



Dave Yost • Auditor of State

VILLAGE OF SAINT MARTIN
BROWN COUNTY

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Dave Yost • Auditor of State

Village of Saint Martin
Brown County
20609 Kelley Road
Lynchburg, Ohio 45142

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 30, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Saint Martin
Brown County
20609 Kelley Road
Lynchburg, Ohio 45142

To the Village Council:

We have audited the accompanying financial statements of the Village of Saint Martin, Brown County, Ohio (the Village), as of and for the years ended December 31, 2010 and 2009. 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.

Except as described in the following paragraph, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

Water charges for services reported in the Enterprise Fund are processed by a service organization independent of the Village. Sewer charges for services reported in the Enterprise fund are based on meter readings provided by the service organization to the Village. The service organization did not provide us with information we requested regarding the design or proper operation of its internal controls for meter reading or billings. We were therefore unable to satisfy ourselves as to the proper processing of water charges for services, or for the meter readings that the sewer charges for services were based on. The Water Fund's Charges for Services receipts represent 63% of receipts reported in the Enterprise Fund and the Sewer Fund's Charges for Services represents 37% of receipts reported in the Enterprise Fund in 2010. The Water Fund's Charges for Services receipts represent 65% of receipts reported in the Enterprise Fund and the Sewer Fund's Charges for Services represents 35% of receipts reported in the Enterprise Fund in 2009.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the third following paragraph.

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2010 and 2009, or its changes in financial position or cash flows, for the years then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been required had we been able to examine certain information regarding the Enterprise Fund charges for services receipts, as described in paragraph 3, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Enterprise Fund of the Village of Saint Martin, Brown County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

Additionally, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the General and Special Revenue Funds of the Village of Saint Martin, Brown County, as of December 31, 2010 and 2009, and their combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The accompanying financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in Note 10 to the financial statements, the Village has suffered recurring losses from operations and has a General fund cash balance deficiency of \$9,489 at December 31, 2010, that raise substantial doubt about its ability to continue as a going concern. The Village's citizens voted to dissolve the Village; however, no date has been established for its dissolution.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

January 30, 2012

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$984	\$0	\$984
Intergovernmental	2,451	7,553	10,004
Fines, Licenses and Permits	518		518
Earnings on Investments	71	63	134
	<u>4,024</u>	<u>7,616</u>	<u>11,640</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	1,492		1,492
General Government	6,594	63	6,657
	<u>8,086</u>	<u>63</u>	<u>8,149</u>
Total Receipts Over/(Under) Disbursements	<u>(4,062)</u>	<u>7,553</u>	<u>3,491</u>
Fund Cash Balances, January 1	<u>(5,427)</u>	<u>32,294</u>	<u>26,867</u>
Fund Cash Balances, December 31	<u>(\$9,489)</u>	<u>\$39,847</u>	<u>\$30,358</u>

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$ 43,214
Miscellaneous	15
	<hr/>
Total Operating Cash Receipts	43,229
	<hr/>
Operating Cash Disbursements:	
Personal Services	1,944
Contractual Services	21,330
Supplies and Materials	14,535
	<hr/>
Total Operating Cash Disbursements	37,809
	<hr/>
Operating Income/(Loss)	5,420
	<hr/>
Non-Operating Cash Disbursements:	
Redemption of Principal	1,801
Interest and Other Fiscal Charges	917
	<hr/>
Total Non-Operating Cash Disbursements	2,718
	<hr/>
Net Receipts Over Disbursements	2,702
	<hr/>
Fund Cash Balances, January 1	9,701
	<hr/>
Fund Cash Balances, December 31	<u>\$12,403</u>
	<hr/>
Reserve for Encumbrances, December 31	<u>\$167</u>

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$984	\$0	\$984
Intergovernmental	2,351	7,413	9,764
Charges for Services	0		0
Fines, Licenses and Permits	618		618
Earnings on Investments	97	87	184
	<u>4,050</u>	<u>7,500</u>	<u>11,550</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	1,210		1,210
Transportation		44	44
General Government	5,624	207	5,831
	<u>6,834</u>	<u>251</u>	<u>7,085</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>(2,784)</u>	<u>7,249</u>	<u>4,465</u>
Fund Cash Balances, January 1	<u>(2,643)</u>	<u>25,045</u>	<u>22,402</u>
Fund Cash Balances, December 31	<u>(\$5,427)</u>	<u>\$32,294</u>	<u>\$26,867</u>

