Water Operating Fund Supplies and Materials (\$10) and Water Operating Fund Contractual Services (\$18,458) rather than Water Operating Fund Debt Service Principal (\$6,191) and Water Operating Debt Service Interest (12,277).

**FINDING NUMBER 2012-007**  
**(Continued)**

- The Ford Truck Loan payment of \$1,302 was posted to Street Fund Capital Outlay rather than Street Fund Debt Service Principal (\$1,092) and Street Fund Debt Service Interest (\$210).

The Village posted adjustments to the accounting records where applicable.

The lack of proper management oversight over posting of debt transactions could result in material financial statement misstatements. We recommend that all debt activity be accurately posted. For guidance the Village should utilize the Village Officers' Handbook [www.ohioauditor.gov](http://www.ohioauditor.gov) under Publications.

**Officials' Response:**

We are currently using Appendix A-2 in the Village Officer's Handbook to properly post expenditures.



**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-01	Ohio Rev. Code, Section 17 and Ohio Rev. Code Section 735.272, failure to establish a Board of Public Affairs or Village Administrator.	Yes	
2011-02	Ohio Rev. Code Section 5705.41(D)(1), failure to certify funds.	No	Not corrected - Reissued as Finding 2012-003.
2011-03	Ohio Rev. Code Section 5705.38A and 5705.39, failure to submit temporary appropriations to the county auditor.	Yes	
2011-04	Ohio Rev. Code, Section 5705.10(H) – Negative cash balance in General Fund at December 31, 2011	No	Not corrected - Reissued as Finding 2012-004.
2011-05	Ohio Rev. Code, Section 5705.41(B) – expenditures exceeded appropriations	No	Not corrected. Reissued as management letter comment.
2011-06	Ohio Rev. Code Section 2921.42(A)(1), 102.03(D) and 102.03(E), conflict of interest.	No	Not corrected. Reissued as management letter comment.
2011-07	Lack of management oversight in the posting debt and activity.	No	Not corrected - Reissued as Finding 2012-007.
2011-08	Ohio Adm. Code Section 117-2-02(C)(1), appropriations and estimated resources were not accurately posted to the accounting system	No	Not corrected - Reissued as Finding 2012-002.
2011-09	Lack of management oversight in the posting of financial activity.	No	Not corrected - Reissued as Finding 2012-006.
2011-10	Village did not accurately reconcile its bank account to fund balances	No	Not corrected. Reissued as management letter comment.

Village of Gratis  
 Preble County  
 Schedule of Prior Audit Findings  
 Page 2

2011-11	Village does not have proper controls over EMS	No	Not corrected. Reissued as management letter comment.
2011-12	Village does not have proper controls over utility adjustments.	Yes	
2011-13	Village does not have proper controls over the posting of utility rates	Yes	



# Dave Yost • Auditor of State

VILLAGE OF GRATIS

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  
SEPTEMBER 17, 2013