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VILLAGE OF MONTEZUMA PERFORMANCE AUDIT

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Financial Forecast

Introduction

As a benefit to government entities in fiscal watch or emergency status, the Auditor of State's Office has the ability to initiate performance audits. These performance audits are completed at no cost to the government entity and are designed to assist the government in making decisions with the objective of eliminating the conditions which brought about the declaration of fiscal watch or emergency. Another objective of the performance audit is to perform an independent assessment of the government's financial situation, including the development of a framework for a financial recovery plan. The recommendations contained within the performance audit provide one resource to a government entity in developing a financial recovery plan.

Scope & Methodology

This document, prepared as of June 2001, represents the performance audit of the Village of Montezuma (the Village) and consists of a comprehensive financial forecast through 2005. In developing the financial forecast, a thorough analysis of each of the major revenue and expenditure line-items was conducted in an effort to develop detailed assumptions. The forecast focuses on the General and Special Revenue Funds and projects the Village's financial situation through 2005, assuming no major operational changes. To allow for a perspective of the Village's past financial situation, the financial forecast presents historical information from 1998 through 2000.

Through the process of developing the financial forecast, a number of the Village's operational practices were also assessed for overall efficiency and effectiveness. Accordingly, the performance audit identifies detailed recommendations designed to assist the Village in enhancing its operational efficiency as well as in developing a financial recovery plan.

Background

As provided by Section 118.021 of the Ohio Revised Code (ORC), the Mayor of Montezuma requested that a fiscal watch analysis be performed by the Auditor of State (AOS). On April 24, 2000, citing Sections 118.02 and 118.03 of the ORC, the AOS placed the Village in fiscal watch as of the end of 1999. The Village of Montezuma has remained in this condition since the AOS's original designation.

ORC Section 118.022 specifies four fiscal watch conditions. The existence of any of these conditions constitutes grounds for the declaration of a fiscal watch. These conditions include assessments surrounding the following:

- General Fund accounts payable,
- General Fund and special funds accounts payable,
- Deficit fund balances, and
- Treasury balance.

The Village was found to have deficit fund balances in excess of the provisions outlined in ORC Section 118.022(A)(2) and (3). Specifically, the sum of the General Fund deficit balances exceeded one-twelfth of the sum of the General Fund budget. Additionally, the treasury balance less the positive fund balances exceeded one-twelfth of the treasury receipts. A significant causal factor was administrative inefficiencies. The following are some of the major administrative problems contributing to the fiscal watch status:

- **Budgetary Process** - The Village does not have written policies regarding the budget process. The Tax Budget, Certificates of Estimated Resources and the Annual Appropriation Ordinance routinely had not been prepared on a timely basis. Appropriations in the General Fund exceeded estimated resources during 1998 and 1999. The unwritten policy the Village chose to follow was seemingly ineffective because time frames for the completion of tasks were not being realized.

According to a representative from the Mercer County Auditor's office, it appears that the Village has taken some steps to rectify past filing deficiencies by complying with appropriation measure provisions contained in ORC §5705.38.

- **Record-keeping** - The lack of financial records for the Village has been well documented. Local Government Services (LGS) has had to reconstruct financial statements for 1998 and 1999. According to Village officials, accounting records were not properly maintained by previous administrations. Numerous citations and management recommendations about the financial records are contained in the previous two financial audits. The Mercer County Auditor shares AOS concerns, especially as they pertain to yearly appropriation and overspending resources attributable to the Village's record-keeping practices.

Since the Village is in a fiscal watch status, cost for record reconstruction and other consultation services provided by LGS are charged back to the state. For the period from April 2000 to July 2001, LGS has spent a total of 604 hours in assisting the village. This includes the reconstruction and reconciliation of records, training the clerk in general accounting procedures, training the clerk in the use of Uniform Accounting Network (UAN), and monitoring the village's progress as required under fiscal watch. LGS billable rate to the state for services rendered to local governments during fiscal year 2001 was \$50.62 per hour. Total cost for the state thus far in assisting the Village is \$30,574.48.

- **Turnover** - The Village of Montezuma has had six Clerk/Treasurers since 1997 resulting in an obvious disruption in the flow of financial information. The

Clerk/Treasurer is normally the chief fiscal administrator of a village. Clerk/Treasurer responsibilities include keeping and maintaining the financial records, reviewing receipts and expenditures, taking part in the budget process, effectuating tax remittances and completing government filings and various council meeting duties.

- **Internal Controls** - Adequate segregation of accounting duties does not occur due to the small size of the Village, the previously mentioned high Clerk/Treasurer turn over and the fact that all accounting functions are performed by the Clerk/Treasurer. Specifically, internal review of Village financial and budgetary undertakings by an internal finance committee is not performed. The lack of certain historical accounting practices, such as routine receipt and expenditure data review, cross-checks for financial posting timeliness and an overall verification of financial records, appear to have adversely affected the Village.

Nature and Purpose of Presentation

This financial projection represents the expected revenues, expenditures and fund balances of the Village's General and Special Revenue Funds. These financial projections are for each of the calendar years including 2001 through 2005, with historical information presented for 1998 through 2000.