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

VILLAGE OF SAINT MARTIN
BROWN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$34,284
Total Operating Cash Receipts	<u>34,284</u>
Operating Cash Disbursements:	
Personal Services	1,892
Contractual Services	13,349
Supplies and Materials	<u>19,745</u>
Total Operating Cash Disbursements	<u>34,986</u>
Operating Income/(Loss)	<u>(702)</u>
Non-Operating Cash Disbursements:	
Redemption of Principal	1,673
Interest and Other Fiscal Charges	1,034
Total Non-Operating Cash Disbursements	<u>2,707</u>
Net Receipts Over/(Under) Disbursements	(3,409)
Fund Cash Balances, January 1	<u>13,110</u>
Fund Cash Balances, December 31	<u><u>\$9,701</u></u>

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Saint Martin, Brown County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village, however the Village's officials consist of three appointed council members. The Village provides water and sewer utilities and road services.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Deposits

The Village deposits all available funds into in a checking account, savings account, and certificate of deposit at local commercial banks. The Village values certificates of deposit at fair value.

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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose 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 money for constructing, maintaining, and repairing Village streets.

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

3. Enterprise Funds

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

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

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

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 of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual 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 2010 and 2009 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

2. Equity in Pooled Cash and Deposits

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

	2010	2009
Demand deposits	\$35,835	\$29,718
Certificates of deposit	6,924	6,850
Total deposits and investments	\$42,759	\$36,568

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,450	\$4,024	(\$1,426)
Special Revenue	1,243	7,616	6,373
Enterprise	17,300	43,229	25,929
Total	\$23,993	\$54,869	\$30,876

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$8,020	\$8,086	(\$66)
Special Revenue	1,150	63	1,087
Enterprise	20,750	40,694	(19,944)
Total	\$29,920	\$48,843	(\$18,923)

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,753	\$4,050	(\$1,703)
Special Revenue	1,309	7,500	6,191
Enterprise	20,000	34,284	14,284
Total	\$27,062	\$45,834	\$18,772

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$7,160	\$6,834	\$326
Special Revenue	5,840	251	5,589
Enterprise	15,875	37,693	(21,818)
Total	\$28,875	\$44,778	(\$15,903)

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity (Continued)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water Revenue Fund by \$20,043 for the year ended December 31, 2010 and by \$25,110 for the year ended December 31, 2009. Also contrary to Ohio law, at December 31, 2010, the General fund had a cash deficit balance of \$9,489 and the Water fund had a cash deficit balance of \$14,521. At December 31, 2009, the General fund had a cash deficit balance of \$5,427 and the Water Fund had a cash deficit balance \$12,269.

Contrary to Ohio law, the Village did not obtain the certification of the fiscal officer to certify the availability of funds for all purchase commitments.

4. Property Tax

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

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, 2010 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	11,298	7.66%
Total	\$11,298	

The Ohio Water Development Authority (OWDA) loan proceeds were used to pay for the cost of improving the Village's water system. The loan is collateralized by water revenues. The Village has agreed to set water rates sufficient to cover the OWDA debt service requirements.

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

Year ending December 31:	OWDA Loan
2011	1,402
2012	2,804
2013	2,804
2014	2,804
2015	4,207
Total	\$14,021

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

5. Debt (Continued)

The OWDA Loan Cooperative Agreement for State Planning Project 0985, Section 4.3 requires the Village to prescribe and charge such rates for the services of the system as shall result in pledged revenues at least adequate to provide for the payments required for the loan. Contrary to the agreement, the Village did not collect sufficient revenue to offset the additional cost of supplying water to the Village residents.

6. Retirement Systems

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OPERS members contributed 10%, respectively, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2010.

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village is uninsured for the following risks:

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

8. Subsequent Events

On November 8, 2011, the Village's citizens elected to dissolve the Village. The Village is currently reviewing the various issues that need to be resolved prior to dissolution.

9. Compliance

The Village failed to accurately maintain the Village's books as required by Ohio Revised Code Section 733.28 and Ohio Administrative Code Sections 117-2-01 and 117-2-02 (C)(D).

VILLAGE OF SAINT MARTIN
BROWN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)

9. Compliance (Continued)

The Village failed to charge adequate water rates as required by OWDA Loan Cooperative Agreement for State Planning Project 0985, Section 4.3.

Appropriations exceeded estimated resources in various funds.



