

VILLAGE OF CORWIN

CINCINNATI REGION, WARREN COUNTY

PERFORMANCE AUDIT

AS OF DECEMBER 28, 1998



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Dear Citizens:

On May 20, 1998, the Local Government Services Division of the Auditor of State's Office issued a report which concluded that the financial condition of the Village of Corwin met the conditions of a fiscal watch as outlined in Ohio Rev. Code, Section 118.022 (A) (2). The Auditor of State then initiated a performance audit of Village operations and to identify specific recommendations to improve operations, reduce spending, and increase revenues.

During the performance audit, the Local Government Services Division of the Auditor of State' Office conducted a follow-up review of the financial condition of the Village and issued a report on November 12, 1998 stating that the Village is in fiscal emergency. This state of fiscal emergency puts even greater importance on the findings and recommendations set forth in this report.

This performance audit sets forth findings and recommendations related to the operation and management of the Village, outlines opportunities for expenditure control and reductions, and provides recommendations for revenue enhancement. Many of these recommendations will have an economic benefit to the Village.

The Executive Summary section of this report summarizes the various operational and economic recommendations contained in this report.

Very truly yours,

JIM PETRO
Auditor of State

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Introduction

Project History

On May 20, 1998, Auditor of State Jim Petro declared the Village of Corwin, Warren County, in “fiscal watch” in accordance with Ohio Revised Code, Section 118.023. An analysis performed by Auditor of State Local Government Services Division revealed the Village’s deficit fund balances as of December 31, 1997 exceeded the criteria used to declare a fiscal watch by \$46,800. The fiscal watch status, intended as an early warning, notifies the government that their finances are near fiscal emergency status. Under fiscal emergency, a state/local commission of officials and citizens assumes oversight of government finances.

Ohio Revised Code, Section 118.023 mandates that once a written declaration of the existence of a fiscal watch is issued, the fiscal watch shall be in effect until the Auditor of State determines that none of the conditions are present and cancels the watch, or until the Auditor of State determines that a state of fiscal emergency exists. Additionally, the Auditor of State shall provide such technical and support services to the municipal corporation as considered necessary after a fiscal watch has been declared to exist. The controlling board provides sufficient funds for any costs that the Auditor of State may incur in determining if a fiscal watch exists and for providing technical and support services.

The Auditor of State’s Office began a performance audit of the Village of Corwin, on July 8, 1998, to identify options for revenue enhancements, assess operations and make specific recommendations to improve the Village’s operations. Separate meetings were held with the Village officials during the months of August and September. Each Council Member was contacted and given the opportunity to meet with representatives from the Auditor of State. The Mayor, Recording Secretary and four of the six council members elected to attend these meetings.

The goal of this report is to assist Council to make decisions with the objective of eliminating the conditions which brought about the declaration of fiscal watch.

To that end, the State Auditor’s Office has developed a “performance audit” approach for the Village of Corwin. The performance audit focuses primarily on the operations of the Village to assist Council in increasing the operating efficiency for the Village. The project has been segregated into two phases. Phase I included conducting meetings with the Village’s officials including Council Members and the Mayor. Interviews were also conducted with the Ohio Environmental Protection Agency (Dayton Division), officials from Warren County Water and Sewer Department, and the Warren County Commissioners. Operations were reviewed and evaluated and a preliminary understanding of the Village’s operations was gained. These procedures established the framework for Phase II, which was the actual performance audit. The

procedures followed in Phase II are defined under the subheadings of Objectives and Scope and Methodology contained in this Introductory Section.

The performance audit focuses on the ability of the Village to meet its current and future financial obligations. The decision for this focus was based on the Village's fiscal watch status and its inability to fund operations. It should be noted that on November 12, 1998, a subsequent analysis was performed by Local Government Services Division of the Auditor of State's Office as of June 30, 1998. An analysis was completed and revealed that a fiscal emergency condition existed under Section 118.03 (A)(5) of the Ohio Revised Code due to the aggregate sum of funds with deficit balances as June 30, 1998 exceeding one-sixth of the General Fund budget and the receipts to those deficit funds by \$24,164.

The performance audit covered the following areas of the Village's operations:

- Fiscal Stability (Section 3)
- Governance/Management (Section 4)
- Utilities (Section 5)
- Income Tax (Section 6)
- Debt (Section 7)
- Surrender of Corporate Power (Section 8)

These areas were selected because they were the most significant areas of the Village's operations.

The planning for the performance audit began July 8, 1998, and the actual performance audit was conducted primarily during the months of July through September 1998.

Objectives and Scope

A performance audit is defined as a systematic and objective assessment of the performance of an organization, program, function or activity to develop findings, conclusions and recommendations. Performance audits are usually classified as either economy and efficiency audits or program audits.

This performance audit is primarily designed to focus on the economy and efficiency of the Village. The decision to focus on economy and efficiency was based on two factors. The first factor is the fiscal condition of the Village. Due to the Village's

financial condition, alternatives must be developed to assist the Village in managing their financial resources in the most efficient and effective manner possible. The second factor is the Village's current lack of accountability and established goals and procedures related to financial management and operations.

The Auditor of State's Office has designed this performance audit with the intention of reviewing and making recommendations in the following areas:

- Identify opportunities for improving the Village's effectiveness, responsiveness and quality of services which are cost beneficial;
- Identify opportunities for improving the Village's procedures which should result in higher quality and/or reduced costs;
- Determine whether the Village's operations are effective;
- Evaluate the financial policies and procedures, provide recommendations for enhanced revenue; and
- Provide a proposed financial plan which the Village should consider when dealing with its financial situation.

Village Overview

The Village of Corwin is a community with approximately 225 residents according to the 1990 Census. The Village is located approximately 45 miles north of Cincinnati. Information about the Village is contained in the table below:

Households	79
Area	149 acres
Village Levy - Full Rate of taxation on \$1.00 (mills)	2.32 mills
Village Levy - Effective Rate of taxation on \$1.00 (mills)	1.56 mills
Property Tax Valuation:	
Residential/Agricultural Real Property	\$ 982,580
Commercial/Industrial Real Property	<u>418,330</u>
Total Real Property	1,400,910
Personal Property	113,890
Tangible Personal Property	<u>220,360</u>
Total Personal Property	<u>334,250</u>
Total Tax Valuation	<u>\$1,735,160</u>
Average family income based on 1990 census	\$24,583
Income Tax Rate	1% nonreciprocal

SOURCE: WARREN COUNTY AUDITOR'S OFFICE
WARREN COUNTY PLANNING COMMISSION

Based on information from the County Auditor's Office, an additional 1 mill property tax levy would generate an additional \$1,700 for the Village.

Methodology

To complete the performance audit, the State Auditors gathered and assessed a significant amount of data pertaining to the Village, conducted interviews with Council members, the Ohio Environmental Agency, the Warren County Commissioners, officials from the Warren County Water and Sewer Department. This methodology is further explained in the following sections of this report.

Use of Reports and Other Data Sources

In assessing the various performance audit areas, the Village Council was interviewed to determine areas of concern and possible suggestions to increase the effectiveness and efficiency in the operations of the Village. In addition to assessing this initial information, the State Auditors spent a significant amount of time gathering and assessing pertinent documents and information. Examples of reports and other data sources which were used to assess the situation include:

- Ohio Revised Code
- County Board of Elections
- Village ordinances and/or resolutions
- Village minute record
- The fiscal watch report prepared by the Local Government Services Division of the Auditor of State's Office
- Loan Agreements
- Purchase Contracts

The Village officials could not locate all of the utility invoice registers, customer ledgers, aged receivable reports, and customer invoices that we requested from the Village. The prior Clerk/Treasurer resigned his position in April 1998 and indicated to us that he had turned the records over to the Village Mayor.

Executive Summary

The Village of Corwin is in the midst of a financial crisis. At June 30, 1998, the Village had a combined fund balance of \$1,399 which consisted of: \$(637) in the General Fund; \$75 in the Enterprise Fund, and \$1,961 in the Special Revenue Funds. Although the cash balance was only \$1,399, the Village had debt of \$80,000 and other financial commitments of approximately \$50,650 (see Appendix A).

If current revenue and spending trends continue, we estimate that the Village General Fund will have a deficit fund balance of \$193,475 by the end of 2001. How did the Village of Corwin get to this state of fiscal affairs, and what actions can they take to correct the problem? This report is an attempt to answer these questions and offer constructive, achievable recommendations to return financial stability to the Village.

Based on a thorough analysis of the Village's operations, it is apparent that it will cost the Citizens of Corwin more per household to keep the Village in existence than to avail themselves of governmental services offered by other governmental units. Should the Citizens of Corwin decide that the benefit of maintaining the existence of the Village is worth the additional cost, the Village Citizens and Officials need to focus on three main areas:

- *Accountability of Public Officials:* Village Officials need to be open and accountable to the citizens they serve, and Village citizens need to increase their involvement in, and awareness of, Village policy and operations. Relatives and business associates of the Mayor and certain council members have benefitted from Village contracts, issuance of illegal debt, improvements to property and land purchase - all funded through the Village.
- *Organization and Management:* The Village Officials should work within their current structure to promote efficiency, and accountability in budgetary and fiscal matters. A system must be established to monitor financial activity. The Village is deeply in debt; monies collected for tap-in fees and due to Warren County are being used to finance Village operations; and delinquent utility payments due from the Mayor were said to have been collected, but documentation that the payments were made was not presented by the Village. The financial records and controls needed to monitor these activities are in disarray.
- *Revenue Enhancement:* The Village is not charging fees for Utility services sufficient to cover the cost to the Village of providing the service. The General Fund must then subsidize the water and sewer funds. We have identified areas where the fees should be dramatically increased. The Village also has the option of eliminating the utility department to provide residents with the same

service from the County at a lower cost, and eliminate the need to transfer funds from the General Fund to cover shortages in the Water and Sewer Funds. Village revenue can also be increased by Council taking the initiative to aggressively pursue income taxes due the Village.

If all the recommendations in this performance audit are implemented and the related financial results to the Village are realized, the Village will have an estimated General Fund balance of approximately \$1,800 at the end of 2001. However, the Village will still owe approximately \$59,000 in debt at that time. The financial condition will not improve without cost to the Village residents. Approximately 10 mills of property tax levies and an additional ½% income tax levy may be needed to pay off existing debt and fund operations.

Summary of Recommendations

The results of the performance audit indicate that there are a number of areas where efficiencies in operations are available to the Village. Many of these recommendations will also have an economic benefit to the Village. This performance audit should be used by the Village Council as a tool to improve Village operations within certain areas and assist the Village in restoring its financial stability. A summary of the major recommendations is contained within this Executive Summary.

It is important to note that this performance audit is not a financial audit. Therefore, it was not within the scope of this work to conduct a comprehensive and detailed examination of the Village's fiscal records and past financial transactions. Since the Village does not record all financial transactions properly, certain information included in this report which was derived from the Village's accounting system may not be completely accurate. The following is a summary of the major recommendations found in the sections of this report:

Governance

- The Village has recently experienced turnover in the Clerk/Treasurer position. This is a key position in establishing control and accountability over the Village's finances. The Council must retain a Clerk/Treasurer to handle the financial activity of the Village. Without accurate financial data, Council can not make informed decisions in regards to handling the Village's affairs. In the past, the Village has not paid any salary to the Clerk/Treasurer. This position was filled on a voluntary basis. The Council must establish reasonable compensation for the duties required for this position.

