



**Auditor of State
Betty Montgomery**

VILLAGE OF SEVEN MILE
BUTLER COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Seven Mile
Butler County
201 High Street
P.O. Box 259
Seven Mile, Ohio 45062

To the Village Council:

We have audited the accompanying financial statements of the Village of Seven Mile, Butler County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001. 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 discussed 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 *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.

We were unable to obtain sufficient documentation supporting the Charges for Services (water) receipts as recorded in the Enterprise Fund for 2002 and 2001. Without this evidential matter, we were unable to obtain sufficient information regarding the receipts recorded for the Enterprise Fund, or to satisfy ourselves regarding the validity of the underlying transactions through other auditing procedures. Charges for Services receipts represent 100% of receipts recorded in the Enterprise Fund.

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, except for the Village's Enterprise Fund, on which we express no opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002 and 2001, 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 October 24, 2003 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.

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

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Betty Montgomery
Auditor of State

October 24, 2003

**VILLAGE OF SEVEN MILE
BUTLER 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>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property Tax and Other Local Taxes	\$49,755	\$0	\$17,947	\$0	\$67,702
Intergovernmental Receipts	47,968	21,461	805	34,000	104,234
Charges for Services	5,500	27,897	0	0	33,397
Fines, Licenses, and Permits	33,225	0	0	0	33,225
Earnings on Investments	5,059	866	0	0	5,925
Miscellaneous	2,407	710	0	0	3,117
Total Cash Receipts	143,914	50,934	18,752	34,000	247,600
Cash Disbursements:					
Current:					
Security of Persons and Property	40,566	18,273	0	0	58,839
Public Health Services	269	0	0	0	269
Transportation	0	10,425	0	0	10,425
General Government	67,851	0	0	0	67,851
Debt Service:					
Principal Payments	0	0	10,000	0	10,000
Interest Payments	0	0	3,090	0	3,090
Financing and Other Debt-Service Related	0	0	178	0	178
Capital Outlay	24,605	2,091	0	34,000	60,696
Total Cash Disbursements	133,291	30,789	13,268	34,000	211,348
Total Receipts Over Disbursements	10,623	20,145	5,484	0	36,252
Other Financing Receipts and (Disbursements):					
Transfers-In	51	885	0	0	936
Advances-In	619	0	0	0	619
Transfers-Out	(2,245)	0	(51)	0	(2,296)
Advances-Out	0	0	(619)	0	(619)
Total Other Financing Receipts/(Disbursements)	(1,575)	885	(670)	0	(1,360)
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	9,048	21,030	4,814	0	34,892
Fund Cash Balances, January 1	49,412	181,325	10,033	0	240,770
Fund Cash Balances, December 31	\$58,460	\$202,355	\$14,847	\$0	\$275,662
Reserves for Encumbrances, December 31	\$2,768	\$636	\$0	\$0	\$3,404

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

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$111,279	\$0	\$111,279
Miscellaneous	\$200	\$0	\$200
Total Operating Cash Receipts	<u>111,479</u>	<u>0</u>	<u>111,479</u>
Operating Cash Disbursements:			
Personal Services	9,437	0	9,437
Fringe Benefits	1,551	0	1,551
Supplies and Materials	74,694	0	74,694
Total Operating Cash Disbursements	<u>85,682</u>	<u>0</u>	<u>85,682</u>
Operating Income	<u>25,797</u>	<u>0</u>	<u>25,797</u>
Non-Operating Cash Receipts:			
Other Non-Operating Cash Receipts	<u>0</u>	<u>38,802</u>	<u>38,802</u>
Total Non-Operating Cash Receipts	<u>0</u>	<u>38,802</u>	<u>38,802</u>
Non-Operating Cash Disbursements:			
Debt Service			
Principal	19,593	0	19,593
Interest	14,084	0	14,084
Other Non-Operating Cash Disbursements	<u>0</u>	<u>38,802</u>	<u>38,802</u>
Total Non-Operating Cash Disbursements	<u>33,677</u>	<u>38,802</u>	<u>72,479</u>
Excess of Receipts Under Disbursements Before Interfund Transfers and Advances	(7,880)	0	(7,880)
Transfers-In	<u>1,360</u>	<u>0</u>	<u>1,360</u>
Net Receipts Under Disbursements	(6,520)	0	(6,520)
Fund Cash Balances, January 1	<u>109,941</u>	<u>0</u>	<u>109,941</u>
Fund Cash Balances, December 31	<u>\$103,421</u>	<u>\$0</u>	<u>\$103,421</u>