Dave Yost • Auditor of State

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

Village of Saint Martin
Brown County
20609 Kelley Road
Lynchburg, Ohio 45142

To the Village Council:

We have audited the financial statements of the Village of Saint Martin, Brown County, Ohio (the Village), as of and for the year ended December 31, 2010 and 2009, and have issued our report thereon dated January 30, 2012 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. In addition, we noted Village will continue as a going concern, and the citizens voted to dissolve the Village. We qualified our opinion on the Enterprise Fund Type Charges for Services for 2010 and 2009 due to an inability to obtain sufficient evidence to support the completeness of Charges for Services receipts. Except as discussed in the preceding sentence, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-02 and 2010-04 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2010-06 described in the accompanying schedule of findings to be a significant deficiency.

MATERIAL NONCOMPLIANCE

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-01, 2010-03 2010-05, through 2010-08.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated January 30, 2012.

We intend this report solely for the information and use of management and others within the Village. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

January 30, 2012

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-01

Material Noncompliance Citation

Ohio Rev. Code, Section 5705.41(D)(1), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Ninety five percent of the purchases tested during 2009 and 2010 were initiated without obtaining the prior certification of the fiscal officer and were not subsequently approved by the Village within the aforementioned 30 day time period. In addition, encumbrances were not recorded in the appropriations ledger. Failure to properly encumber could result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2010-01
(Continued)**

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

We recommend the officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. 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 Village should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2010-02

Material Weakness

The Village has delegated the enterprise fund water billing processing, which is a significant accounting function, to a third-party administrator. The Village has not established procedures to determine whether this service organization has sufficient controls in place and operating effectively to reduce the risk that billings have not been authorized or completely and accurately processed in accordance with its contract. We recommend the Village help assure the completeness, accuracy and eligibility of water billings and meter readings processed by its third-party administrator. Statement on Auditing Standards (SAS) No. 70, as amended, prescribes standards for reporting on service organizations. An unqualified Type Two *Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness* in accordance with SAS No. 70 should provide the Village with reasonable assurance that water billing transactions conform to the contract. We recommend the Village require a Type Two SAS 70 report in its contract with the third-party administrator. The Village should review the SAS 70 report timely. The report should follow the American Institute of Certified Public Accountants' standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state. If the third-party administrator refuses to furnish the Village with a Type Two SAS 70 report, we recommend the Village contract with a third-party administrator that will provide this report. As an alternative to a SAS 70 Report, the Village may monitor water billing that it processes.

Reports should be prepared and reconciled and management should take an active role in monitoring the activity of the utilities.

FINDING NUMBER 2010-03

Material Noncompliance Citation

Ohio Rev. Code Section 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund was established. The General Fund had a negative fund balance of \$9,489 and the Water Fund had a negative fund balance of \$14,521 at December 31, 2010. During 2009, the General Fund had a negative fund balance of \$5,427 and the Water Fund had a negative fund balance of \$12,269. These deficit balances indicates money from one fund were used to cover the expenditures of other funds.

**FINDING NUMBER 2010-03
(Continued)**

We recommend the Village Fiscal Officer and Council monitor fund balances to properly ensure that monies from one fund are not utilized to pay the obligations of another fund. To cover temporary cash flow shortages, the Village may be able to advance money from other funds. The Village can refer to Auditor of State Bulletin 97-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

FINDING NUMBER 2010-04

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that charges for services records are properly designed and maintained.
- Ensure adequate security of records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of charges for services receipts and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.
- Maintain a master file of service addresses, account numbers, billing addresses, type of services provided, and billing rates.
- Maintain an accounts receivable ledger for each service type, including for each customer account, the outstanding balance due as of the end of each billing period (with an aging schedule for past due amounts), current usage and billing amount, delinquent or late fees due, payments received and non-cash adjustments, each maintained by date and amount.
- Maintain cash receipts records, recording cash received and date received on each account. This information should be used to post payments to individual accounts in the accounts receivable ledger described above.

We noted the following conditions in the Village's utility collection process:

- The Village did not maintain an accurate detailed accounting system for sewer receipts. The utility subsidiary ledger did not contain totals, and no summary was prepared that reconciles the monthly usage, billing amount, receipts and outstanding balances;

FINDING NUMBER 2010-04
(Continued)

- The Village contracted with Highland County Water, Inc. (HCW) to bill and collect for the water. The revenue less the amount billed to the Village for their consumption was collected by HCW and remitted to the Village. The Village only recorded the net revenue on their ledgers. As a result, the revenue and expenditures were understated in 2010 by \$16,731 and by \$21,986 during 2009. Audit adjustments have been made to the financial statements to properly record the activity;
- The Village did not review usage reports provided by HCW reports. During the audit period, the cost of supplying the water to the Village residents exceeded the revenue. The Village purchased water in excess of the amount billed from HCW, their water supplier. The Village did not charge or collect enough revenue to offset the additional cost of supplying water to the Village residents;
- Receipts were held for up to two weeks before being deposited into the Village's bank account;
- The utility billing records did not include a master file with the service addresses, billing addresses, and billing name.

