



**Auditor of State
Betty Montgomery**

VILLAGE OF POTSDAM
MIAMI COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2003	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2002	4
Notes to the Financial Statements	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	11
Schedule of Findings.....	13
Schedule of Prior Audit Findings.....	15

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Potsdam
Miami County
P. O. Box 52
Potsdam, Ohio 45361

To the Village Council:

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

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

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2004, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of Potsdam
Miami County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 9, 2004

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$8,896				\$8,896
Intergovernmental Receipts	18,839	\$7,655			26,494
Charges for Services	992				992
Miscellaneous	522				522
Total Cash Receipts	<u>29,249</u>	<u>7,655</u>			<u>36,904</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	3,516	4,140			7,656
Transportation		489			489
General Government	14,258	1,050			15,308
Debt Service:					
Principal Payments			\$7,500		7,500
Interest Payments			4,546		4,546
Total Cash Disbursements	<u>17,774</u>	<u>5,679</u>	<u>12,046</u>		<u>35,499</u>
Total Receipts Over/(Under) Disbursements	<u>11,475</u>	<u>1,976</u>	<u>(12,046)</u>		<u>1,405</u>
Other Financing Receipts and (Disbursements):					
Sale of Assets	9,500				9,500
Transfers-In			12,046		12,046
Transfers-Out	(12,046)				(12,046)
Other Financing Uses	(400)				(400)
Total Other Financing Receipts/(Disbursements)	<u>(2,946)</u>		<u>12,046</u>		<u>9,100</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	8,529	1,976			10,505
Fund Cash Balances, January 1	<u>\$3,772</u>	<u>\$22,480</u>	<u>\$0</u>	<u>\$3,174</u>	<u>29,426</u>
Fund Cash Balances, December 31	<u>\$12,301</u>	<u>\$24,456</u>	<u>\$0</u>	<u>\$3,174</u>	<u>\$39,931</u>

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

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$8,295				\$8,295
Intergovernmental Receipts	19,124	\$7,081			26,205
Charges for Services	1,022				1,022
Miscellaneous	2,963	192			3,155
Total Cash Receipts	31,404	7,273			38,677
Cash Disbursements:					
Current:					
Security of Persons and Property	6,034	4,140			10,174
Transportation		13,581			13,581
General Government	12,831	2,050		\$36	14,917
Debt Service:					
Principal Payments			\$5,000		5,000
Interest Payments			4,870		4,870
Capital Outlay	1,939				1,939
Total Cash Disbursements	20,804	19,771	9,870	36	50,481
Total Receipts Over/(Under) Disbursements	10,600	(12,498)	(9,870)	(36)	(11,804)
Other Financing Receipts and (Disbursements):					
Transfers-In			9,870		9,870
Transfers-Out	(9,870)				(9,870)
Other Financing Uses	(493)				(493)
Total Other Financing Receipts/(Disbursements)	(10,363)		9,870		(493)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	237	(12,498)		(36)	(12,297)
Fund Cash Balances, January 1	3,535	34,978		3,210	41,723
Fund Cash Balances, December 31	\$3,772	\$22,480	\$0	\$3,174	\$29,426

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

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Potsdam, Miami County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services including police protection. The Village contracts with Laura Fire Company to provide fire protection services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Fund

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

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax registration money for constructing, maintaining and repairing Village streets.

State Highway Fund - This fund receives gasoline tax and motor vehicle tax registration money for constructing, maintaining and repairing the State highways through the Village.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service fund:

Debt Service Fund – This fund received resources for the payment of a note used for the purchase and remodeling of the Municipal Building.

4. Capital Project Funds

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

Municipal Building Construction Fund - This fund received proceeds from the sale of notes. The proceeds are being used to remodel a new municipal building.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over and need not be reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2002
Demand deposits	\$39,931	\$29,426

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

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

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$38,846	\$38,749	(\$97)
Special Revenue	7,135	7,655	520
Debt Service	14,573	12,046	(2,527)
Capital Projects	0	0	0
Total	\$60,554	\$58,450	(\$2,104)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$36,290	\$30,220	\$6,070
Special Revenue	8,891	5,679	3,212
Debt Service	14,573	12,046	2,527
Capital Projects	3,009	0	3,009
Total	\$62,763	\$47,945	\$14,818

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$31,667	\$31,404	(\$263)
Special Revenue	7,696	7,273	(423)
Debt Service	10,000	9,870	(130)
Capital Projects	0	0	0
Total	\$49,363	\$48,547	(\$816)

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$32,106	\$31,167	\$939
Special Revenue	25,500	19,771	5,729
Debt Service	10,000	9,870	130
Capital Projects	3,045	36	3,009
Total	\$70,651	\$60,844	\$9,807

4. PROPERTY TAX

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

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

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

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Municipal Building Bond Anticipation Note	\$76,500	5.46%

The Municipal Building Note related to the purchase and remodeling of a new municipal building. The notes were issued July 7, 1999, through Fifth Third Bank. The notes will be repaid in semiannual installments of \$5,000, plus interest, over five years with a balloon payment of \$75,000 due in 2004. The note is a general obligation of the Village. The note was refinanced subsequent to year end. See Note 8.

6. RETIREMENT SYSTEMS

The Village's elected officials belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village had \$111.26 in outstanding contributions on December 31, 2003.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

8. SUBSEQUENT EVENTS

The Village had the following fiscal concerns as of the year ended December 31, 2003:

- A balloon payment of \$75,000 on the Village's municipal building is due during 2004;
- The Village is projecting a deficit fund balance in the General Fund by July 31, 2004.

The Village has taken the following steps to address these concerns:

- Management plans to alleviate the projected deficit by reducing personnel costs and other expenditures.
- The Village refinanced the Municipal Building Bond Anticipation Note, (see Note 5) on August 3, 2004 in the amount of \$75,000. The interest rate is currently 4.875%, and will be adjusted, starting in one year, annually to the one year Treasury rate plus 2.75%. Current semi-annual payments are \$3,601.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Potsdam
Miami County
P. O. Box 52
Potsdam, Ohio 45361

To the Village Council:

We have audited the accompanying financial statements of the Village of Potsdam, Miami County (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated August 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated August 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated August 9, 2004.

Village of Potsdam
Miami County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 9, 2004

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2003-001

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

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

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$1,000 (\$3,000, effective April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 (an amount established by resolution or ordinance adopted by the legislative authority, effective September 26, 2003) against any specific line item account over a period not exceeding three months (three month limitation was eliminated effective September 26, 2003) or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for any 2002 and 9.3% of 2003 expenditures tested and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending fund and negative cash fund balances.

FINDING NUMBER 2003-001
(Continued)

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

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**VILLAGE OF POTSDAM
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-30355-001	Ohio Rev. Code Section 5705.41 (D) failure to certify availability of funds prior to entering into purchase commitments.	No	Repeated as finding 2003-001.



**Auditor of State
Betty Montgomery**

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VILLAGE OF POTSDAM

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 4, 2004**