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

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property Tax	\$32,384	\$0	\$16,744	\$0	\$49,128
Intergovernmental Receipts	62,331	23,063	2,267	46,000	133,661
Charges for Services	5,250	33,905	0	0	39,155
Fines, Licenses, and Permits	17,022	0	0	0	17,022
Earnings on Investments	8,073	1,209	0	0	9,282
Miscellaneous	6,527	710	0	0	7,237
Total Cash Receipts	131,588	58,887	19,011	46,000	255,486
Cash Disbursements:					
Current:					
Security of Persons and Property	43,768	13,245	0	0	57,013
Public Health Services	283	0	0	0	283
Transportation	0	5,599	0	0	5,599
General Government	75,474	0	0	0	75,474
Debt Service:					
Principal Payments	0	0	18,000	0	18,000
Interest Payments	0	0	4,193	0	4,193
Financing and Other Debt-Service Related	0	0	727	0	727
Capital Outlay	20,004	3,019	0	46,000	69,023
Total Cash Disbursements	139,528	21,863	22,920	46,000	230,311
Total Receipts Over/(Under) Disbursements	(7,940)	37,024	(3,909)	0	25,175
Other Financing Receipts and (Disbursements):					
Transfers-In	0	1,172	423	0	1,595
Advances-In	0	0	619	0	619
Transfers-Out	(3,402)	0	0	0	(3,402)
Advances-Out	(619)	0	0	0	(619)
Total Other Financing Receipts/(Disbursements)	(4,020)	1,172	1,041	0	(1,807)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(11,961)	38,196	(2,867)	0	23,368
Fund Cash Balances, January 1	61,373	143,129	12,900	0	217,402
Fund Cash Balances, December 31	\$49,412	\$181,325	\$10,033	\$0	\$240,770
Reserves for Encumbrances, December 31	\$1,480	\$0	\$0	\$0	\$1,480

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

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$124,379	\$0	\$124,379
Total Operating Cash Receipts	124,379	0	124,379
Operating Cash Disbursements:			
Personal Services	10,078	0	10,078
Fringe Benefits	1,455	0	1,455
Supplies and Materials	63,121	0	63,121
Total Operating Cash Disbursements	74,654	0	74,654
Operating Income	49,725	0	49,725
Non-Operating Cash Receipts:			
Other Non-Operating Cash Receipts	0	14,724	14,724
Total Non-Operating Cash Receipts	0	14,724	14,724
Non-Operating Cash Disbursements:			
Debt Service			
Principal	19,065	0	19,065
Interest	14,612	0	14,612
Other Non-Operating Cash Disbursements	0	14,724	14,724
Total Non-Operating Cash Disbursements	33,677	14,724	48,401
Excess of Receipts over Disbursements Before Interfund Transfers and Advances	16,048	0	16,048
Transfers-In	1,807	0	1,807
Net Receipts Over Disbursements	17,855	0	17,855
Fund Cash Balances, January 1	92,086	0	92,086
Fund Cash Balances, December 31	<u>\$109,941</u>	<u>\$0</u>	<u>\$109,941</u>
Reserve for Encumbrances, December 31	<u>\$103</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Seven Mile, Butler County, Ohio (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 water utilities, fire and ambulance services, and police 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 Deposits

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 Funds

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 money for constructing, maintaining and repairing Village streets.

Life Squad Fund - This fund receives charges for services for providing life squad services for the safety of the Village.

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Funds

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant Debt Service Funds:

Fire Debt Fund – This fund is used to repay the debt issued for the purchase of a fire truck.

Life Squad Debt Fund – This fund is used to repay the debt issued for payment of life squad bonds.

4. Capital Project Fund

This fund is 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 Capital Project Fund:

Capital Project Fund - This fund receives grant money for constructing, maintaining and repairing Village Streets.

5. Enterprise Fund

This fund accounts for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Fund:

Water Works Fund - This fund receives charges for services from residents and non-residents to cover the cost of providing this utility. This fund also received loan proceeds from the Ohio Water Development Authority. This debt is being repaid from water department revenue.

6. Fiduciary Fund (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following Fiduciary Fund:

Mayor's Court Fund – This agency fund accounts for the Village court activity.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object 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. 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2002 and 2001 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.