Lack of controls and poor recordkeeping increases the risk that theft, fraud or errors could occur and not be detected in a timely manner. To improve accountability in the collection of utility receipts we recommend the following:

- A subsidiary ledger should be maintained to account for daily utility receipts. This ledger should include the customer's name, amount paid, date paid, and the receipt number. The ledger should be totaled daily. Daily collections should be counted, agreed with the ledger total and duplicate receipts written, deposited in the Village bank depository, and a pay-in to the Village prepared.

Monthly and year-to-date totals should be made and reconciled with the postings made in the Village cash journal. Establishing this subsidiary ledger for the utility receipts would lessen the risk that errors or theft could occur and remain undetected;

- Total revenue along with the corresponding expenditure should be recorded on the Village ledgers instead of the net revenue. This will provide a more accurate account of the Village's revenue and expenditures;
- The officials must review the cost of maintaining and supplying water to the residents and establish rates based on the cost of maintaining the water system. The Village should continue to monitor their water usage and to work towards a solution to correct the water consumption;
- The Village officials should review the reports prepared by the Highland County Water, Inc. and officials' should determine if a SAS 70 report should be required as part of their contract with Highland County Water Inc; and
- Receipts should be deposited on a timely basis.

FINDING NUMBER 2010-05

Material Noncompliance Citation

The **OWDA Loan Cooperative Agreement for State Planning Project 0985, Section 4.3** requires the Village to prescribe and charge such rates for the services of the system as shall result in pledged revenues at least adequate to provide for the payments required for the loan. The Village did not collect sufficient revenue to offset the additional cost of supplying water to the Village residents. The Village purchases water from Highland County Water, Inc. (HCW) to supply the Village residents with water. HCW does the billing, collecting and depositing the water receipts. The Village did not collect enough water receipts to cover the cost of the loan. As a result, the Water Fund had a negative fund balance of \$14,521 at December 31, 2010 and \$12,269 at December 31, 2009. We recommend the Village review their water rates and establish rates adequate to cover the cost of the loan and pay other expenditures relating to the Water Fund.

FINDING NUMBER 2010-06

Noncompliance/Significant Deficiency

Ohio Rev. Code, Section 733.28, states, in part, that the village clerk shall keep the books of the village, exhibit accurate statements of all moneys received and expended, all property owned by the Village and income derived thereof, and all taxes and assessments.

Ohio Admin. Code, Section 117-2-01(A), provides that all public officials are responsible for the design and operation of a system of internal control that is adequate to provide reasonable assurance regarding the achievement of objectives for their respective public offices in certain categories. Subsection (D) states that when designing the public office's system of internal control and the specific control activities, management should consider the following:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Plan for adequate segregation of duties or compensating controls.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.

Ohio Administrative Code, Section 117-2-02(D), states all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors.

The small size of the Village did not allow for an adequate segregation of duties. The fiscal officer processes all the financial record keeping including receipting, posting, and reconciling to the depository. Bookkeeping errors occurred without the detection of management. It is, therefore, important that Council monitor financial activity.

FINDING NUMBER 2010-06
(Continued)

We noted the following conditions:

- The Village financial records contained numerous posting errors resulting in the following net audit adjustments and reclassifications to the 2010 and 2009 financial statements;
- Tax receipts, in some instances, were recorded at the net amount instead of the gross amount;
- A gas tax receipt in both, 2009 and 2010, was posted to the General Fund and should have been Street Construction Fund and State Highway Fund;
- During 2009, a check from the Brown County Auditor in the amount of \$218.71 and a check from the State Auditor in the amount of \$374.92 were not deposited in the bank nor recorded on the Village's ledgers. We have determined that the checks have been placed in unclaimed funds;
- Monthly financial reports such as budget and actual and bank reconciliations were not always presented to the Council for their review;
- Invoices were not always attached to the voucher packet to support the validity of the expenditure. We were able to perform alternative audit procedures to determine that expenditures were for a proper public purpose;
- Expenditures were not always being approved by Council before the bills are paid.

Failure to accurately prepare and reconcile the accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity and make informed financial decisions, 3) increases the likelihood that moneys will be misappropriated and not detected, and 4) increases the likelihood that the financial statements will be misstated. We recommend that the fiscal officer review the chart of accounts to assure that items are being posted to the proper funds and account codes.