- The Village must maintain a cash journal, receipt ledger and appropriation ledger as prescribed by the Ohio Administrative Code. By maintaining the required ledgers, the Village Council would have a clearer picture of the financial situation of the Village.

Utility Department

- The Council should investigate immediately the possibility of allowing the County to provide utility services. This would eliminate any fixed costs associated with the operation of the Water and Sewer department, and would also eliminate the need for the Village to be concerned with any maintenance issues. The Warren County Water and Sewer Department has been contacted and is aware of the current situation. It has been determined that Warren County Water and Sewer Department could provide services to the Village at a lower cost and with no change in service.
- It is cost prohibitive for the Village to continue to provide utility services to its residents. The cost to implement the following recommendations will substantially increase the cost per resident:

If the Village were to continue to provide utility services to its residents, we recommend that the Council hire a part-time utility clerk and part-time assistant. These positions are necessary to: identify and actively pursue residents who are delinquent in paying their utility bills; discontinue service to those who do not pay; and implement a turn-off/turn-on fee.

The Village officials would have to increase fees to utility customers to cover the increased cost of utility services provided by the County. The General Fund is currently covering shortages in the Utility Funds, causing the Village to sink deeper in debt.

- The Village currently does not have the records to determine amounts owed and paid by utility customers. The Village should prepare a subsidiary ledger to assist in monitoring consumer accounts. A subsidiary ledger would also be helpful in comparing amount billed by Warren County Water and Sewer Department to actual consumption by the Village. This information would be useful in determining if leaks have developed, causing the Village to incur additional costs.

Income Tax Receipts

- The Mayor and five Council Members did not file income tax forms or pay any income taxes from 1993 through 1997.

- The Council should establish an income tax department along with the board of review and fill the position of Tax Administrator as established in Ordinance 143 -1988.
- The Council should consider whether it is fiscally prudent to continue to attempt to collect, process and review income tax forms for the Village. The Village should consider amending Ordinance 143 which created the need for an Income Tax Department, a review committee, and a Tax Administrator.
- The Council should investigate the possibility of contracting the income tax function. The Regional Income Tax Agency (RITA) has been contacted and a proposal will be submitted for review by the Council.

Debt

- We recommend that the Village cease the practice of issuing debt that is not obtained through statutorily prescribed methods. The Village should consider in advance of procuring services, such as street repair, whether the funds will be available. The Village should not contract for street repair without having properly appropriated and encumbered the funds for the project.
- We recommend that the Village should not incur debt which exceeds the value of the asset for which they are indebted. The land purchased by the Village for \$55,000 has \$80,000 in mortgage liens against it. The Village should take steps to ensure that they will have the funding necessary to meet their obligations related to their debt. According to an unaudited spreadsheet provided by the Village, the first debt payment of \$5,695 was paid on October 1, 1998 from the Water Fund, which created a deficit in the Water Fund of \$(1,529).
- The Council should refrain from using Village resources to improve property which directly benefits elected officials. The sale of the property from Corwin Industrial Park to a developer, after the Village paid for improvements to the property for the developer, provides a benefit to the Mayor and his partners in Corwin Industrial Park. This matter will be referred to the Ethics Commission.
- We recommend that the Village obtain an independent appraisal prior to entering into contracts for purchases of land. We also recommend that the Village take steps to ensure that any property purchased is able to be used for its intended purpose.

- Mayor and Council should use due care in awarding contracts to relatives without using competitive bidding or obtain several estimates when bidding is not required. Informal bidding procedures should be documented in some form. If no one is willing to bid, this could be confirmed in writing and saved as documentary evidence.

Surrender of Corporate Powers

- We recommend that the Village give the residents the opportunity to make their own choice as to whether or not they want to continue to remain an incorporated village, or to combine with Wayne Township as an unincorporated village. It should be made clear to the residents that the Village can retain its identity as an unincorporated village while at the same time having lower costs for taxes and charges for services.

Conclusion

It appears that the Citizens of the Village of Corwin would receive the highest level of governmental services at the lowest cost if the Village combined with Wayne Township by restructuring as an unincorporated village. This would allow the governance of the Village to revert to Wayne Township. However, if Citizens of the Village determine that the benefit of the Village remaining incorporated justifies the additional cost, every effort must be made to follow the recommendations outlined in this report. If Village Officials continue their current system of management, the financial condition will only worsen. Immediate action is required to gain control of the financial situation, improve the Mayor's and Council's accountability, to monitor the Village's financial condition, and to take the necessary action for the Village to become solvent.

Financial Stability

This section of the report addresses a comparison of the Village's prior financial statements with the current and future years financial statements. This section analyzes the current year and the next fiscal year based on Scenario A and Scenario B.

Every effort has been made to develop a scenario that is both reasonable and conservative and utilize assumptions that are both logical and prudent. Revenue and Expenditures amounts from 1995 through 1997 were used to develop 1998 through 2001 estimates for all funds.

Scenario A assumes the Village continues to operate under the present conditions without any new revenues or changes in spending patterns.

The assumptions for Scenario B include: approval of a 4.6 mill levy to retire debt, approval of a 5.3 mill operating levy, an increase of ½% for the income tax rate, delinquent and current income tax receipts being aggressively pursued, restructuring of Village debt, and a decrease of transfers from the General Fund for Utility Fund support. Scenario B also assumes the Village will eliminate the utility department by having Warren County Water and Sewer Department provide water and sewer services.

Village of Corwin - Scenario A

GENERAL FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Income tax	\$8,767	\$7,145	\$7,859	\$7,580	\$7,807
Local and state	20,572	4,200	12,530	13,523	13,380
Miscellaneous	991	887	1,033	1,136	1,250
Total cash receipts	30,330	12,232	21,422	22,239	22,437
Cash disbursements					
Interest payments	0	6,901	6,685	6,451	6,200
Principal payments	0	2,794	3,010	3,244	43,495
Outstanding obligations	0	12,991	0	0	0
Unclassified	22,733	49,264	18,899	19,465	20,049
Total cash disbursements	22,733	71,950	28,594	29,160	69,744
Total receipts over/(under) disbursements	7,597	(59,718)	(7,172)	(6,921)	(47,307)
Other financing receipts/(disbursements):					
Proceeds from sale of public debt:	40,000	0	0	0	0
Transfers-in	0	0	0	0	0
Other sources	0	34,200	0	0	0
Transfers-out	(35,937)	(54,867)	(21,194)	(21,349)	(22,167)
Total other financing receipts/(disbursements)	4,063	(20,667)	(21,194)	(21,349)	(22,167)
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	11,660	(80,385)	(28,366)	(28,270)	(69,474)
Fund cash balances January 1	1,360	13,020	(67,365)	(95,731)	(124,001)
Fund cash balances, December 31	\$13,020	(\$67,365)	(\$95,731)	(\$124,001)	(\$193,475)

See page 3-10 for a reconciliation with Scenario B

Village of Corwin - Scenario A

STREET FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Local and state	\$2,784	\$2,674	\$2,620	\$2,881	\$3,170
Miscellaneous	0	0	0	0	0
Total cash receipts	2,784	2,674	2,620	2,881	3,170
Cash disbursements					
Outstanding obligations	0	240	0	0	0
Unclassified	23,873	1,200	3,300	3,630	3,993
Total disbursements	23,873	1,440	3,300	3,630	3,993
Total receipts over/(under) disbursements	(21,089)	1,234	(680)	(749)	(823)
Other financing receipts/(disbursements):					
Transfers-in	21,071	0	0	195	823
Transfers-out	0	0	0	0	0
Total other financing receipts/(disbursements)	21,071	0	0	195	823
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	(18)	1,234	(680)	(554)	0
Fund cash balances January 1	18	0	1,234	554	0
Fund cash balances, December 31	\$0	\$1,234	\$554	\$0	\$0

See page 3-10 for a reconciliation with Scenario B

Village of Corwin - Scenario A

WATER FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Charges for services	\$12,534	\$9,273	\$14,538	\$16,000	\$17,463
Miscellaneous	0	1,000	0	0	0
Total cash receipts	12,534	10,273	14,538	16,000	17,463
Cash disbursements					
Outstanding obligation	0	18,518	0	0	0
Water line installation	0	0	0	0	0
Salaries and benefits	0	0	0	0	0
Unclassified	23,730	38,689	31,210	32,147	33,111
Total disbursements	23,730	57,207	31,210	32,147	33,111
Total receipts over/(under) disbursements	(11,196)	(46,934)	(16,672)	(16,147)	(15,648)
Other financing receipts/(disbursements):					
Transfers-in	14,112	44,018	16,672	16,147	15,648
Transfers-out	0	0	0	0	0
Total other financing receipts/(disbursements)	14,112	44,018	16,672	16,147	15,648
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	2,916	(2,916)	0	0	0
Fund cash balances January 1	0	2,916	0	0	0
Fund cash balances, December 31	\$2,916	\$0	\$0	\$0	\$0

See page 3-10 for a reconciliation with Scenario B

Village of Corwin - Scenario A

SEWER FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Charges for services	\$8,286	\$7,122	\$12,096	\$13,392	\$14,688
Tap In Fees	6,000	11,500	23,400	7,800	7,800
Total cash receipts	14,286	18,622	35,496	21,192	22,488
Cash disbursements					
Sewer line installations	0	0	0	0	0
Outstanding obligatons	0	13,206	0	0	0
County tap in fees	3,750	2,500	23,400	7,800	7,800
Unclassified	6,860	18,195	16,618	18,399	20,384
Total disbursements	10,610	33,901	40,018	26,199	28,184
Total receipts over/(under) disbursements	3,676	(15,279)	(4,522)	(5,007)	(5,696)
Other financing receipts/(disbursements):					
Transfers-in	754	10,849	4,522	5,007	5,696
Transfers-out	0	0	0	0	0
Total other financing receipts/(disbursements)	754	10,849	4,522	5,007	5,696
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	4,430	(4,430)	0	0	0
Fund cash balances January 1	0	4,430	0	0	0
Fund cash balances, December 31	\$4,430	\$0	\$0	\$0	\$0

See page 3-10 for a reconciliation with Scenario B

Village of Corwin - Scenario B

GENERAL FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Income tax	\$8,767	\$7,145	\$23,656	\$29,015	\$38,847
Local and state	20,572	4,200	12,530	30,523	30,380
Miscellaneous	991	887	5,233	6,044	6,590
Total cash receipts	30,330	12,232	41,419	65,582	75,817
Cash disbursements					
Interest payments	0	6,901	6,685	6,451	6,200
Principal payments	0	2,794	3,010	3,244	11,495
Outstanding obligations	0	12,991	0	0	0
RITA expenses	0	0	709	870	1,165
Salaries and benefits	0	0	4,800	4,800	4,800
Unclassified	22,733	49,264	18,899	19,465	20,049
Total cash disbursements	22,733	71,950	34,103	34,830	43,709
Total receipts over/(under) disbursements	7,597	(59,718)	7,316	30,752	32,108
Other financing receipts/(disbursements):					
Proceeds from sale of public debt:	40,000	0	0	0	0
Other sources	0	34,200	0	0	0
Transfers-out	(35,937)	(54,867)	0	(195)	(823)
Total other financing receipts/(disbursements)	4,063	(20,667)	0	(195)	(823)
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	11,660	(80,385)	7,316	30,557	31,285
Fund cash balances January 1	1,360	13,020	(67,365)	(60,049)	(29,492)
Fund cash balances, December 31	\$13,020	(\$67,365)	(\$60,049)	(\$29,492)	\$1,793