Description of Village

The Village of Montezuma (the Village) is located near the center of Mercer County at the southern tip of Grand Lake St. Marys. The Village consists of a 0.295 square kilometer area, and according to the 2000 U.S. Census, is inhabited by 191 persons. Comparing the 2000 U.S. Census Bureau population figure to that of the 1990 census, 199 persons, suggests an overall trend toward a decreasing population.

The Village incorporated on March 5, 1894, and is directed by a publicly-elected Mayor along with a six-member Village Council, also publicly elected. The current Village Clerk/Treasurer was appointed, but is filling an otherwise publicly-elected position. The Mayor and Council receive compensation based on the number of Council meetings attended, while the Clerk/Treasurer receives an annual salary. The Village provides services to its residents that include landscaping/snow removal services and street lighting. In the past, police services were contracted through the Mercer County Sheriff's Office (MCSO). In 2001, the Village voted to accept MCSO's offer for police services based upon availability of sheriff personnel rather than through contract specifications. Police service levels are not expected to change. The landscaping/snow removal services are contracted through a Village resident. The Village pays for street lighting located on Village streets out of the General Fund and for street lighting located on state roadways out of the Special Revenue Fund.

Fund Accounting

The Village uses fund accounting to segregate cash which is restricted as to its use. The following are the fund classifications:

- **General Fund** - This is the general operating fund used to account for all financial resources except those required to be accounted for in another fund. Receipts into the General Fund include, among others, property tax revenue and tax revenue redistributed through the Local Government Fund and Local Government Revenue Assistance Fund. Elected officials' payroll and Village utility expenses are included among General Revenue expenditures.
- **Special Revenue Fund** - This fund accounts for monies from specific sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village has the following components in its Special Revenue Fund:
 - Permissive Motor Vehicle License Tax - locally assessed license tax for specific transportation related purposes such as for planning, constructing, improving, maintaining, and repairing of public roads
 - Street Construction, Maintenance and Repair - gas and motor vehicle tax for construction and repair of Village streets
 - State Highway Improvement - gas and motor vehicle tax for highway construction and maintenance of State Highways

Financial Forecast

The financial forecasts presented in **Tables 1-1** and **2-1** represent the Auditor of State's projection of the Village's present and future financial condition in the absence of significant increases in revenues or reductions in expenditures. The projections, which are for the General and Special Revenue Funds, are accompanied by three years of comparable historical results, general assumptions and explanatory events.

General Fund Forecast

The financial information in **Table 1-1** represents actual and forecasted financial information in the General Fund for the Village of Montezuma.

Table 1-1: General Fund

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Property Taxes	\$2,588	\$3,171	\$5,080	\$5,329	\$5,702	\$6,101	\$6,528	\$6,985
Intergovernmental Receipts	\$20,807	\$20,581	\$23,601	\$23,419	\$23,419	\$23,419	\$23,419	\$23,419
Licenses, Permits and Fees	\$30	\$24	\$0	\$0	\$0	\$0	\$0	\$0
Interest	\$92	\$4	\$77	\$79	\$81	\$83	\$85	\$87
Miscellaneous	\$1,114	\$287	\$1,772	\$1,058	\$1,058	\$1,058	\$1,058	\$1,058
Total Operating Revenues	\$24,631	\$24,067	\$30,530	\$29,885	\$30,260	\$30,661	\$31,090	\$31,549
Emergency Services	\$6,541	\$4,269	\$5,572	\$498	\$498	\$498	\$498	\$498
Utility Services	\$5,518	\$1,909	\$5,354	\$5,555	\$5,765	\$5,986	\$6,217	\$6,460
General Operations	\$17,971	\$19,449	\$20,542	\$21,615	\$22,203	\$22,809	\$23,433	\$24,076
Capital Outlay	\$575	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Operating Expenditures	\$30,605	\$25,627	\$31,468	\$27,668	\$28,466	\$29,293	\$30,148	\$31,034
Net Transfers/Advances - In/(Out)	\$0	(\$1,000)	\$1,646	\$0	\$0	\$0	\$0	\$0
Results of Operations (Net)	(\$5,974)	(\$2,560)	\$708	\$2,217	\$1,794	\$1,368	\$942	\$515
Beginning Fund Balance	\$5,146	(\$828)	(\$3,388)	(\$2,680)	(\$463)	\$1,331	\$2,699	\$3,641
Ending Fund Balance	(\$828)	(\$3,388)	(\$2,680)	(\$463)	\$1,331	\$2,699	\$3,641	\$4,156

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Ledgers

Assumptions

Summarized in the following pages are the significant general assumptions underlying the financial forecast shown in **Table 1-1**.

Revenues

- A. Property Taxes:** Property taxes are levied and assessed on a calendar year basis against real, public utility and tangible personal (used in business) property located in the Village. Assessed values for real property taxes are established by state law at 35 percent of appraised

market value. All real property is required to be revalued every six years and updated midway through the six-year period.

Real property reappraisal for taxing purposes occurred in 1999 (collected in 2000). The reappraisal resulted in an increase in property tax valuations for the Village. However, according to a representative from the Mercer County Auditor’s office, Montezuma’s size and present capacity make future construction prohibitive. Taking into account various economic factors, Mercer County Auditor’s office expects Village property values to increase at a declining rate. Notwithstanding information provided by the county auditor’s office, this forecast assumes that in 2002, the period when the next property tax update is to occur, the appraised property values will increase at a conservative growth rate of seven percent.