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	2002	2001
Demand deposits	\$268,194	\$241,727
Certificates of deposit	110,888	108,984
Total deposits	\$379,082	\$350,711

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$109,524	\$143,968	\$34,444
Special Revenue	50,500	51,819	1,319
Debt Service	13,642	18,752	5,110
Capital Projects	34,000	34,000	0
Enterprise	125,000	112,839	(12,161)
Total	\$332,666	\$361,378	\$28,712

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$159,555	\$138,304	\$21,251
Special Revenue	216,299	31,425	184,874
Debt Service	15,440	13,319	2,121
Capital Projects	34,000	34,000	0
Enterprise	234,940	119,359	115,581
Total	\$660,234	\$336,407	\$323,827

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$125,839	\$131,588	\$5,749
Special Revenue	57,749	60,059	2,310
Debt Service	20,362	19,434	(928)
Capital Projects	46,000	46,000	0
Enterprise	130,000	126,186	(3,814)
Total	\$379,950	\$383,267	\$3,317

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$187,212	\$144,410	\$42,802
Special Revenue	191,130	21,863	169,267
Debt Service	24,493	22,920	1,573
Capital Projects	46,000	46,000	0
Enterprise	222,086	108,434	113,652
Total	\$670,921	\$343,627	\$327,294

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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.

Public utilities are also taxed on personal and real property located within the Village.

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

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

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
1995 Ohio Water Development Authority Loan #2870	\$287,348	2.00%
1997 Ohio Water Development Authority Loan #2871	37,368	2.00%
1995 Ohio Water Development Authority Loan #3056	112,843	6.24%
1997 Life Squad Bonds	50,000	5.15%
Total	<u>\$487,559</u>	

The Ohio Water Development Authority (OWDA) loans relate to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The Village received the proceeds from three separate loans from the Ohio Water Development Authority (OWDA) of \$392,530, \$136,929, and \$44,483 to improve the Village's existing water treatment plant. These loans were to be repaid over a period of twenty-five years. Interest is paid semi-annually, and the principal is paid annually. The loans are collateralized by revenue receipted from residents for the cost of providing water utilities. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

In December 1991, the Village issued \$100,000 of revenue bonds for the purchase of a new fire truck. These bonds were to be repaid over a period of ten years. Interest was paid semi-annually and bonds were paid annually with revenue received from real estate and property taxes. These bonds were paid off in 2001.

In March 1997, the Village issued \$80,000 of revenue bonds for the purchase of a new ambulance. These bonds are to be repaid over a period of ten years. Interest is paid semi-annually and bonds are paid annually with revenue received from real estate and property taxes.

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. DEBT (Continued)

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

	OWDA Loan #2870	OWDA Loan #2871	OWDA Loan #3056	Life Squad Bonds
Year ending December 31:				
2003	\$20,105	\$2,615	\$10,957	\$12,575
2004	20,105	2,615	10,957	12,060
2005	20,105	2,615	10,957	11,545
2006	20,105	2,615	10,957	11,030
2007	20,105	2,615	10,957	10,515
2008-2012	100,525	13,075	54,785	
2013-2018	100,525	13,075	54,785	
2018-2022	40,210	5,230	21,914	
Total	\$341,785	\$44,455	\$186,269	\$57,725

6. RETIREMENT SYSTEMS

The Village's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS 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. For 2002 and 2001, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

8. NONCOMPLIANCE

The Village did not retain all records as required by Ohio Rev. Code, Section 149.351.

The Village did not read customers water meters at least once in each three month period as required by Ohio Rev. Code, Section 735.29.

The Village did not shut off the water of customers who became two or more payments delinquent as required by Village Ordinance 93-3.

The Village did not certify to the County Auditor charges which were not paid within 30 days after they became due and payable as required by Village Ordinance 96-15.

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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 Seven Mile
Butler County
201 High Street
P.O. Box 259
Seven Mile, Ohio 45062

To the Village Council:

We have audited the accompanying financial statements of the Village of Seven Mile, Butler County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated October 24, 2003, in which we disclaimed an opinion on the Enterprise Fund for 2002 and 2001 due to insufficient documentation supporting the Charges for Services (water) receipts. Except as noted 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 *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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described as in the accompanying schedule of findings as items 2002-001 through 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 24, 2003.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-001 through 2002-004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions describe above, we consider items 2002-001 through 2002-004 to be material weaknesses. We also noted another matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated October 24, 2003.