See page 3-10 for a reconciliation with Scenario A

Village of Corwin - Scenario B

STREET FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Local and state	\$2,784	\$2,674	\$2,620	\$2,881	\$3,170
Miscellaneous	0	0	0	0	0
Total cash receipts	2,784	2,674	2,620	2,881	3,170
Cash disbursements					
Outstanding obligations	0	240	0	0	0
Unclassified	23,873	1,200	3,300	3,630	3,993
Total disbursements	23,873	1,440	3,300	3,630	3,993
Total receipts over/(under) disbursements	(21,089)	1,234	(680)	(749)	(823)
Other financing receipts/(disbursements):					
Transfers-in	21,071	0	0	195	823
Transfers-out	0	0	0	0	0
Total other financing receipts/(disbursements)	21,071	0	0	195	823
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	(18)	1,234	(680)	(554)	0
Fund cash balances January 1	18	0	1,234	554	0
Fund cash balances, December 31	\$0	\$1,234	\$554	\$0	\$0

See page 3-10 for a reconciliation with Scenario A

Village of Corwin - Scenario B

WATER FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Charges for services	\$12,534	\$9,273	\$0	\$0	\$0
Miscellaneous	0	1,000	0	0	0
Total cash receipts	12,534	10,273	0	0	0
Cash disbursements					
Outstanding obligation	0	18,518	0	0	0
Water line installation	0	0	0	0	0
Salaries and benefits	0	0	0	0	0
Unclassified	23,730	38,689	0	0	0
Total disbursements	23,730	57,207	0	0	0
Total receipts over/(under) disbursements	(11,196)	(46,934)	0	0	0
Other financing receipts/(disbursements):					
Transfers-in	14,112	44,018	0	0	0
Transfers-out	0	0	0	0	0
Total other financing receipts/(disbursements)	14,112	44,018	0	0	0
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	2,916	(2,916)	0	0	0
Fund cash balances January 1	0	2,916	0	0	0
Fund cash balances, December 31	\$2,916	\$0	\$0	\$0	\$0

See page 3-10 for a reconciliation with Scenario A

Village of Corwin - Scenario B

SEWER FUND	Actual	Estimated			
	1997	1998	1999	2000	2001
Cash receipts					
Charges for services	\$8,286	\$7,122	\$0	\$0	\$0
Tap in fees	6,000	11,500	0	0	0
Total cash receipts	14,286	18,622	0	0	0
Cash disbursements					
Sewer line installations	0	0	0	0	0
Outstanding obligatons	0	13,206	0	0	0
County tap in fees	3,750	2,500	0	0	0
Unclassified	6,860	18,195	0	0	0
Total disbursements	10,610	33,901	0	0	0
Total receipts over/(under) disbursements	3,676	(15,279)	0	0	0
Other financing receipts/(disbursements):					
Transfers-in	754	10,849	0	0	0
Transfers-out	0	0	0	0	0
Total other financing receipts/(disbursements)	754	10,849	0	0	0
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursement	4,430	(4,430)	0	0	0
Fund cash balances January 1	0	4,430	0	0	0
Fund cash balances, December 31	\$4,430	\$0	\$0	\$0	\$0

See page 3-10 for a reconciliation with Scenario A

Village of Corwin - Comparison Between Scenario A and Scenario B

Reference	Recommendation From All Sections	Recommended (Cost)/Revenue Enhancements		
		(Rounded)		
		1999	2000	2001
General Fund:				
<i>Receipts</i>				
R 5.2a	Surcharge of \$10.00 per utility bill to repay General Fund	\$4,200	\$4,908	\$5,340
R 6.1, R 6.2, R 6.3, R 6.4	Aggressively collect income tax receipts, tax rate increased by ½%, and delinquent back taxes are collected.....	15,797	21,435	31,040
R 4.7	Approval of a 5.3 mill operating levy		9,000	9,000
R 7.6	Approval of 4.6 mill levy to pay debt		8,000	8,000
<i>Disbursements</i>				
R 4.2	Village appoints a Clerk/Treasurer (Financial Only)	(4,800)	(4,800)	(4,800)
R 6.1a	Village contracts with RITA	(709)	(870)	(1,165)
R 7.5	Restructure debt			32,000
<i>Other</i>				
	Transfer-In (Reduce the amount transferred from the General Fund to Subsidize the Water and Sewer Fund)	21,194	21,154	21,344
	Total General Fund	\$35,682	\$58,827	\$100,759
Water Fund:				
<i>Receipts</i>				
R 5.2	Water Services provided by Warren County	(14,538)	(16,000)	(17,463)
<i>Disbursements</i>				
R 5.2	Water Services provided by Warren County	31,210	32,147	33,111
<i>Other</i>				
	Transfer-In (Reduce the amount transferred from the General Fund to Subsidize the Water Fund)	(16,672)	(16,147)	(15,648)
	Total Water Fund	\$0	\$0	\$0
Sewer Fund:				
<i>Receipts</i>				
R 5.2	Sewer Services provided by Warren County	(\$35,496)	(\$21,192)	(\$22,488)
<i>Disbursements</i>				
R 5.2	Sewer Services provided by Warren County	40,018	26,199	28,184
<i>Other</i>				
	Transfer-In (Reduce the amount transferred from the General Fund to Subsidize the Sewer Fund)	(4,522)	(5,007)	(5,696)
	Total Sewer Fund	\$0	\$0	\$0

Governance/ Management

Applicable Ohio Revised Code Sections

Ohio Rev. Code, Section 102.03(D):

No public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties background.

Background

The Village of Corwin, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Village operates under a publicly-elected six member Council-Mayor form of government and provides water and sewer service and street repair. Currently there are no employees of the Village. The Village contracts with individuals/businesses when services are needed (e.g. snow removal, meter readings and street repair).

The following officials and their terms as of August 31, 1998 are listed below.

W. Howard Purkey, Jr.	Mayor	01/01/98 - 12/31/99*
Vacancy	Clerk/Treasurer	04/01/96 - 03/31/00**
Scott Lamb	Council	01/01/95 - 12/31/99
Patricia Crutchfield	Council	01/01/95 - 12/31/99***
Cheryl Davidson	Council	01/01/97 - 12/31/01
Ray Lamb	Council	01/01/97 - 12/31/01
Lindsey Hatton	Council	05/11/98 - 12/31/01
George Campbell	Council	03/09/98 - 12/31/01
Beverly Campbell	Recording Secretary	Appointed

The Village officials receive no compensation for their services.

- * This position had previously been held by Mr. Purkey for which he ran unopposed for the unexpired term. He had previously been appointed by Council to this position.
- ** Jerry Cornely had previously held this position until he resigned, effective April 30, 1998. Beverly Campbell was appointed Clerk/Treasurer in October 1998.
- *** Ran for position in 1997 to fill the unexpired term. Ms. Crutchfield had previously been appointed by Council to fill this position.

Principles for Effective Governance

In evaluating the governance of a village the size of Corwin, the Auditor of State believes that the following principles should be applied:

- All persons responsible for governance must be held accountable for their actions.
- The Mayor, as the chief executive officer of the Village, should report all information directly to Council. Direct communication between the Mayor and the Council is essential to operating the Village efficiently.
- The Village finances should be managed by a Clerk/Treasurer who is accountable to Council.

Findings (F)/Recommendations (R)

- F4-1 The organizational structure of an entity is an important consideration in the entity's ability to manage its activities. Under the current structure, the Mayor is in effect, the manager of the Village. The Village Council acts upon recommendations made by the Mayor. In the past, Council has not been given key information to help them make an informed decision. The Village's mail has been sent to either the Mayor's residence or the former Clerk/Treasurer's residence. As a result, relevant correspondence was not always presented to Council for their review.
- R4-1 The Council should require one central mailing address for all incoming mail. A log should be kept of all pertinent correspondence and information should be relayed to Council on a timely basis. This would assist Council to make informed decisions for the Village.
- F4-2 The Village has recently experienced difficulty in maintaining a Clerk/Treasurer to handle the day to day activities of the Village. On April 30, 1998, the former Clerk, Jerry Cornely, resigned his position as Clerk/Treasurer of the Village. Formerly the Clerk/Treasurer handled the duties of this office on a voluntary basis. Mayor W. Howard Purkey, Jr., performed the duties of Clerk/Treasurer (including receipting, posting to the ledgers, correspondence, writing checks, water and sewer billings) until Beverly Campbell was appointed Clerk/Treasurer in October 1998.
- R4-2 The Council must immediately appoint a Clerk/Treasurer to handle the financial activity of the Village including income tax collection. Without accurate financial data, Council can not make informed decisions in regards to handling the Village's affairs. In the past, the Village did not pay any salary to the Clerk/Treasurer. This position was filled on a voluntary basis. In order to attract someone to this position, the Council must establish comparable compensation for the duties required for this position. We estimate that for the Village to hire a part-time Clerk/Treasurer, the Village would have to pay an annual salary of approximately \$4,800.
- F4-3 Receipts and disbursements were posted to a computerized spreadsheet ("the cash journal") created by the former Clerk/Treasurer; however, these postings were not classified as prescribed by the Ohio Administrative Code. In addition, the 1997 annual financial report was not completed or sent to the State. As a result, the Village may incur penalties for failure to file an annual financial report. Ohio Rev. Code, Section 117.38, requires each taxing district to submit an annual financial report made in accordance with forms prescribed by the Auditor of State which are contained in the Ohio Admin. Code, Section 117-05-18. This report shall be certified by the proper offices or boards and filed with the State within ninety days after the close of the

fiscal year. This Section also provides for a penalty to be assessed against any public office that does not file its financial report. This penalty shall be \$25 for each day the report remains unfiled after the filing date, provided that the penalty payments shall not exceed the sum of \$750.

- R4-3 The Village should maintain a cash journal, receipt ledger, appropriation ledger and other relevant ledgers as prescribed by the Ohio Administrative Code. By maintaining the required ledgers, the Village Council would have access to financial information as well as being in compliance with the State requirements.
- F4-4 One member of Council, Scott Lamb, has not attended any of the Council meetings held during 1998. This Council Member has been contacted to determine if he is still willing to serve on council, however no response has been received from him. Council has not taken any action to remove him from office.
- R4-4 Ohio Rev. Code, Section 731.45, provides that the village council may expel any council member for unexcused absences for two months. The Village officials should make every effort to determine if Councilman, Scott Lamb, is going to serve out the remainder of his term. If no response is received, then Council should take action to remove him from office and to appoint a member of the community who is willing to serve in this position.
- F4-5 The Village officials have appointed two members to fill the vacancies on Council; however, the Board of Elections has not received notification of these appointments.
- R4-5 Ohio Rev. Code, Section 3.02 (B) states that when an elective office becomes vacant and is filled by appointment, the appointing authority shall, immediately but no later than seven days after making the appointment, certify it to the board of elections, the secretary of state shall issue a certificate of appointment to the appointee.
- F4-6 The Village officials failed to pass a budget in 1997 for the 1998 fiscal year. The Warren County Budget Commission was required to withhold local government assistance to the Village. This resulted in a loss of \$9,215 or 69% of State and Local Receipts for fiscal year 1998. The Village has since filed their 1999 budget and is entitled to receive local government assistance in excess of \$8,000 in fiscal year 1999.
- R4-6 The Village's officials should become more familiar with the budgetary process by reviewing Ohio Rev. Code, Chapter 5705, and by meeting with the Warren County Budget Commission and, in particular, with the Warren

County Auditor. Historically, the Village has not managed the funds as separate legal and accounting entities. Rather, many transactions have been incorrectly posted to the wrong fund. Also, by becoming more familiar with the reporting requirements, the Village would not lose revenue for failing to file the appropriate documents/reports.