The property tax forecasts in **Table 1-2** are based on historical valuations and trends, including the effects of scheduled updates and appraisals. In projecting property valuations it is assumed that the appraised values will increase at the applicable historical growth rates. The Village is currently collecting on 2.2 inside mills. The detailed valuation, millage and revenue projections are summarized in **Table 1-2**.

Table 1-2: Property Valuation and Millage

	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Total Assessed Property Values -	\$2,816,628	\$3,013,792	\$3,224,758	\$3,450,491	\$3,692,025
Authorized Mills					
Inside	2.20	2.20	2.20	2.20	2.20
Total Authorized Mills	2.20	2.20	2.20	2.20	2.20
Effective Mills to be Levied					
Inside	2.20	2.20	2.20	2.20	2.20
Total Effective Mills to be Levied	2.20	2.20	2.20	2.20	2.20
Total Projected Property Taxes	\$5,329	\$5,702	\$6,101	\$6,528	\$6,985

Sources: Mercer County Auditor and AOS documents

B. Intergovernmental Receipts: Intergovernmental Receipts consists of local government revenue assistance, state shared taxes and permits, homestead and rollback property tax exemptions. The Local Government Fund as well as Local Government Revenue Assistance Fund receipts are general operating monies received from the County Auditor. The amount of funding received from the Local Government Fund and Local Government Revenue Assistance Fund is based on a mathematical formula outlined in ORC § 5747.53 and ORC § 5747.63.

As **Table 1-3** illustrates, the Local Government Fund has had fluctuating growth over the past three years. The Local Government Revenue Assistance Fund shows an increasing trend between 1998 and 2000. Both Local Government Fund and Local Government Revenue

Assistance Fund for 2001 are calculated at three percent growth. Future years are held constant at the 2001 level. This is a matter of consequence resulting from provisions contained in section 138 of the recently passed Amended Substitute House Bill 94, of the 124th General Assembly, State of Ohio biennial budget. This legislation freezes the distribution of these tax revenues effective July 2001 through July 2003. During the freeze period, the amounts distributed are to equal the amounts that were distributed during the corresponding month of July 2000 through June 2001 base year period.

Biennial budget deliberations to occur at the beginning of 2003 will foretell future distribution of these tax revenues. Any possibility of increase in the amount distributed to local governments beyond 2003 lies with legislative action. Taking a conservative approach, forecast levels in the Local Government Fund and Local Government Revenue Assistance Fund for 2004 and 2005 are also held at the 2001 level.

The Village received inheritance tax revenue in 2000. However, Substitute Senate Bill 108 of the 123rd General Assembly, minimizes the amount of inheritance tax revenue the Village may receive, therefore, no revenues from this source are projected. The Cigarette Tax has historically remained constant at \$19, with the exception of 1998, and is forecasted to continue the trend. Liquor and Beer Permits also have remained constant and are projected to remain at the current level.

Homestead/Rollback includes a ten percent property tax rollback for all real property tax owners. In 1979, an additional 2.5 percent rollback was enacted for owner-occupied homes. These tax credits are reimbursed to the Village through the state and are calculated by applying the appropriate percentages to the residential and commercial properties. Also, included in this category is an exemption for businesses for the first \$10,000 in personal property tax valuation. This exemption is reimbursed by the state and is estimated based on historical trends. The Village has shown a decline in this area of revenue attributable to a reduction in the eligible population (mostly elderly) who would receive the tax credit(s). Therefore, Homestead/Rollback revenues are projected to remain at the current level. The main components of Intergovernmental Receipts and the projections by component are presented in **Table 1-3**.

Table 1-3: Intergovernmental Receipts

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Local Government	\$15,725	\$15,429	\$17,373	\$17,894	\$17,894	\$17,894	\$17,894	\$17,894
Local Government Revenue Asst.	\$2,736	\$2,901	\$3,309	\$3,408	\$3,408	\$3,408	\$3,408	\$3,408
Inheritance Tax	\$0	\$0	\$802	\$0	\$0	\$0	\$0	\$0
Cigarette Tax	\$37	\$19	\$19	\$19	\$19	\$19	\$19	\$19
Liquor and Beer Permits	\$1,848	\$1,848	\$1,848	\$1,848	\$1,848	\$1,848	\$1,848	\$1,848
Homestead/Rollback Property Tax	\$461	\$384	\$250	\$250	\$250	\$250	\$250	\$250
Total Intergovernmental Receipts	\$20,807	\$20,581	\$23,601	\$23,419	\$23,419	\$23,419	\$23,419	\$23,419

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Receipt Ledger

- C. **Licenses, Permits and Fees:** Between 1998 and 1999, the Village issued a total of nine zoning permits at a cost of \$6 each. With a minimal amount of activity taking place over the past three years in this revenue line, future revenues are not projected.

- D. **Interest:** This source of revenue results from banking activity. The Village has taken appropriate steps to ensure bank deposits are made in a timely fashion. Subsequently, the amount of interest revenue increased in 2000 over what was collected in 1999. Given that banking institutions are offering a relatively low interest rate, this forecast projects a two and one-half percent increase in future years.