To help strengthen the Village's internal control structure and reduce the likelihood of undetected errors, we recommend the Village's officials and management implement the following controls:

- Monthly budget and actual financial reports be prepared and submitted to Council. This submission should occur prior to the regular Council meetings so that council members have an opportunity to review the information and ask informed questions at the meetings. Discussion of the monthly financial reports should be documented in the minutes.
- The fiscal officer should provide the Council with detailed budget and actual financial statements, cash balances, checks paid, outstanding encumbrances, receipts and bank reconciliations. These periodic reviews should be noted in the minutes and documents reviewed should be initialed by the reviewer.
- Reconciliations and vouchers should be prepared on a monthly basis and reviewed and approved by the officials.
- Officials should periodically review the accounting records and financial statements to determine accuracy and to assure themselves that proper procedures are followed by the fiscal officer.

**FINDING NUMBER 2010-06
 (Continued)**

- The Fiscal Officer should accurately maintain the Village's accounting records in accordance with the Ohio Administrative Code. Utility billing records should include master file information including service addresses, billing address, and billing name. Past due balances should be carried forward and added to current month total to show the total amount due at each billing; and
- The fiscal officer should review the chart of accounts to determine proper postings of revenue and expenditures.

As a result of posting errors, the following adjustments were identified:

Fund	Net Effect of Adjustments on Fund Balance Increase/(Decrease)
General	(\$464)
Street Construction, Maintenance and Repair	430
State Highway	34

Audit adjustments resulting in net adjustments totaling \$464 as described in the table listed above, have been posted to the Village's financial records and are reflected in the accompanying financial statements to properly reflect receipts and disbursements of the Village.

FINDING NUMBER 2010-07

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. We noted the following funds had expenditures which exceeded appropriations:

Fund – 2010	Appropriations	Expenditures	Variance
General	\$8,020	\$ 8,086	(\$ 66)
Water	\$9,150	\$29,193	(\$20,043)

Fund – 2009	Appropriations	Expenditures	Variance
Water	\$4,725	\$29,385	(\$24,660)

The management of the Village should monitor the budgetary receipts and expenditures by having the fiscal officer provide budgetary reports at least quarterly to be reviewed and approved by the Council. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the Village.

FINDING NUMBER 2010-08

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, provide that appropriations shall not exceed the amount of estimated revenue available for expenditure as certified by the budget commission on the official certificate of estimated resources. Appropriations exceeded estimated resources as follows:

Fund 2010	Estimated Resources	Appropriations	Variance
General Fund	(\$648)	\$8,020	(\$ 8,668)
Water Fund	(\$11,551)	\$9,150	(\$20,701)

Fund 2009	Estimated Resources	Appropriations	Variance
General Fund	\$4,462	\$7,160	(\$2,698)
Water Fund	(\$ 430)	\$4,275	(\$4,705)

Failure of the Village to monitor budgetary activity could result in overspending and negative fund balances. The management of the Village should monitor the budgetary receipts and expenditures. The fiscal officer should provide budgetary documents at least quarterly to be reviewed and approved by the Village Council. By regularly reviewing the budgetary documents throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which affect the overall cash position of the Village.

Officials' Response:

We did not receive a response from officials to the findings above.

**VILLAGE OF SAINT MARTIN
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-01	ORC 5705.41 (B) expenditures exceeded appropriations	No	Reissued as Finding 2010-07
2008-02	ORC 5705.41 (D) prior certification for expenditures	No	Reissued as Finding 2010-01
2008-03	ORC 117.38 annual financial report not completed or filed	No	The Village received a waiver from the State.
2008-04	ORC 733.28 and OAC 117-2-02 the fiscal officer did not maintain accurate	No	Reissued as Finding 2010-06
2008-05	No SAS 70 report	No	Reissued as Finding 2010-02
2008-06	<u>White v. Clinton Cty. Bd. of Comm'rs</u> (1996), 76 Ohio St.3d 416 and Ohio Rev. Code Sections 121.22 and 149.43, the Village did not maintain minutes.	Partially Corrected	Reissued in the letter to management
2008-07	ORC 5705.10(H) negative fund balances	No	Reissued as Finding 2010-03
2008-08	Inadequate system of internal controls	No	Reissued as Finding 2010-04
2008-09	ORC 5705.36(A) no certificate of estimated resources was completed	Yes	

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Dave Yost • Auditor of State

VILLAGE OF SAINT MARTIN

BROWN 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
FEBRUARY 16, 2012**