- F4-7 The revenues of the Village are currently insufficient to fund Village operations. Even if the Village realizes the benefits of additional revenues and estimated cost savings, the Village may still require an additional 5.3 mill operating levy to break even.
- R4-7 We recommend that the Village Officials consider a referendum for a 5.3 mill operating levy, in addition to the 4.3 mill levy to retire debt (recommendation 7-6).

Finding for Recovery

General Background

The Village of Corwin has a small population and many of the long time residents of the Village, including Council Members and the Mayor, have many relatives and business associates in the Village. Simply being related to someone with whom the Village does business does not automatically constitute a conflict of interest for the Council and Mayor. However, even the appearance of conflict of interest, nepotism or favoritism towards a relative or associate should be avoided.

Purkey Landscaping Company

The minutes from the Council meeting held November 12, 1997, state that, "Purkey Landscaping Company presented a snow removal contract for the Village of Corwin. \$250 each push and we would be charged \$50 per ton of salt used. Ray Lamb made a motion to hire Purkey Landscaping Company to do snow removal and Pat Crutchfield 2nd it [sic]. All the council members voted yes." Purkey Landscaping Company is owned by the Mayor's son, Perry Purkey.

During interviews with officials, we were informed that a Council Member called several places that performed snow removal services and none others were interested in bidding. This was not noted anywhere in the minutes and no documentation was provided.

The bill submitted to the Village was apparently printed on the same type of invoice to those currently being used by the Mayor to bill the Village residents for water and sewer. The invoice has quantity indicated as "1" twice, with a unit price of \$325. This is not in keeping with the price in the minutes of \$250 per push.

The bill was dated February 10, 1998 and was paid by the Village on April 24, 1998. This payment was made in advance of other bills that were and still are outstanding.

Findings (F)/Recommendations(R)

- F4-8 The Mayor and Council awarded a contract to a company owned by the Mayor's son. There was no documentation provided by the Village to indicate that informal bids or quotes were obtained prior to awarding the contract.
- R4-8 Mayor and Council should use due care in awarding contracts to relatives. We recommend that informal bids should be documented in some form. If no one is willing to bid, this could be confirmed in writing and saved as documentary evidence that the Village attempted to obtain informal bids.
- F4-9 The bill submitted by Purkey Landscaping for snow removal charged a different rate than the rate approved in the minutes. Council approved \$250 per push for snow removal; however, they were charged \$325 per push for two pushes, resulting in an overpayment of \$150 for the February 10, 1998 bill.

Accordingly, a Finding for Recovery is issued against Purkey Landscaping in favor of the Village of Corwin in the amount of \$150.00.

Furnas Forge Subdivision

Sale of Land by Corwin Industrial Park:

The land for the Furnas Forge subdivision was sold to the developer by Corwin Industrial Park. Corwin Industrial Park is a partnership, with four general partners, one of whom is W. Howard Purkey, Jr., Mayor of the Village. The partnership also owns additional land adjoining the subdivision.

The first sale by Corwin Industrial Park to the developer was 38 acres in April 1997. On September 20, 1997 the Village of Corwin signed a promissory note to Marilyn Fultz in the amount of \$40,000. \$10,000 of the proceeds from that note was used to pay for utility tap-in fees to run gas lines to the property owned by the Corwin Industrial Park. In February of 1998, the Corwin Industrial Park then sold 53 acres of this property to the developer of the Furnas Forge subdivision.

The Mayor, W. Howard Purkey, Jr. initiated the promissory note and the payment of \$10,000 of the proceeds for the utility tap in fees. The Mayor is a general partner in the Corwin Industrial Park.

The sale of the property from Corwin Industrial Park to the developer, after the Village paid for improvements to the property for the developer, provided a benefit to all of the general partners of the Corwin Industrial Park including the Mayor. Finding F4-10 will be referred to the Ohio Ethics Commission.

Findings (F)/Recommendations(R)

- F4-10 The Mayor was one of four partners in the Corwin Industrial Park which sold land to the developer. The Mayor then presented the Council with the resolution to pay \$10,000 in fees to run gas lines to that land, and subsequently sold adjoining land to the developer for further development.
- R4-10 Due care should be exercised by Village officials so that potential conflicts of interest and the appearance of impropriety are avoided.

Water and Sewer Department

Applicable Ohio Revised Code Section

Ohio Rev. Code, Section 743.18, states that the amount to be paid for water supply shall be raised by the municipal corporation purchasing it, in the manner provided for the payment of the expense of conducting and managing water works constructed wholly by a municipal corporation.

Overview

The Village of Corwin does not have a utility department to handle routine affairs for water and sewer due to the small size of the Village. Water and Sewer services are provided by the Warren County Water and Sewer Department and the Village reads the meters, sends the bills and collects from the residents and remits payment to the County.

The Village is currently being charged \$2.76 per 1,000 gallons for water and \$22.48 per month, per customer, for sewer. The Village, in turn, bills consumers \$3.25 per thousand gallons for water usage (the rate was \$2.75 until the beginning of 1998), and \$20.00 per month for sewer. This amounts to a net profit of \$.49 per 1,000 gallons for water (if the Village bills and collect from customers for 100% of the water it purchases from the County) while the sewer rate has a deficit of \$2.48 per month for each consumer. At the present time, water service is provided to approximately 56 households/businesses and sewer service is provided to 38 households/businesses. It was noted that four of the seven council members have their own private wells and currently do not receive water service from the Village.

The Village currently owes the Warren County Water and Sewer Department \$16,583 for water and \$3,598 for sewer in delinquent charges. This delinquency is due to several factors, including: a water main leak that went unrepaired for more than a year; inadequate rates charged to the consumers; and uncollected water and sewer receipts from Village residents. We noted that at the end of fiscal year 1996, the Village had \$2,888 in unpaid water bills. The Mayor had the largest delinquent account in the amount of \$646 for delinquent water charges for his rental properties. The utility delinquent listing at December 31, 1997 indicates that the Mayor's account was no longer delinquent. However, records could not be located by the Village to verify payment of the delinquent account.

Summary of Operations

The Village Clerk is responsible for billing, collecting, depositing and posting utility receipts. The Village Clerk is also responsible for maintaining accurate records of all

resident accounts, and implementing procedures to ensure that residents are billed the appropriate amount.

The Village currently pays \$100 bi-monthly to have the water meters read. The readings from the meters are used to determine usage. The prior Clerk/Treasurer prepared a computerized invoice for each residential and business consumer; however, copies of utility invoices from 1997 were not maintained, nor were subsidiary ledgers maintained. Current record keeping is not adequate to make a determination on the accuracy of the utility records. The Village's 1995 and 1996 financial audit revealed that the Village did not maintain sufficient documentation supporting the water and sewer fund receipts as recorded in the Enterprise Fund. Without evidential matter, procedures can not be performed to determine the validity of the underlying transactions.

On January 27, 1997, the Village Council approved resolution 9702 which provided for the Village to assess sewer-tap in fees of \$750 in 1997, \$1,000 in 1998, and \$1,300 in 1999 for improvement of the sewer treatment facility operated by the Village of Waynesville as part of the Massie-Wayne Sewer District. The funds collected were to be remitted to the Warren County Board of Commissioners for deposit into a separate fund to be used for improvements to the sanitary sewer facility. In 1997, the Village collected \$5,750 in sewer tap-in fees; however, only \$3,750 was forwarded to the County. As of August 1998, \$10,000 was collected during the year for tap-in fees, but the Village has only remitted \$2,500 to the Warren County Commissioners. This leaves a combined unpaid balance of \$9,500 for sewer tap-in fees.

	Sewer Tap-In Fees Collected	Fees Remitted to Warren County	Balance Outstanding
1997	\$ 5,750	\$3,750	\$2,000
1998	\$10,000	\$2,500	\$7,500
Total	\$15,750	\$6,250	\$9,500

Since the prior Clerk/Treasurer resigned his position in April 1998, the Mayor has taken over the duties of calculating and preparing the utility bills. A computerized invoice is prepared showing only the number of gallons consumed. Present and previous readings are not recorded on the invoice, therefore the consumer can not verify the accuracy of the invoice. Payments are received by the recording secretary and subsequently deposited in the bank. The Mayor records the payment in the "cash journal." This "journal" does not categorize receipts and expenditures by fund.

Performance Measures

- Assessment of current water and sewer system
- Assessment of County-operated utility services

Current System

The Village of Corwin currently owes Warren County Water and Sewer Department \$20,181 in delinquent charges. It has also been determined that if the Council decides to continue to operate the Water and Sewer Department, the Village will incur certain additional fixed costs. With the projected growth due to a new subdivision within the Village limits, the Village population is projected to increase substantially. As a result of the growth, the Environmental Protection Agency (EPA) will require any water supply serving 250 or more customers to employ a Distribution I Operator. In addition, the Village will also incur additional costs such as billing and meter reading. After analyzing expenditures for the Village of Corwin and comparing the expenditures of several other small entities operating a water and sewer department, we have determined that the yearly fixed costs for the Village of Corwin will include approximately, \$4,800 for the Distribution I Operator, \$2,400 in billing costs, and \$720 to read the meters within the Village, for an additional cost of \$7,920 per year to maintain the current system.

Utility Services Provided by the County

In performing an analysis of the potential effects of turning the water and sewer billing functions over to the County, an evaluation of the functions and activities was completed.

Opportunities Assessment Criteria

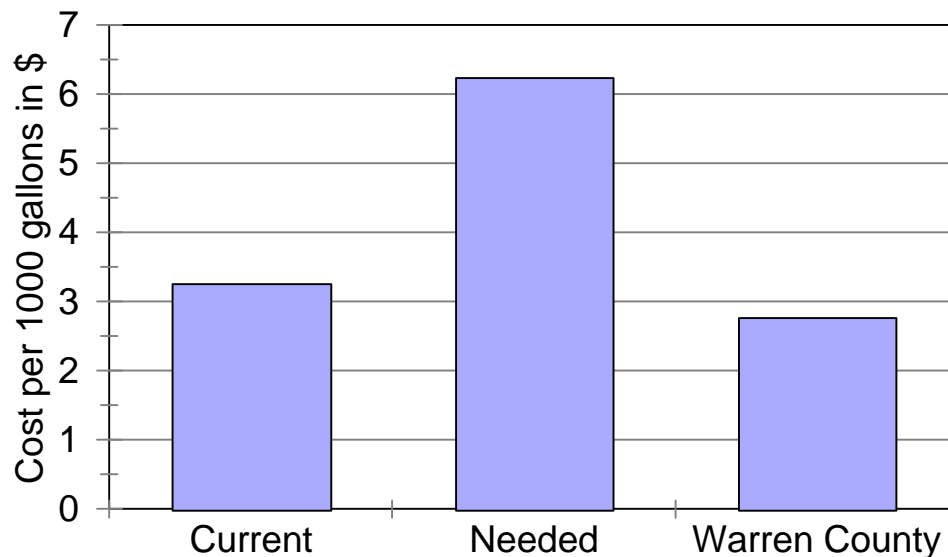
Assessment Criteria	Description / Key Issues
Sufficient Volume?	Is the volume of work associated with function/activity sufficient to justify privatizing? Does the function/ activity require sufficient resources to enable efficient operations?
Complexity?	Is the function/activity too complex to be performed by external resources? - Are the technical skill requirements of the activity excessive? - Are the requirements associated with the activity difficult to predict?