- E. **Miscellaneous:** This represents different revenue streams that are either without a specific category or do not generate enough revenue to warrant a specific category. Examples of miscellaneous revenue for 2000 include a \$14.16 refund from the United States Internal Revenue Service and \$1,250 from the sale of the Village tractor. Future revenues are predicted to remain constant and at a level commensurate with average receipts between the years 1998 and 2000.

Expenditures

- F. **Emergency Services:** This represents all emergency services expenditures associated with the Village. As **Table 1-4** illustrates, the Village’s emergency expenditures decrease significantly beginning in 2001. The Mercer County Sheriff instituted a “district” system for the allocation of county police resources. With the district system in place, the sheriff found that providing police services to the Village can occur without having to meet contact specifications and therefore, is not requiring payment for law enforcement services. Subsequently, the Village will receive police services from the county sheriff’s office in a

manner consistent with that provided to unincorporated areas of the county. Although the Village will not have any police salaries and benefits expense in future years, it is possible that expenditures for equipment and supplies associated with public safety, such as road cones and safety flares, will be necessary. Therefore, a conservative amount has been projected as possible expenditures in future years. Conversations with county officials regarding the charges for emergency medical services and emergency management reveal that the associated annual costs for each are not expected to change. The components that makeup Emergency Services and associated projections are presented in **Table 1-4**.

Table 1-4: Emergency Services

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Police - Salaries and Benefits	\$5,993	\$3,821	\$5,124	\$0	\$0	\$0	\$0	\$0
Police Equipment & Supplies	\$100	\$0	\$0	\$50	\$50	\$50	\$50	\$50
Mercer County Emergency Medical Services	\$398	\$398	\$398	\$398	\$398	\$398	\$398	\$398
Mercer County Emergency Management Agency	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Total Security Expenditures	\$6,541	\$4,269	\$5,572	\$498	\$498	\$498	\$498	\$498

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Expense Ledger

G. Utility Service: This expenditure item represents the costs of maintaining the utility services for the Village. These costs include natural gas and county sewer services that connect to the Village office. The Village pays for part of the Village street lighting from the General Fund as well as the electric service that is connected to the Village office. Other utility services include telephone and electrical service work performed by a licensed electrical contractor.

Significant fluctuations in previous years' expenditures for the Village's utility services are evident when reviewing **Table 1-5**. Because of these fluctuations, all forecasted expenditures for utility services in future years are based on actual year 2000 remittances. The cost for each item is estimated to increase with the annual rate of inflation, which is approximately three percent. Past and forecasted utility service expenses are delineated in **Table 1-5**.

Table 1-5: Utilities

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Natural Gas	\$330	\$359	\$668	\$728	\$794	\$865	\$943	\$1,028
Electric	\$5,051	\$227	\$3,154	\$3,249	\$3,346	\$3,446	\$3,550	\$3,656
County Wide Services	\$122	\$762	\$198	\$204	\$210	\$216	\$223	\$230
Other	\$15	\$561	\$1,334	\$1,374	\$1,415	\$1,458	\$1,501	\$1,546
Total Utility Expense	\$5,518	\$1,909	\$5,354	\$5,555	\$5,765	\$5,986	\$6,217	\$6,460

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Expense Ledger

H. General Operations: This expenditure category consists of items associated with the overall operations of the Village of Montezuma. The line-items found in **Table 1-6** are broad descriptions but the specific costs include salaries and payroll taxes for the Mayor, Council Persons and Clerk/Treasurer; expenditures for office supplies and equipment; insurance; land and building maintenance and various other overhead or miscellaneous charges connected with the operations of any municipality.

Similar to the utility services table, significant fluctuations are readily identifiable with regards to general operations expenditures presented in **Table 1-6**. Future year expenditures are based on Year 2000 figures and are projected to grow with inflationary increases.

Table 1-6: General Operations Expenditures

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Personal Service	\$2,016	\$1,545	\$4,496	\$5,088	\$5,180	\$5,275	\$5,373	\$5,474
Employee Benefits	\$503	\$183	\$827	\$852	\$877	\$904	\$931	\$959
Supplies & Materials	\$290	\$260	\$1,941	\$1,999	\$2,059	\$2,121	\$2,185	\$2,250
Legal	\$8,520	\$2,097	\$715	\$736	\$759	\$781	\$805	\$829
Land and Buildings	\$3,706	\$14,885	\$3,868	\$3,984	\$4,104	\$4,227	\$4,353	\$4,484
Other Contracted Services	\$2,936	\$479	\$8,695	\$8,956	\$9,225	\$9,501	\$9,786	\$10,080
Total General Operations Expenditures	\$17,971	\$19,449	\$20,542	\$21,615	\$22,203	\$22,809	\$23,433	\$24,076

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Expense Ledger

The fluctuation in personal services is attributable to the across-the-board pay increase for all elected officials. The Village council passed an ordinance on January 16, 1999 that increased the rate of pay for all Village officials. Since it is statutorily prohibited to vote a pay increase for seated officials, the increase did not go into effect until January 2000, when

newly elected officials took office. The Village passed the rate increase measure so that elected officials would receive competitive wages with that of other Villages. The Clerk/Treasurer’s pay increased from \$800 to \$1,800 per year, the mayor’s salary increased from \$25 per meeting to \$50 per meeting and council members’ pay increased from \$20 per meeting to \$25 per meeting. Although the Village has taken steps to curtail spending, it is prudent to factor in a conservative three percent increase in future years for personnel services. However, the Clerk/Treasurer’s salary is held constant since it is specified as a per annum wage and not based upon governing factors such as that of the Mayor’s and council’s pay. Other payroll expenses, such as Ohio Bureau of Employment Services and Ohio Bureau of Workers’ Compensation deductions, are projected to hold constant in future years at the 2000 level. **Table 1-7** delineates past expenditures and future forecasts for personal services expenditures.