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

October 24, 2003

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance/Material Weakness

Ohio Rev. Code, Section 149.351, provides that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under Sections 149.38 to 149.42, Revised Code.

During the audit period, the Village did not provide complete documentation for:

- Water meter readings;
- Delinquent, disconnect, and adjustment reports for water billings; and
- Monthly water billing reports.

We were unable to perform adequate auditing procedures related to water receipts due to the lack of documentation in these areas. The Village should develop policies and procedures outlining the security of all records. Disposal of records should only be made with approval from the records commission.

FINDING NUMBER 2002-002

Noncompliance /Material Weakness

Ordinance 93-3 of the Village of Seven Mile, Ohio, provides that a bill for water services which becomes two payments overdue shall result in a water customer therefore being served with a ten day notice to make payment in full, and if payment is not made within the ten day period the water service shall be shut off.

Ordinance 96-15 of the Village of Seven Mile, Ohio, provides that "Each charge for water services levied, per water customer, is hereby made a lien upon the corresponding lot, land, or premises served by a connection to the water system of Seven Mile, Ohio, and if the same is not paid within 30 days after it becomes due and payable, it shall be certified to the auditor of Butler County, who shall place same on the tax duplicate of the County, with interest and penalties allowed by law, to be collected as other taxes are collected against said property."

The Village did not shut off the water of customers who became two or more payments delinquent and did not make payment in full within the ten (10) day period.

The Village did not certify to the County Auditor charges which were not paid within 30 days after they became due and payable. These charges were not placed on the tax duplicate of the County.

Non-compliance with the above ordinances has resulted in a loss of water revenues for the Village; customers' accounts that are years delinquent; and landlords becoming responsible for delinquent bills they were unaware of, long after the tenants have vacated the premises. The Village should adopt procedures for complying with these ordinances; and Village Council should monitored compliance with the adopted procedures.

FINDING NUMBER 2002-003

Noncompliance /Material Weakness

Ohio Rev. Code, Section 735.29(B), states: "Each board that assesses water rents or charges shall determine the actual amount of rents due based upon an actual reading of each customer's meter at least once in each three-month period, and at least quarterly the board shall render a bill for the actual amount shown by the meter reading to be due, except estimated bills may be rendered if access to a customer's meter was unobtainable for a timely reading."

Contrary to this requirement, the Village did not read customer meters once in each three-month period and estimated many customer bills for long periods. This caused customers to under or over pay by large amounts when actual readings were taken. It also affected landlords who are responsible for payments not made by tenants. In some instances, when the actual amount was determined, the tenant no longer resided at the address and the landlord was responsible for payment.

We recommend the Village read meters at least once every three months as required.

FINDING NUMBER 2002-004

Material Weakness

Water department records were incomplete and possibly inaccurate. The Water Superintendent, employed through June of 2002, was responsible for reading all meters, repairing the system, completing water test, billing and record keeping. The following exceptions were noted:

- Meters were not read as required,
- Village procedures were not followed for delinquent accounts,
- Unauthorized billing remedies were made for delinquent accounts,
- Late fees were not charged or paid, and
- Required documentation was not retained.

There did not appear to be oversight by the Board of Public Affairs to monitor water department activity. The minutes of the Board of Public Affairs did not indicate members were aware of problems. Upon the Water Superintendent's resignation, the condition of the water department records was not adequate to determine their integrity. Information is not available to determine that the records are complete or accurate; there is no supporting documentation for adjustments made to records over the audit period; and the Village is unable to accurately report on water department activities.

The Board of Public Affairs should require that certain reports are run daily, weekly, monthly, and yearly. All information for each month should be printed and retained including: meter readings, billing adjustments, billing reports and summaries, delinquent account information, disconnects, reconnects, etc. One or more Board members should review reports on a regular basis to monitor the Water department activity. All adjustments should be listed and approved by the Board and documented in the minutes.

**VILLAGE OF SEVEN MILE
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30409-001	The Village failed to establish a Capital Projects Fund for –“On Behalf-Of” Community Development Grant Funding Programs and failed to include these monies within its annual budget.	Yes	
Management Letter Recommendation	Water Billing Receipts – Meter readings not performed and account adjustments not reviewed and approved	No	Not Corrected. Reissued as Finding # 2002-004

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VILLAGE OF SEVEN MILE

BUTLER 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 13, 2003**