Significant capital investment?	Are significant capital investments required in association with the performance of the function/activity?
Procurable Services?	Are high qualities, external providers available to perform the function/activity? - Does an alternative service provider exist? - Is the performance of the function/activity unique?
Benefit exceeds operating costs?	Will the potential benefits of utilizing external resources exceed potential costs?
Quality?	Is there a high probability that external performance of the function/activity would reduce quality and service levels? - Would responsiveness be maintained? - Would residents' needs be met?

Initial Assessment

Assessment Criteria	Utilities Department
Sufficient Volume	Yes
Complexity	No
Capital Investment	No
Procurable Services	Yes
Operating Costs	Yes
Quality	Yes
Potential Privatization Opportunity	High

Cost Analysis of Water Rates



Findings (F)/Recommendations(R)

Based on the review of the utility department, the following recommendations identify opportunities for the Village of Corwin to achieve some operational improvements. Once in place, these operational improvements may create some savings in the operations of the Utility Department.

F5-1 At the end of fiscal year 1996, the Mayor had the Village's largest delinquent account in the amount of \$646 for delinquent water charges for his rental properties. The utility delinquent listing at December 31, 1997 indicates that the Mayor's account was no longer delinquent. However, records could not be located by the Village to verify payment of the delinquent account.

R5-1 Accordingly, a Finding for Recovery is issued against Mayor W. Howard Purkey, Jr., in favor of the Village of Corwin in the amount of \$646.

- F5-2 The Village of Corwin owes Warren County Water and Sewer \$20,124 in delinquent charges. These delinquencies are the result of a year-long water leak, and failure by the Village officials to actively pursue residents who aren't paying their utility bills on a timely basis. The Village has been subsidizing the Enterprise Fund with transfers from the General Fund. Village officials indicated that the Village is currently pursuing collection of delinquent utility bills.
- R5-2 The Council should allow the utility services to be provided by the Warren County. This would eliminate any fixed costs associated with the operation of the water and sewer department, and would also eliminate the need for the Village to deal with maintenance issues. The Warren County Water and Sewer Department has been contacted and is aware of the current situation. It has been determined that Warren County Water and Sewer Department could take control over the Corwin's utility services and provide the same service to Village residents at less cost.

Warren County Water and Sewer Department would be responsible for the complete utility system, including meter reading, billing, collecting, delinquent accounts, routine maintenance and repair and other duties related to running a utility department. This could be provided at a cost of \$2.76 per 1,000 gallons for water and \$22.48 per month for sewer, which is less than both the current and proposed Village rates. In addition, residents and businesses who currently do not have sewer service would have the opportunity to have a sewer hookup provided to them.

If the Village decides to maintain control of the water and sewer services, the costs to the customers would be prohibitive. Increases would have to be implemented in one of two ways:

- A simple up front charge, determined by calculating the Village's fixed costs and dividing that amount by the number of users. This would allow the Village to reduce the rate paid by the consumers to equal the rate that the Village is charged by Warren County Water and Sewer.
- Determine the anticipated level of consumption by the Village, and calculate a rate that would cover both the amount to be paid to Warren County Water and Sewer and the Village's fixed cost.

It should be noted that while options (1) and (2) would produce approximately the same amount of revenue by the Village, neither option would produce enough revenue for the Village to properly prepare for any unexpected problems, such as a water leak. Also, both options would result in consumers paying significantly higher utility bills.

The Village would also need to hire a utility clerk and an assistant. The utility clerk would prepare utility bills on a timely basis. Bills should include previous and present readings, total amount billed and delinquent amounts due. Efforts should be made to collect on the delinquent accounts on a timely basis. We estimate to hire a part-time utility clerk, the Village would have to pay an annual salary of approximately \$2,400.

The part-time assistant would identify and actively pursue residents who are delinquent in paying their utility bills. Residents who refuse to pay delinquent accounts should have their services discontinued. A substantial turn-off/turn-on fee should be assessed when these services have to be performed.

R5-2a If the Council elects to turn over the utility services to Warren County Water and Sewer Department, then Council should establish negotiations with the Warren County Commissioners to reduce or eliminate the delinquent account amount owed to the County. In addition, the Council should pass a resolution to assess a surcharge of \$10.00 per utility bill for the purpose of repaying the General Fund for financing the Enterprise Fund in previous years. The Warren County Water Department would be responsible for assessing and collecting this surcharge. Funds would then be remitted to the Village by the Department.

F5-3 The utility billing invoice, currently prepared by the Mayor, does not state the previous or present meter readings. Consumers are unable to determine the accuracy of their bill. In addition, bills are not being prepared on a monthly basis as indicated in the minutes. Instead, bills are prepared when the Mayor has time to prepare them. This does not allow for timely payments to Warren County Water and Sewer Department. As a result, the Village is delinquent in their account and is being assessed penalties for nonpayment.

R5-3 A subsidiary ledger should be maintained and reconciled to the amount billed, collected and outstanding. Invoices should be prepared on a monthly basis. These invoices should include previous and present readings, total water usage and amount due. The invoices should be mailed on a timely basis so that the Village can realize operating revenue as soon as possible.

F5-4 The Village currently does not prepare any subsidiary ledgers. Without ledgers it is impossible to accurately determine delinquent accounts, total water consumed and billed or any other information useful in performing analysis.

R5-4 The Village should prepare a subsidiary ledger to assist in monitoring consumer accounts. Subsidiary ledgers would also be helpful in comparing amount billed by Warren County Water and Sewer Department to actual consumption by the Village. This information would be useful in determining leaks that the Village has incurred.

F5-5 On January 27, 1997, the Village Council approved resolution 9702 which provided for the Village to assess sewer-tap in fees of \$750 in 1997, \$1,000 in 1998, and \$1,300 in 1999 for improvement of the sewer treatment facility operated by the Village of Waynesville as part of the Massie-Wayne Sewer District. The funds collected were to be forwarded to the Warren County Board of Commissioners for deposit into a separate fund to be used for improvements to the sanitary sewer facility. In 1997, the Village collected \$5,750 in tap-in fees, however only \$3,750 was forwarded to the County. As of August 1998, \$10,000 was collected for tap-in fees, but the Village has only forwarded \$2,500 to Warren County Commissioners. This leaves an unpaid balance of \$9,500. It is apparent that money collected for the tap-in fees is being used to subsidize the operations of the Village.

Accordingly, a Finding for Recovery is issued against the Village of Corwin's Sewer Fund in favor of the Warren County General Fund in the amount of \$9,500.

R5-5 The Village should require sewer tap-in fees be paid by the resident directly to the Warren County Auditor.

F5-6 The Village does not require a deposit for utility services; therefore the Village does not have any means of recourse to collect on delinquent accounts.

R5-6 The Village should require a deposit from renters or new utility customers, or Village officials should consider adopting a resolution to make the property owners responsible for delinquent accounts. The Village should then assess the property owners for these delinquent accounts and certify these delinquent accounts to the County Auditor.

F5-7 The average amount of water billed to the Village, from 1994 through 1996, was approximately 698,000 gallons per billing cycle. In 1997 and 1998, the usage increased to approximately 2,201,000 gallons per billing cycle. The increased usage was due to a water main break which was not located and fixed until June 1998, and the cost for the additional water lost through the leak was absorbed by the Village.

R5-7 Water consumption reports should be presented to Council at each meeting and closely monitored to ensure that leaks do not go undetected for any length of time. When a leak occurs, the Village must immediately act upon it so as not to incur water bills that they do not have the resources to pay.

F5-8 During the past several years, the Warren County Water and Sewer Department has routinely raised their rates to cover the cost of production. On February 6, 1997, the Mayor signed Resolutions 97-180 and 97-181 which pertained to the water and sewer contracts. As part of the contact agreements, the Village

acknowledged that rates charged by the County to the Village would be adjusted on a yearly basis. These rate increases were not passed on by the Village to the consumer until 1998 when the Village increased their rate from \$2.75 to \$3.25 per thousand gallons. Previously, the Village was paying \$2.70 per thousand gallons. Also, prior to 1998, the sewer rates were \$29.00 per billing cycle, yet the rate charged by the Warren County Water and Sewer Department was \$39.00. A deficit of \$10.00 per resident per billing cycle. Rates were then raised to \$40.00 per month; however the Department bill for sewer is \$44.96 per billing cycle. A deficit of \$4.96 per resident per billing cycle. Lack of monitoring the rate increases caused the water and sewer funds to carry either deficit balances, required transfers from other funds or failure to pay the Warren County Water and Sewer the amount due to them. It should also be noted that in the 1995-1996 audit, the Village was issued citations and recommendations regarding the lack of controls over their utility department. It was noted that their current rate was not sufficient to cover the cost of water and sewer. In addition, the Village was also cited by the Auditor of State in the 1993-94 audit report for deficit fund balances in the water and sewer funds.

- R5-8 The Village officials should closely monitor the amount billed by the Warren County Water and Sewer Department and raise their rates accordingly. Failure to do so will only cause the Village to sink deeper into debt. Funds meant for other governmental services are being transferred to cover the cost associated with the Enterprise Fund. We have estimated that rates should be increased to \$6.71 per thousand gallons of water and \$49.46 for sewer service. It should also be noted that currently 28% of the households have their own water wells and do not receive water service from the Village, and 48% of the households are not receiving sewer service from the Village.

Other Related Issues

Resolution 9703 - Discounted Water and Sewer Tap-In Fees:

Upon inquiry about the varying tap-in fees noted during the audit, we were presented with an unsigned copy of Village of Corwin Resolution 9703, titled, "A RESOLUTION LISTING CERTAIN CONDITIONS AND AGREEMENTS BETWEEN BOTH THE VILLAGE OF CORWIN AND NICK A. PETH"[sic]. The date on the resolution is March 10, 1997, although the March minutes do not indicate passage of this resolution. The resolution states in part (4):

"The First [sic] combined water and sewer fees will be \$750.00. The Council has agreed to wave the balance to help in the exceptional [sic] high cost of construction pump station and meters that have to be installed as to our request. All additional taps will be at a combined fee of \$2,000.00. This fee will not be increased unless cost incurred by the Village by some means increase [sic] beyond the \$2,000.00.

The Village will have the right to add the increase and only the increase to the tap fee.”

The standard rate for tap-in fees in the Village of Corwin, although no formal documentation was provided, has been \$2,500 total, \$1,000 for water tap-in and \$1,500 for sewer tap-in. The Village signed an agreement with the County in 1997 whereby the Village is required to turn tap-in fees over to the County. Prior to 1997, the Village retained all tap-in fees. The costs to the Village from Warren County Water and Sewer increased in January 1998 by \$250.

In 1997, there were eight tap-in fees paid. Seven of these were in the Furnas Forge subdivision, six from Nick Peth and one from Creekstone Homes. All seven were for \$750. The eighth tap-in fee was for \$500 for J. Lamb.

In 1998, there were 10 tap-in fees paid. Seven of those were from Nick Peth, for \$1,000 (\$750 plus \$250 increase) and the other three were from other builders in the subdivision for \$2,500 each.

Resolution 9703, which we have yet to determine was officially ever adopted by Council, does not specify if the discounted tap-in fees apply only to Nick Peth, or to any purchaser of a lot in the subdivision. However, in 1997, the Village appears to have set a precedent of giving the discounted rate to any builder in the subdivision, by giving the discount to Creekstone Homes.