Table 1-7: Personal Services Expenditures

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Mayor	\$270	\$70	\$909	\$936	\$964	\$993	\$1,023	\$1,054
Council	\$944	\$1,016	\$2,081	\$2,143	\$2,208	\$2,274	\$2,342	\$2,412
Clerk/Treasurer	\$720	\$459	\$1,298	\$1,800	\$1,800	\$1,800	\$1,800	\$1,800
Other Payroll Expenses	\$82	\$0	\$208	\$208	\$208	\$208	\$208	\$208
Total Personal Services Expenditures	\$2,016	\$1,545	\$4,496	\$5,088	\$5,180	\$5,275	\$5,373	\$5,474

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Expense Ledger

Employee benefits follows salary trends and has been forecasted to increase by three percent in future years. The Village realized increased expenditures for supplies and materials in 2000 when compared with 1998 and 1999 figures. Part of the increase can be attributed to the Village’s enrollment in the Auditor or State’s UAN program. Additional costs incurred in 2000 include UAN training, purchase of paper and forms, super disks, printer ribbons, and extra diskettes. This forecast projects future expenditures regarding supplies and materials to increase with the customary inflation rate of three percent.

The Village dramatically curtailed the use of a legal council from previous years. The rate of pay for legal council has been and continues to be \$90 per hour. Future expenditures for legal services are projected to increase with the customary three percent for inflation. Land and building outlay in 1999 differs significantly from expenditures in 1998 and 2000. Examples of expenditures made for lands and buildings in 1999 include two to Mercer County Community Development totaling \$4,700, one to Dayton Power and Light for \$2,580 and a payment to Roser Inc. for \$2,606. Documentation indicating what each of these monetary outlays entailed is misplaced within the Village files. Expenditures for 2000 pertaining to this line include payment for services provided by a grant writer, which was

being compensated at a rate of \$17.50 per hour, and insurance costs borne by the Village. Future legal and land and building expenditures are projected based on the amount spent in 2000 and are figured to increase by three percent.

In 2000, costs for other contracted services include, but are not limited to, fees paid to the Auditor of State for audit related services and UAN utilization, vehicle maintenance, post office box rental fee and for specialized repair services such as that rendered by a locksmith. The variation in payments for other contracted services between the three previous years is readily apparent but difficult to ascribe a cause for such variation. Again, taking a conservative approach to calculating future remittances, this forecast projects expenditures pertaining to other contracted services to increase by three percent each year.

- I. Capital Outlay:** The Village uses the pay-as-you-go funding scheme regarding capital improvements. Additionally, the Village relies heavily on grant funding to pay for capital alterations. If the Village is not awarded grant money then the Village does not incur corresponding expenditures. As depicted in **Table 1-1**, there have been little capital expenditures made from the General Fund. The dollar amount shown for 1998 resulted in a reclassification/audit adjustment. Although the Village has predicted that capital improvements will be made in the future, to what extent and when is not known. Until the Village takes steps to develop and follow a capital improvement plan and secure appropriate funding, forecasting future expenditures in this line cannot be adequately determined and is therefore held at zero.

Transfers-out

- J. Transfers-out:** This forecast posits that no transfers will be made from the General Fund during 2001 and future years. The Village can expect to make operational transfers from the General Fund to the Special Revenue Fund should deficits occur in the Special Revenue Fund that cannot be covered by past surpluses.

Special Revenue Fund Forecast

The financial information in **Table 2-1** represents actual and forecasted financial information in the Special Revenue Fund for the Village of Montezuma. The Special Revenue Fund is actually a collection of several funds that include the Street Construction and Repair Fund, State Highway Improvement Fund and the Permissive Motor Vehicle License Tax Fund.

Table 2-1: Special Revenue Fund

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Local Taxes	\$668	\$706	\$581	\$598	\$616	\$635	\$654	\$674
Intergovernmental	\$24,334	\$15,492	\$8,311	\$8,496	\$8,685	\$8,879	\$9,078	\$9,283
Interest	\$201	\$136	\$32	\$33	\$34	\$35	\$36	\$37
Total Operating Revenues	\$25,203	\$16,334	\$8,924	\$9,127	\$9,335	\$9,549	\$9,768	\$9,994
Transportation	\$26,355	\$14,253	\$9,340	\$9,620	\$9,909	\$10,206	\$10,512	\$10,828
Capital Outlay	\$575	\$8,000	\$0	\$0	\$0	\$0	\$0	\$0
Total Operating Expenditures	\$26,930	\$22,253	\$9,340	\$9,620	\$9,909	\$10,206	\$10,512	\$10,828
Net Transfers/Advances - In/(Out)	\$0	\$1,000	(\$1,646)	\$0	\$0	\$0	\$0	\$0
Results of Operations (Net)	(\$1,727)	(\$4,919)	(\$2,062)	(\$493)	(\$573)	(\$657)	(\$744)	(\$834)
Beginning Cash Balance	\$12,088	\$10,361	\$5,442	\$3,380	\$2,887	\$2,314	\$1,657	\$912
Ending Cash Balance	\$10,361	\$5,442	\$3,380	\$2,887	\$2,314	\$1,657	\$912	\$78