Findings (F)/Recommendations(R)

F5-9 The Village has established water and sewer tap-in rates for the new subdivision that differ from the usual fees charged to other users.

R5-9 The Village should pass, sign and keep on file a resolution for water and sewer tap-in fees that is consistent and fair to all users.

Purchase of Land for Water Well Fields

During a June 2, 1997 special meeting of Council, Mr. Kimpton Williams, a local realtor, approached the Council with a proposal from Carl Lamb to sell the Village 13 acres of land. Carl Lamb is related to Council Members Scott and Ray Lamb. The Council approved the contract as written. The land was previously purchased by Carl and Barbara Lamb on January 21, 1989, for \$26,400. The Village did not get an outside appraisal on the value of the land, nor provide any evidence that recent market value or like comparisons were made to determine if the price was reasonable. The land was purchased by the Village for \$55,000.

We contacted the Environmental Protection Agency to determine if the land purchased from Carl Lamb for the purpose of developing water well fields was actually suitable for well fields and to determine the costs of developing such a well. The response was that a feasibility study must be performed prior to any approval by the EPA. The EPA was not aware of the Village of Corwin's intention to purchase or subsequent purchase of the land for well fields, nor was the EPA requested to perform a feasibility study. The cost, without other factors considered, was estimated at a minimum of \$50,000. In addition, the Village would have other expenses for maintaining the well fields, such as salaries, electricity, chemicals and other routine maintenance.

Findings (F)/Recommendations(R)

F5-10 The Village purchased land for use as water well fields prior to determining if the land was suitable for well fields and what the costs of establishing their own well fields would be.

R5-10 The Mayor and Council should avoid major land purchases without properly examining all the costs and benefits associated with such a purchase.

Water Leaks

Perspective of Mayor Purkey:

Water leakage was noted during the latter part of 1996, but was not located and repaired until June/July 1998. The Village's water usage jumped from an average of 698,000 gallons per billing cycle to over 2,000,000 gallons per billing cycle. During the financial audit in 1997, Mayor Purkey believed the Ohio Department of Natural Resources, Division of Parks and Recreation was responsible for damaging a water line during construction of the bike path. However, to our knowledge, Mayor Purkey did not call or otherwise communicate with the Division of Parks and Recreation until June 8, 1998.

A company that specializes in locating water leaks was contracted to locate the leak in June of 1998. They located the leak and it was repaired in June 1998. Even though the breakage was not on the site of the bike path construction, Mayor Purkey thought that the Division of Parks was responsible for the leak.

Division of Parks:

We contacted Dave Stites of the Ohio Department of Natural Resources, Division of Parks and Recreation. He stated that originally there was damage to a water/sewer line, however, this occurred during construction and the damage was subsequently repaired. He also stated that a 1" - 1 ½ " line, which served an apartment building was not properly tightened/broken at the joint. This was not the same line that was broken earlier. There was no loss of water to the apartment building.

When the leak was located in June 1998, the Division of Parks sent an investigative team to look at the site and determined that it was not related to their project. They have directed the Village to address any claim they may have to The Court of Claims of Ohio.

Findings (F)/Recommendations(R)

F5-11 Village officials became of a major water leak, and repeatedly attempted to locate the leak, but were not successful. Over a year went by before the Village hired a firm to locate the leak. Metered water quadrupled in that time period, yet the amount billed to consumers did not increase. Transfers were made from the General Fund to the Enterprise Fund to pay for the additional costs incurred as a result of the leak.

R5-11 We recommend close monitoring by the Village of water usage to promote timely action on the part of the Village in locating the source of leaks, and repairing them.

Income Tax Department

Applicable Ohio Revised Code Section

Ohio Rev. Code, Section 718.06 - Statute of limitations; interest on late refunds

- Civil actions to recover municipal income taxes and penalties and interest on municipal income taxes shall be brought within three years after the tax was due or the return was filed, whichever is later.
- Prosecutions for an offense made punishable under a municipal ordinance imposing an income tax shall be commenced within three years after the commission of the offense, provided that in the case of fraud, failure to file a return, or the omission of twenty-five per cent or more income required to be reported, prosecutions may be commenced within six years after the commission of the offense.
- Claims for refund of municipal income taxes must be brought within the time limitation provided in division (A) of this section.
- Interest shall be allowed and paid on any overpayment by a taxpayer of any municipal income tax obligation from the date of the overpayment until the date of the refund of the overpayment, except that if any overpayment is refunded within ninety days after the final filing date of the annual return or ninety days after the complete return is filed, whichever is later, no interest shall be allowed on the refunded overpayment. For purposes of computing the payment of interest on overpayments, no amount of tax for any taxable year shall be treated as having been paid before the date on which the tax return for that year was due without regard to any extension of time for filing that return. The interest shall be paid at the rate of interest prescribed by section 5703.47 of the Revised Code.

Background

The Village of Corwin levies an income tax not to exceed one percent on all salaries, wages, commissions and other compensations, and net profits earned by the residents of the Village for the purposes of general municipal operation, maintenance of equipment, extension and enlargement of municipal services and facilities and capital improvements. Taxes are also levied on all salaries, wages, commissions, other compensation, and net profits earned by nonresidents of the Village. The Village does not give credit for income taxes paid to other municipalities.

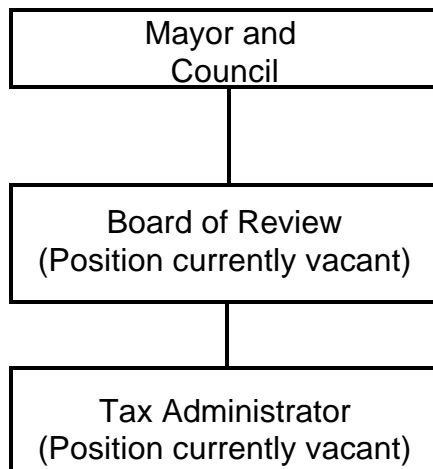
Employers within the Village are required to withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required.

Corporations and other individual taxpayers are required to pay their estimated tax quarterly if their employer does not withhold taxes from their compensation. All tax payers are required to file a declaration annually. All income tax proceeds are credited to the General Fund.

Organization Chart

The following chart shows the proposed organizational structure of the Corwin Income Tax Department. A Board of Review, consisting of a chairman and two other individuals to be appointed by Council was established through Ordinance 143 in 1988. Section 13(b) of this ordinance state that “All rules and regulations and amendments or changes thereto, which are adopted by the Administrator hereunder, must be approved by the board before the same become effective. The Board shall hear and pass on appeals from any ruling or decision of the Administrator and, at the request of the taxpayer or Administrator, is hereby authorized to substitute alternate methods of allocation”.

Organizational Structure established by Ordinance 143 in 1988



Council failed to establish a Tax Department, Review Committee, or create a position for a Tax Administrator, leaving the Village Clerk with the responsibility of coordinating, administering and enforcing the provisions of Ordinance 143 - 1988, which relates to the Village’s income tax. The Village Clerk, who resigned in April 1998, processed the income tax forms, receipted and deposited income tax receipts for the Village. Currently the Recording Secretary is collecting and depositing receipts and the Mayor is maintaining a cash journal combining all funds. There is no evidence that any tax forms are reviewed.

Summary of Operations

The Village Clerk (vacant from April 1998 through October 1998) is responsible for receipting, depositing and posting income tax monies. The Village Clerk is also responsible for maintaining accurate records of all taxpayers accounts, as well as, implementing procedures to ensure that residents, employees and employers are filing the appropriate reports with the Village.

Income Tax Receipting

After several interviews with Village Officials, the Department's procedures and operations were reviewed and evaluated. Based on the preliminary evaluation, we have determined that monthly, quarterly and annual reports are not being generated for review by Council.

Delinquent Accounts

Currently, the Village of Corwin has not attempted to collect on taxpayers with delinquent accounts. The Village does not have a system to track unpaid delinquent accounts.

An analysis of the Village of Corwin's elected/appointed officials indicate eight of the ten officials who served from January 1, 1993 to December 31, 1997, failed to consistently file their own personal income taxes with the Village of Corwin.

Analysis of Elected Officials filing Income Tax Forms						
for the period 1/1/93 to 12/31/97						
Elected Officials	Position	1993	1994	1995	1996	1997
Howard Purkey Jr	Mayor	No Filing	No Filing	No Filing	No Filing	No Filing
Scott Lamb	Council	No Filing	No Filing	No Filing	No Filing	No Filing
Acy Lamb	Council	No Filing	No Filing	No Filing	No Filing	Yes no date
Patricia Cruthfield	Council	Yes no date	Yes 3/23/95	Yes 3/30/96	Yes 4/10/97	Yes 4/16/98
Effie Patton	Council	No Filing	No Filing	No Filing	No Filing	No Filing
Dennis Brown	Council	No Filing	No Filing	No Filing	No Filing	No Filing

Sue Lamb	Treasurer	No Filing	No Filing	Yes no date	No Filing	Yes 3/28/98
Cheryl Davidson	Council	No Filing	No Filing	No Filing	No Filing	No Filing
Ray Lamb	Council	Yes 4/15/94	Yes 4/14/95	Yes 7/29/96	Yes 10/9/97	Extension
Ernie Tracy	Council	No Filing	No Filing	No Filing	No Filing	No Filing

Source: Tax Files supplied by the Village of Corwin. No filing does not necessarily mean a tax form was not filed, only that there was no evidence of a tax form in the individual's tax file.

Performance Measures

- Assessment of current income tax collections
- Assessment of privatization

Current Income Tax Collections

In 1997 total collections for Income Tax Receipts for the Village of Corwin totaled \$8,767. Tax receipts from businesses accounted for 64% or \$5,625, while only 36% or \$3,142 of tax receipts came from individuals within the Village of Corwin.

In 1996, total collections for Income Tax Receipts for the Village of Corwin totaled \$7,659.

A comparison of the two years reveal total income tax receipts increased nearly 13%, from 1996 to 1997 while there was virtually no change in the Village's population.

Privatization

In performing an analysis of potential privatization opportunities within the income tax department, an evaluation of the functions and activities was completed with respect to criteria which are important considerations in assessing privatization opportunities.

Privatization Opportunities Assessment Criteria

Assessment Criteria	Description / Key Issues
Sufficient Volume?	Is the volume of work associated with function/activity sufficient to justify privatizing? Does the function/ activity require sufficient resources to enable efficient operations?
Complexity?	Is the function/activity too complex to be performed by external resources? - Are the technical skill requirements of the activity excessive? - Are the requirements associated with the activity difficult to predict?
Significant capital investment?	Are significant capital investments required in association with the performance of the function/activity?
Procurable Services?	Are high quality, external providers available to perform the function/activity? - Does an alternative service provider exist? - Is the performance of the function/activity unique?
Benefit exceeds operating costs?	Will the potential benefits of utilizing external resources exceed potential costs?
Quality?	Is there a high probability that external performance of the function/activity would reduce quality and service levels? - Would responsiveness be maintained? - Would taxpayers' needs be met?

Initial Privatization Assessment

Assessment Criteria	Income Tax Department
Sufficient Volume	Yes
Complexity	No
Capital Investment	No
Procurable Services	Yes
Operating Costs	Yes
Quality	Yes
Potential Privatization Opportunity	High

Regional Income Tax Agency (RITA) Background

In 1971, under Chapter 167, Ohio Revised Code, the Regional Council of Governments (RCOG) was formed to handle the mutual tax problems and concerns facing the municipalities.

The first official act of the RCOG was to form the Regional Income Tax Agency (RITA) to collect municipal income taxes for the members of RCOG. RITA's primary mission is the collection of municipal income tax.