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Expense Ledger

Assumptions

Summarized in the following pages are the significant general assumptions underlying the financial forecast shown in **Table 2-1**.

Revenues

- A. Local Taxes:** This line-item represents the taxes collected for the permissive motor vehicle license tax. Mercer County has elected to assess additional vehicle licensing taxes using two sections of the Ohio Revised Code (ORC), each authorizing a \$5 tax increase. The assessments are authorized under Ohio Revised Code (ORC) §4504.15 and §4504.16. The revenues collected from registrants of the Village under ORC §4504.15, are split 50/50 between the county and the Village. ORC §4504.05(2)(a) permits this distribution of revenues. Under the authority granted by ORC §4504.15, the county assesses an additional

\$5 upon each county registrant, including those residing within the Village. Two dollars and fifty cents of each \$5 assessment upon Village registrants authorized by ORC §4504.15, is remitted back to the Village. The county collects all of the \$5 levy imposed under §4504.16.

The number of registered vehicles in the Village has decreased approximately 14 percent. There were 307 registrations in 1999 and 268 registrations in 2000. Although there has been a downward trend in registration of vehicles by village residents, the forecast assumes that revenues in this item will increase three percent annually from the 2000 levels.

B. Intergovernmental: The license and gasoline taxes represent intergovernmental revenues the Village receives for the purpose of repairing and maintaining the roads within the Village’s jurisdiction. The major component of this revenue source is the gasoline tax collected on the state level and then distributed to the county and municipal levels. The gasoline tax is imposed on wholesale fuel dealers who sell gasoline in Ohio. The tax is currently established at a rate of \$0.22 per gallon. The apportionment of motor vehicle fuel tax is roughly based upon the number of registered vehicles in each governmental entity. Although vehicle registrations have declined, the amount of gas tax revenue has historically been on the increase. With the unpredictability of consumer choice in operation of motor vehicles, a conservative figure of a two percent increase in future revenue in this line has been projected.

The license tax is imposed by the State of Ohio on motor vehicles operating on public highways. The tax rate is \$20 for passenger cars and other increased rates for other heavy-duty vehicles. Future license tax revenues are based on historical averages.

In previous years, the Village was awarded Community Development Block Grant (CDBG) funds to improve and/or construct sidewalks throughout the Village. CDBG funding is competitively awarded based upon such criteria as need, project viability and previous awards. This forecast does not project funding from this source in future years because decisions made by the governing panel over such discretionary funding cannot be predicted.

The main components of Intergovernmental and the projections by component are presented in **Table 2-2**.

Table 2-2: Intergovernmental

	Actual 1998 (Audited)	Actual 1999 (Audited)	Actual 2000 (Unaudited)	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
License Tax	\$550	\$590	\$619	\$650	\$682	\$717	\$752	\$790
Gasoline Tax	\$6,784	\$6,902	\$7,692	\$7,846	\$8,003	\$8,163	\$8,326	\$8,493
CDBG	\$17,000	\$8,000	\$0	\$0	\$0	\$0	\$0	\$0
Total Intergovernmental	\$24,334	\$15,492	\$8,311	\$8,496	\$8,685	\$8,879	\$9,078	\$9,283

Sources: 1998 - 1999 Financial Audits and 2000 Uniform Accounting Network Expense Ledger

- C. Interest:** This represents interest earned on Special Revenue Fund bank accounts. The amount of interest revenue decreased as the balance of funds decreased in previous years. Additionally, the Village was not making timely deposits and therefore lost interest revenues. A small and steady increase in interest earnings is forecasted based on the projection that the Village will maintain a positive fund balance in future years and estimating an interest rate of two and one half percent.

Expenditures

- D. Transportation:** These are the costs associated with maintaining the streets and roads in the Village. The bulk of the expenditure is for street lighting, but other costs include that of clearing Village streets of snow and upkeep of the Village truck. Reclassification of funds and audit adjustments account for the fluctuation in this line. Conservative estimates for future expenditures are based on 2000 levels and are shown to increase with an estimated inflation rate of three percent.
- E. Capital Outlay:** Historically, the Village funds the construction and maintenance of Village roadways and appurtenances with grant money. CDBG awards in 1998 and 1999 amounted to \$25,000. The Village has submitted an application for State Issue Two grant and CDBG grant funding for similar construction work. However, receipt of grant funding is often predicated on a government entity being able to provide some level of match funding. Future capital projects are anticipated, but at what dollar amount and during what year is not readily identifiable. Furthermore, if the Village does not receive grant funding, expenditures for capital improvement will not occur. Therefore, future expenditures are not forecasted.