Over the past ten years, RITA has collected nearly \$1.8 billion in municipal income taxes. During this period, tax collection's have increased while the percentage cost of collections has decreased from 2.27% in 1987 to 1.11% in 1996.

RITA is currently serving approximately eighty-two communities throughout the State. The majority of the communities that RITA serves are located in northeast Ohio. The main office is located in Brecksville, with a satellite office located in Upper Arlington. The agency currently employs seventy-five full-time staff members.

RITA handles all aspects of income tax collection. RITA has established procedures to identify and update their tax filer database by receiving reports from the State Department of Taxation, reports on real estate transactions, and canvassing the areas they serve. RITA has also established procedures to collect delinquent taxes: RITA prepares letters, handles bankruptcy, audits, subpoenas, and court preparation, in order to collect on delinquent accounts.

On a monthly basis a statement is sent to the entity which details the month-to-date, year-to-date receipts and the amount of retainer fees charged to the entity. The entity can receive payment either via wire transfer or by check.

RITA initially assesses 3% from the total receipts received during the month to cover expenses. At the end of the fiscal year, RITA computes the actual costs based on returns and number of transactions. The entity is reimbursed for the difference between the actual cost and the amount the Village paid. This reimbursement is paid to the entity by June of the following fiscal year.

RITA has been able to allocate administrative costs to more than eighty participating communities and therefore, reduce costs to the individual participants. Services provided by RITA include: Microfilming all pertinent documents, in-house print shop and mail room, p.c. and peripheral leasing program, p.c. systems training, p.c. software enhancement, specific municipality computer software for payroll, accounting, and budgeting.

RITA also provides one employee to each entity one day per year to assist the taxpayers during a tax season. An 800 number also is provided for year round taxpayers to call if any assistance is needed or questions arise. Several entities participating in RITA also have an entity available on site to handle some of the income tax duties such as tax preparation, delinquent account collections, etc.

Summary

The Village has not implemented their own ordinance which defines an organizational structure and procedures to collect taxes and pursue delinquencies. At the present time, the Village does not have an income tax department to process tax receipts. Council needs to determine the most beneficial course of action for the Village: establish an internal Village Tax Department or contract with RITA. Up to this point, Council has not been actively engaged in developing an income tax department and management control system. They have not even filed their own tax returns on a consistent basis.

Some questions for the Village to consider are: Can the Village find someone willing to undertake the position of Tax Administrator? Can the Village find three people willing to serve on the Review Committee? Will RITA be able to handle delinquent accounts on a timely basis? Since the Village will not have immediate access to the income tax receipts, how will this impact the Village's cash flow?

Council should study all options and make an informed decision based on the criteria presented to them.

Findings (F)/Recommendations(R)

Based on the review of the income tax department, the following recommendations identify opportunities for the Village of Corwin to achieve some operational improvements. However, some of the recommendations given will require an initial investment by the Village. Once in place, these operational improvements will likely yield a substantial increase in income tax revenue. The Village of Corwin should carefully consider implementing one of the following recommendations.

F6-1 During the course of our audit, there was no evidence presented that most of the Village's elected/appointed officials, and many of its residents had filed an income tax return with the Village of Corwin as required by Village Ordinance 143. Furthermore, the Village has not developed a method of tracking unpaid delinquent accounts. Failure to properly develop, and maintain a system to track income tax filings and unpaid delinquent accounts may result in unrealized income tax receipts by the Village of Corwin.

R6-1 The Council should establish an income tax department along with the board of review and create a position for a Tax Administrator as established in Ordinance 143 -1988.

R6-1a The Council should investigate the possibility of privatizing the income tax department in the near future. The Regional Income Tax Agency (RITA) has been contacted and a proposal will be submitted for review by Council.

- F6-2 The Village of Corwin does not maintain a master list of the residents or businesses that are located within the Village's corporation limits. Without a master list, there is no way to determine who should be filing and/or paying income taxes to the Village. An analysis of the officials who failed to file or pay income tax revealed that eight out of ten officials failed to comply with the Village ordinance. An estimate of delinquent taxes owed by officials was determined to be approximately \$6,000 for the past three years.
- R6-2 The Village should establish a master list of the residents of the Village to use for tracking income tax payers. This list should be compared to the individuals/businesses who are filing returns with the Village. The Village should actively pursue delinquent accounts.
- F6-3 Village Ordinance N0.143, Section 10 states that interest and penalties should be imposed for failure to comply; however, it does not state at what interest rate the Village should be imposing these fees. In addition, Section 19 states that whoever violates or fails to comply with any of the provisions of this ordinance is guilty of a misdemeanor of the third degree and shall be fined not more than five hundred dollars.
- R6-3 The Village should amend their ordinance to include the stated rate of interest and penalties that will be assessed for noncompliance. Procedures should be established and implemented to collect back taxes and to assess penalties and interest for nonpayment. If residents and businesses fail to comply then legal action should be taken to collect the revenue due the Village.
- F6-4 The Village's current tax rate is 1%; however, the revenue collected from the tax is insufficient to pay the Village's liabilities. The Village is currently experiencing financial difficulty and has been placed in fiscal emergency by Auditor of State.
- R6-4 Even after realizing the estimated savings due to operational efficiencies and estimated income from additional property taxes, the Village will not have sufficient resources to provide services and pay commitments. The Village officials should consider placing an additional 1/2% income tax increase on the ballot to be voted upon by the residents of the Village. The additional income collected will be used to help the Village regain financial stability.

Debt

Applicable Laws

Municipal corporations are restricted in their ability to obtain debt by the Ohio Constitution, Article XIII, Section 6; Article XVIII, Section 13; and Ohio Rev. Code, Section 133.05, which limits its net indebtedness. In addition, a municipal corporation should not incur debt unless it reasonably anticipates sufficient future revenue to repay such debt.

Background

The Mayor and Clerk/Treasurer of the Village of Corwin entered into a promissory note with Marilyn Fultz on behalf of the Village and received funds from that individual on September 20, 1997. The Note was in the amount of \$40,000, at 10% interest per year, payable annually and the principle due and payable on or before September 20, 2001, or on demand thereafter. This note was entered into by the Mayor, W. Howard Purkey, Jr. and the Village Clerk-Treasurer, Jerry Cornely, prior to the passing of an ordinance approving the debt by Village Council. A special Council meeting was held on September 24, 1997, for the purpose of passing Ordinance 97-03, a promissory note of \$40,000 to “assist the Village in paying its’ past debts and future expenditures:

- \$10,000 utility tap fee to housing development
- \$15,000 black top fees and utility fees
- \$15,000 for land (flood plain area) for future water wells.”

The minutes do not state that the \$40,000 had already been received by the Mayor, nor do they state if the Council had discussion on the matter before voting to enter into the promissory note lien.

The land for the Furnace Forge subdivision housing development for which the Village used the borrowed funds to pay the tap fee, was sold to the developer by Corwin Industrial Park. Corwin Industrial Park is a partnership, with four general partners, one of whom is W. Howard Purkey, Jr., Mayor of the Village. The partnership also owns additional land adjoining the subdivision. The first sale by Corwin Industrial Park to the developer was 38 acres in April 1997. A second sale, of 53 acres from Corwin Industrial Park to the developer was made in February 1998. The second sale was made after the improvement, in the form of gas lines, was made to the subdivision and partially financed by the Village.

Background, continued

Some of the proceeds of the promissory note were expended to pay for outstanding debts incurred by the Village. On September 24, 1997 the Village paid \$15,000 to Ohio Southern Paving as payment for a December 31, 1996 balance of \$21,213.60. (The remaining \$6,213 was paid in March of 1997.)

During a June 2, 1997 special meeting of Council, Mr. Kimpton Williams, a local realtor, approached the Council with a proposal from Carl Lamb (resident and relative of 2 Council Members) to sell the Village's 13 acres of land. The Council approved the contract as written. The land was previously purchased by Carl and Barbara Lamb on January 21, 1989, for \$26,400. The Village did not get an independent appraisal on the value of the land, nor provide any evidence that recent market value or like comparisons were made to determine if the price was reasonable. The land was purchased by the Village for \$55,000. The Village made a downpayment of \$500, then paid \$15,000 after receiving funds from the promissory note. At this point, the Village should have owed \$39,500 to the Lambs. However, the contract with the Lambs and the payment amount is based upon the Village owing a balance of \$40,000. Apparently, the Village purchased the land for water well fields without researching whether that land would be acceptable to the EPA for development of wells. (See Section 8, Other Issues). Payments of \$5,695 for this debt are due beginning October 1, 1998 and every year until 2007.

The Mayor has stated that all the obligations will be met through the 1% nonreciprocal income tax. The Mayor has stated that he expects 175 homes to be built in the new subdivision, with average household income of \$50,000 per year, which will generate an additional \$87,500 per year. See Section 6 for an overview and analysis of Income Tax.

Overview

A review was performed of the current outstanding debt as of August 31, 1998. A brief summary of each issue is listed below. This information was obtained from review of the ordinances related to each issue and actual copies of the current note or debt instrument.

As of August 31, 1998, the Village had the following debt outstanding:

Debt	Principal outstanding as of 8/31/98	Fund making repayment	Purpose of debt	Type of debt
Promissory Note to Marilyn Fultz - issued September 20, 1997 with interest of 10% simple interest payable annually with principle due and payable on September 20, 2001. (Lien of \$40,000 was attached to the Village's property on December 31, 1997)	\$40,000	General	\$10,000 for utility tap fee for new subdivision \$15,000 for outstanding debt for street repair \$15,000 for down payment on land purchase for future water wells	Promissory note
Mortgage Note to Carl Lamb (lien of \$40,000 was attached to the Village's property on December 31, 1997). Payment of \$5,695.10 due October 1, 1998 and each year thereafter until 2008. Interest rate assessed at 7.49%	\$40,000	General	Purchase of land for future well fields	Mortgage note

Findings (F)/Recommendations (R)

F7-1 The type of debt issued, (a promissory note to an individual), does not fall under the definition of debt and type of debt allowable for a village as defined in Chapter 133, Uniform Bond Law.

R7-1 We recommend that the Village should cease issuance of debt that is not obtained through statutorily prescribed methods. The Village should consider in advance of procuring services, such as street repair, whether the funds will be available. The Village should not contract for street repair without having properly appropriated and encumbered the funds for the project.

F7-2 The financial audit for 1995-1996 of the Village recommended that the ordinance (97-03) passed by the Council approving the loan should be rescinded and the loan amount should be returned to the individual holding the promissory note. The recommendation was not followed by the Village.

R7-2 We recommend that the Village should not incur debt which exceeds the value of the asset for which they are indebted. The land purchased by the Village for \$55,000 has \$80,000 in mortgage liens against it. The Village should take steps to ensure that they will have the funding necessary to meet their obligations related to their debt. The first debt payment is due October 1, 1998 in the amount of \$5,695.10 and the Village's current general fund balance has a deficit of \$146.00.

F7-3 The financial audit issued a Finding for Recovery against the Mayor and Council for the \$15,000 used to pay outstanding blacktop bills. This issue was referred to the Village Solicitor on May 28, 1998. The Village has not responded to the letter. A copy of the letter was also sent to the Warren County Prosecutor and the Ohio Attorney General's office.

R7-3 We recommend that the Solicitor follow up on this Finding for Recovery.

F7-4 Mr. Carl Lamb, seller of the above noted 13 acres, is a relative of several members of Council, and Mr. Williams is a partner in Corwin Industrial Park with the Mayor, Mr. W. Howard Purkey, Jr.