Transfers-In

- F. Transfers-in:** Operating deficits are initially covered by past surpluses in the Special Revenue Fund and secondarily by the operational transfers from the General Fund. Operational transfers from the General Fund to cover deficits in the Special Revenue Fund are not forecasted, but could occur based upon future ending fund balances.

Conclusions

Based on the General Fund forecast presented in **Table 1-1**, it appears that the Village has the capability to stabilize its finances. For years projected beyond 2001 in **Table 1-1**, the Village is forecasted to maintain positive ending fund balances. However, for Montezuma to achieve the results projected in **Table 1-1**, certain aspects of the Village's operations need to be improved. More specifically, the Village should focus on improving its budgetary practices, take action to minimize employee turnover in the Clerk/Treasurer position, begin maintaining accurate financial records and begin fostering proper accounting practices. The detailed operational changes that Montezuma should implement are outlined in the **General Recommendations** section of this report.

In developing the General Fund forecast presented in **Table 1-1**, a number of assumptions were made regarding different aspects of Montezuma's operations. It should be noted that if the Village takes actions which are contrary to these assumptions, the results presented in the General Fund and Special Revenue Fund forecasts could differ significantly. The major assumptions which have a significant impact on the Village's projected financial condition include the following:

- Forecast figures are based upon the Village's ability to accurately account for all revenues and expenditures. If accurate records are not maintained, the Village will continue to be negatively impacted. Documentation detailing the areas where the Village needs to improve upon regarding the accounting of financial transactions has been enumerated in previously issued AOS Regular Financial Audits. Additionally, the state has incurred expenses related to consultations services provided by LGS division pertaining to record keeping and accounting. The state bears the cost for such services when local governments are in fiscal watch or fiscal emergency. For more information, please see **Recommendation No. 2**.
- The Village will undertake a formal budgeting process that forecasts future revenues and corresponding expenditures. Prioritization and forecasting future budget transactions as part of an ongoing process will help ensure that the Village keeps abreast of financial issues. The Village does not currently have a written budgeting process and relies on previous years' budget and appropriation submissions as the mechanism for producing associated requests. This method has led the Village to overestimate past revenues whereby the Village exceeded General Fund estimated resources in 1998 and 1999. For more information, please see **Recommendation No. 1**.
- The Village will employ internal controls to assist the Clerk/Treasurer in the performance of fiscal duties. The Village Clerk/Treasurer is making strides in acquiring the necessary financial expertise and/or experience regarding governmental accounting. Familiarity with Village operations related to financial transactions should be a priority of all elected officials thereby ensuring that the work is performed in a timely and accurate manner. As such, this forecast assumes that the Village council will become actively and collectively involved in the financial aspects of the Village and proactively assist the Clerk/Treasurer to reduce errors and irregularities. For more information, see **Recommendation No. 4**.
- The forecast does not take into account any capital expenditures the Village may elect to initiate. This is attributable to the Village not having a formalized capital improvement and road maintenance plan. Although the Village has some ideas where improvements are needed, a formal planning process that includes expected costs and avenues for funding has not been developed into a formal written document.

The Village and the Ohio Department of Natural Resources intend to collaborate on improvements to appurtenances to the waterway surrounding the Village park based upon a 75/25 percent split in cost. However, the Village portion of funding for this improvement is predicated on the receipt of private donations rather than the disbursement of Village funds as matching dollars. Although, the construction expense of this project should not affect the Village finances, it needs to be a part of a plan that takes into account improvements to public property to help in monitoring and evaluating the progress on this capital project and to include future maintenance costs in the budgeting process.

Due consideration has been given to deriving relevant and reasonable estimates for future capital expenditures for this forecast. Use of grant money could affect the Village finances if receipt of such funding is predicated on the Village providing matching dollars. If, however, the Village secures an award for the full project cost, 100 percent, then the financial effect is nullified. However, determining where capital improvement is needed and where funding should be derived is a responsibility the Village shoulders and should be outlined in an appropriate and formal manner. For more information, please see **Recommendation No. 5**.

- The dissolution of the contract for police services between the Village and Mercer County Sheriff's Office amounts to a substantial decrease, approximately \$5,000, in emergency services expenditures in each future year. Should the Village decide to initiate a new contract for policing services or establish its own police department, the affect would significantly impact the Village finances.

General Recommendations

1. *The Village should formalize the budgetary process.*

In the past, the Village has not filed budget and appropriation documents with the County Auditor in a timely manner. Additionally, the Village made expenditures from January 1, 1998 until March 28, 1998, without an appropriation measure. Accordingly, the Village should develop a formal timetable and instructions for preparing the tax budget and the appropriations resolution. The Village has taken steps in this direction through the recent formation of a Village finance committee. The finance committee should continue its work and operate under guidelines set forth by the Ohio Revised Code. Embracing a sound budgeting methodology and preparing budgets under written guidelines will help ensure that the Village meets filing deadlines and further enables smooth transitions associated with employee and elected official turnovers.

2. *The Village should continue utilizing the Uniform Accounting Network.*

The Village financial records have not been effectively maintained as evidenced by a number of citations during financial audits. More specifically, the Village has in the past failed to adequately maintain cash journals, receipt ledgers, appropriation ledgers and has not used the encumbrance method of accounting. In addition, financial records fell in disarray under previous administrations. As a result, LGS has had to reconstruct past financial records. The Village cannot operate effectively or efficiently without accurate financial records and sound accounting practices.

To rectify record keeping and accounting deficiencies, the Village should continue to use the UAN services offered by the Auditor of State's office. The UAN not only offers computer training for Clerk/Treasurers, but also provides general fund accounting training that would be helpful with the establishment of financial reporting procedures for the Village. Continued use of the UAN could also save the state from incurring expenditures such as the \$30,574.48 during fiscal year 2001 for Village record reconstruction and reconciliation services provided by LGS. The Village will still incur regular auditing expenses. However, UAN programming reduces the amount of manual accounting that has been somewhat an ominous undertaking by the Village and has led to outlays for LGS support and consult services.

3. *The Village should attempt to limit the turnover in the Clerk/Treasurer position.*

One factor contributing to the Village not meeting budgetary time frames and the lack of accounting records is the high turnover in the Clerk/Treasurer position. Since 1997, the Village has had six Clerk/Treasurers. For a Village, the Clerk/Treasurer is the chief fiscal administrator, responsible for maintaining financial records, reviewing receipts and expenditures, being an integral part of the budget process as well as other financial related duties. Because of the significant financial responsibilities of the Clerk/Treasurer position, the Village should seek to understand the reasons for the turnover and attempt to rectify the issue.

The lack of understanding of accounting practices may have attributed to such a high turnover rate for Village Clerk/Treasurers. This can be rectified by arranging adequate training for the Clerk/Treasurer position. This should include attending training seminars offered by the Auditor of State, and ensuring that updated copies of the Village Officer's Handbook, Payroll Procedures manual, and the Ohio Compliance Supplement are on hand in the Village office. Additionally, a correspondence file that includes Audit Bulletins issued by the Auditor of State should be maintained, and computer hardware and software manuals along with technical support phone numbers pertaining to the computerized financial system, UAN, should be available.

Starting in the month of August 2001, the Auditor of State will be offering an online training course based upon the Government Finance Officers Association's (GFOA) Elected Officials

Guide series. The Clerk/Treasurer and all other public officials for the Village should enroll in the program to enhance their knowledge of government finance. There are ten chapters to the course. The topics include, but are not limited to, introduction into government finance, multi-year budgeting, procurement, and internal controls. Completion of the course will result in the participant receiving an Ohio Financial Accountability Certificate. More importantly, however, is the greater benefit derived from the enhancement of knowledge in government finance of those who participate.

Finally, the Village appropriated \$1,050 in 2001 for Clerk/Treasurer training. This practice should continue in future years.

4. *The Village Council should monitor financial activities and take part in the segregation of financial duties.*

Given the size and financial constraints that the Village must operate within, a system of checks and balances must be employed. Currently, the Village Clerk/Treasurer is the sole person responsible for all functions related to the Village's finances. The Village relies upon this one person to maintain all financial records, track and deposit revenues, issue warrants, and perform administrative duties during and after council meetings. Given the amount of responsibility accorded to the position of Village Clerk/Treasurer, and the need for applicable and necessary experience and expertise, Council should be involved in the routine review of financial activity.

The Village has recently established a finance committee that monitored the completion of the 2001 appropriation measure and operating budget. The responsibilities of this committee should be expanded to include the routine monitoring of all financial activity. It is desirable that members of this committee have some financial expertise to appropriately monitor and plan for future financial needs. In addition, the full council should be provided with detailed financial reports to include actual receipts and disbursement information, financial statements, cash balances, and invoices paid. This information provides important data necessary to manage the Village from a financial standpoint. Segregating financial duties will also help to reduce the risk of errors and/or irregularities which have plagued the Village as enumerated in previously issued financial audit reports.

5. *The Village should begin developing formal capital improvement and road maintenance plans.*

The Village has certain capital and road maintenance needs that have yet to be funded. The Village's mode of financing capital and roadway improvements is pay-as-you-go, meaning that the expenditure of funds for a capital item does not occur until the money is in hand. However, the Village relies heavily on grant money to pay for construction of such projects. Having a systematic approach to planning that includes the reservation of funds for use as matching dollars could enhance the Village's chances of receiving more grant funding. Additionally, capital planning, among other things, encourages more efficient government,

focuses attention on community goals, needs and capabilities, and enhances opportunities to participate in federal and state grant-in-aid programs.

Capital improvement programming is a valuable tool to ensure that choices are wisely made and helps prove to government entities that distribute grant money the readiness of the Village to act upon pending projects. The plans should be updated annually and should be incorporated into the yearly appropriations.

6. *The Village should continue to make timely deposits in order to maximize interest revenues.*

The current Village Clerk/Treasurer has endeavored to deposit all remittances and revenues as quickly as possible. This practice should continue in an effort to collect more interest revenue. Doing so, the Village is taking advantage of an opportunity to increase the amount of funds for its use. Money collected as a result of doing business with the local banking institution is easily obtained and requires little effort to accumulate. Additionally, the practice of making timely bank deposits will increase financial accountability and facilitate reconciliation of cash accounts.