R7-4 We recommend that in the future, in land purchase transactions, the Village obtain an independent appraisal prior to entering into a contract. We also recommend that the Village take steps to ensure that any property purchased be able to be used for the purpose intended.

F7-5 In September 1997, the Village borrowed \$40,000 from a private individual. The terms of the agreement state that the Village will pay only the interest payments each month until 2001. At that time, the Village is required to pay the principal

amount of \$40,000 along with the interest due. According to the financial forecast, the Village may not have the resources to pay the full amount due.

R7-5 We recommend the Village renegotiate their agreement to extend their loan an additional five years. A portion of the principal amount should be paid in 2001 and each year thereafter.

F7-6 In 1997, the Village incurred \$80,000 in debt (\$40,000 for land and \$40,000 to a private individual, Marilyn Fultz), but currently funds to repay this debt are not available.

R7-6 To provide resources for the payment of debt, the Council should consider placing at least a 4.6 mill levy on the ballot to raise revenue to pay off the Village debt. This levy would generate approximately \$8,000 per year in additional funds and would cost the homeowner an additional \$129 per year based on \$80,000 appraisal. These funds would be used exclusively to pay off the note owed to Ms. Fultz.

Surrender of Corporate Power

Applicable Laws

Ohio Rev. Code, Section 703.20, states that, "Villages may surrender their corporate powers upon the petition to the legislative authority of the village of at least forty per cent of the electors thereof, to be determined by the number voting at the last regular municipal election [sic], and by an affirmative vote of a majority of such electors at a special election, which shall be provided for by legislative authority, and conducted, canvassed, and the result certified and made known as at regular municipal elections. If the result of the election is in favor of such surrender, the village clerk shall certify the result to the secretary of state and the county recorder, who shall record it in their respective offices, and thereupon the corporate powers of such village shall cease.

Background

The Village of Corwin is bordered by the Village of Waynesville and Wayne Township. If the Village were to dissolve, the governance of the unincorporated village would fall to Wayne Township. At this time, the Village appears unable to provide the quality and level of services that the Township would be able to provide to the residents.

Overview

Service/Tax:	Village of Corwin	Wayne Township
Police	County Sheriff (informal agreement)	County Sheriff (required by law)
Road Maintenance/Repair	As determined by Council. Currently, Street and MVL funds have combined funds of \$754	The township is current on street maintenance and repair
Fire and Ambulance	Village levy goes to Wayne Township to provide for fire and ambulance service.	Provides both fire and ambulance protection
Income Tax	1% nonreciprocal tax to all residents	No income tax

Property Tax	Effective rate: \$46.42 per \$1000	Effective rate: \$46.21 per \$1000
Water and Sewer	\$3.25 per 1000 gallons for water \$20/month for sewer	\$2.76 per 1000 gallons for water (To Warren County) \$22.48/month to County for sewer
Service/Tax:	Village of Corwin	Wayne Township
Fiscal Management	The Village has not had anyone run for Clerk's position in recent years. The volunteer Clerk resigned as of May 1998. The position was filled in October 1998.	The Township has a knowledgeable elected Clerk who has held the position for a number of years.
Community Support	The Village has had difficulty getting residents to run for office. The only elected officials are the Mayor and two Council members. The community is generally uninvolved in Village affairs.	The Township has a full Board of Trustees, all elected, and an elected Clerk.
Ability to meet obligations/payroll.	Village has numerous debts and bills outstanding. The Village does not pay any employees except the meter reader (\$100 bimonthly).	The Township has positive balances in all funds and is not in default on any bills. The Board of Trustees employs personnel to handle the activities of the Township.

Average Costs per Household

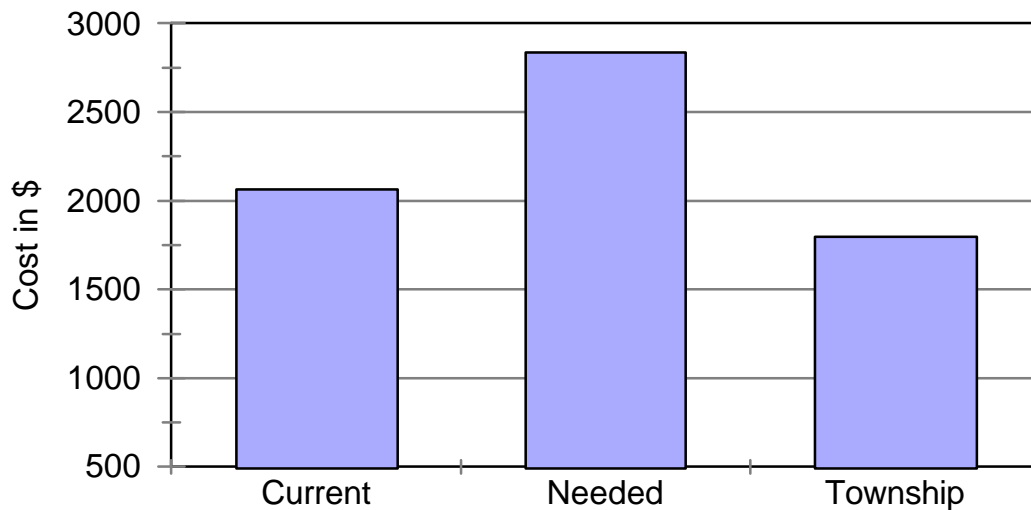
For a typical family, with a household income of \$25,000 and a property value of \$80,000, and using 7,000 gallons of water per month:

Charge/Tax	Village of Corwin - Current	Village of Corwin - Proposed	Wayne Township
Income Tax	\$ 250.00	\$ 375.00	\$ 0.00
Property Tax/per year	1,299.76	1,576.80	1,293.88
Water fees/per year	273.00	523.32	231.84
Sewer fees/per year	<u>240.00</u>	<u>359.76</u>	<u>269.76</u>
Total Per Year	\$2,062.76	\$2,834.88	\$1,795.48

Average Costs per Household, continued

The savings to the typical family living in the Township versus the Village is illustrated in the graph below. In the future, there may be additional costs to the residents if utility rates and/or taxes will be raised as the Mayor and Council have indicated.

Average Household Costs



Findings (F)/Recommendations (R)

F8-1 The charts above illustrate the cost/benefit of remaining a Village versus the Township format of government.

R8-1 The Village residents should carefully consider the costs and benefits of remaining a Village versus dissolving the Village and becoming part of Wayne Township.

F8-2 The Village has 118 registered voters. In the last election, held on May 5, 1998, 32 residents voted. The Village will need a petition signed by 13 voters (40% of 32) to initiate a vote by special election to determine if the residents are in favor of surrender of corporate power of the Village.

R8-2 We recommend that the Village give the residents the opportunity to make their own choice as to whether or not they want to continue to remain an incorporated village, or to unincorporate the Village. It should be made clear to the residents that the Village can retain its identity as an unincorporated village while at the same time having lower costs for taxes and charges for services.

Appendix A
Village of Corwin
Outstanding Payables as of September 30, 1998
Projected through December 31, 1998

Payable To	Invoice Date	Due Date	Amount Due	Amount Paid	Amount Remaining
C. Cornyn- Past Due Legal fees		06/30/98	\$5,459.04		\$5,459.04
Calvin Crutchfield		07/01/98	390.00	\$390.00	0.00
Carl Lamb		10/01/98	5,695.10		5,695.10
Don Thompson Excavating		07/01/98	1,567.19		1,567.19
DP&L Council House	03/16/98	04/16/98	74.04		
DP&L Council House	02/16/98	03/16/98	49.04		
DP&L Council House	04/14/98	05/14/98	71.32		
Sub Total			194.40	216.53	(22.13)
DP&L Lift Station	05/16/98	06/15/98	16.44		
DP&L Lift Station			21.47		
DP&L	06/14/98	07/14/98	23.88		
DP&L Lift Station	02/16/98	03/16/98	2.60		
DP&L Lift Station	03/16/98	04/16/98	26.27		
DP&L Lift Station	04/18/98	05/18/98	26.59		
Sub Total			117.25	106.34	10.91
DP&L Pump Station	06/14/98	07/14/98	26.92		
DP&L	03/09/98	04/09/98	174.93		
DP&L Pump Station	06/15/98	07/15/98	17.85		
DP&L Pump Station	04/14/98	05/14/98	29.04		
DP&L Pump Station	03/09/98	04/09/98	68.26		
DP&L Pump Station	05/11/98	06/11/98	28.26		
Sub Total			345.26	180.09	165.17
DP&L Street Lights	03/11/98	04/11/98	290.16		
DP&L Street Lights	05/08/98	06/08/98	290.16		
DP&L Street Lights	02/11/98	03/11/98	290.16		
DP&L Street Lights	04/11/98	05/11/98	290.16		
DP&L Street Lights	08/11/98	09/11/98	290.16		
DP&L Street Lights	07/11/98	08/11/98	290.16		
DP&L Street Lights	07/11/97	08/11/97	177.40		
DP&L Street Lights	08/11/97	09/11/97	290.16		
DP&L Street Lights	09/11/97	10/11/97	290.16		
DP&L Street Lights	10/11/97	11/11/97	290.16		
DP&L Street Lights	11/11/97	12/11/97	290.16		
DP&L Street Lights	12/11/97	01/11/98	290.16		
DP&L Street Lights	01/11/98	02/11/98	290.16		
DP&L Street Lights	06/15/98	07/10/98	290.16		
Sub Total			3,949.48	2,124.17	1,825.31
HACH		07/17/98	45.55	45.55	0.00
Homer Miller		07/01/98	100.00	100.00	0.00
Marylin Fultz			1,333.32	333.33	999.99
Mitchell Plumbing	03/09/98	04/09/98	275.00		275.00
NET	06/15/98	07/15/98	10.00	10.00	0.00
NET		08/01/98	106.00		106.00
Pipeline Leak Detection	06/05/98	07/05/98	222.50	222.50	0.00
Rumpke-Clean up day	07/17/97	08/17/97	522.50	522.50	0.00
State Auditors		06/30/98	4,387.06		4,387.06
Warren Cnty Eng- Salt	02/18/98	03/18/98	240.00		240.00
Warren Cnty Older American	01/16/98	02/16/98	44.00		44.00
Warren County Regional Plan	01/01/98	01/31/98	22.50		22.50
Warren County Sewer	04/02/98	05/02/98	1,681.50		
Warren County Sewer	06/08/98	06/30/98	1,681.50		
Warren County Sewer Past due		08/01/98	81.86		
Sub Total			3,444.86		3,444.86
Warren Cnty Tap in Fees #12	08/05/98		1,000.00		
Warren Cnty Tap in Fees #18	08/05/98		1,000.00		
Warren Cnty Tap in Fees#36,38	07/27/98		2,000.00		
Warren Cnty Tap in Fees #13	07/02/98		1,000.00		
Warren County Sewer-Tap in	06/12/98	06/30/98	1,000.00		
Warren County Sewer-Tap in	Various	Various	2,750.00		
Warren County Sewer-Tap in	04/30/98	05/15/98	1,000.00		
Sub Total			9,750.00		9,750.00
Warren County Water	06/08/98	06/30/98	8,904.59		
Warren County Water	04/02/98	05/02/98	7,775.20		
Sub Total			16,679.79		16,679.79
Total Accounts Payable			<u>\$54,900.80</u>	<u>\$4,251.01</u>	<u>\$50,649.79</u>