



**Auditor of State
Betty Montgomery**

VILLAGE OF DEGRAFF
LOGAN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of DeGraff
Logan County
107 South Main Street
P.O. Box 309
DeGraff, Ohio 43318

To the Members of Council:

We have audited the accompanying financial statements of the Village of DeGraff, Logan County, (the "Village") as of and for the years ended December 31, 2003 and 2002, as listed in the table of contents. 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.

Income tax revenues reported in the Village's General Fund are processed by a service organization that is independent of the Village. This service organization did not provide us with evidence regarding the design or proper operation of its internal control system. As a result, we were unable to perform procedures to satisfy ourselves as to the processing of the income tax revenues in the amount of \$182,079 during 2003, and \$171,260 during 2002, reported in the General Fund line item Property Tax and Other Local Taxes on the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – all Governmental Fund Types.

As described Note 1, the Government 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 effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding income tax revenues, the financial statements referred above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 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.

This report is intended solely for the information and use of the, management, Members of 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

September 20, 2004

**VILLAGE OF DEGRAFF
LOGAN 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>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$206,074	\$6,476	\$212,550
Intergovernmental Receipts	44,013	49,381	93,394
Charges for Services	11,300		11,300
Fines, Licenses, and Permits	5,870		5,870
Earnings on Investments	5,997	252	6,249
Miscellaneous	3,230		3,230
Total Cash Receipts	<u>276,484</u>	<u>56,109</u>	<u>332,593</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	76,857		76,857
Public Health Services	9,737		9,737
Leisure Time Activities	9,546		9,546
Community Environment	2,263		2,263
Basic Utility Services	7,823		7,823
Transportation	59,079	45,288	104,367
General Government	108,326		108,326
Intergovernmental Expenditures		6,329	6,329
Debt Service:			
Redemption of Principal	15,089		15,089
Total Cash Disbursements	<u>288,720</u>	<u>51,617</u>	<u>340,337</u>
Total Receipts Over/(Under) Disbursements	(12,236)	4,492	(7,744)
Fund Cash Balances, January 1	<u>122,447</u>	<u>31,545</u>	<u>153,992</u>
Fund Cash Balances, December 31	<u>\$110,211</u>	<u>\$36,037</u>	<u>\$146,248</u>
Reserves for Encumbrances, December 31	<u>\$30,668</u>		<u>\$30,668</u>

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

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

Operating Cash Receipts:	
Charges for Services	\$365,022
Miscellaneous	12,076
	<hr/>
Total Operating Cash Receipts	377,098
	<hr/>
Operating Cash Disbursements:	
Personal Services	96,855
Contractual Services	65,431
Supplies and Materials	19,251
Capital Outlay	27,889
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Total Operating Cash Disbursements	209,426
	<hr/>
Operating Income	167,672
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Non-Operating Cash Receipts:	
Interest	3,117
Other Non-Operating Receipts	2,450
	<hr/>
Total Non-Operating Cash Receipts	5,567
	<hr/>
Non-Operating Cash Disbursements:	
Debt Service:	
Redemption of Principal	41,980
Interest	22,913
Other Non-Operating Cash Disbursements	850
	<hr/>
Total Non-Operating Cash Disbursements	65,743
	<hr/>
Receipts Over Disbursements Before Interfund Transfers	107,496
Transfers-In	4,404
Transfers-Out	(4,404)
	<hr/>
Net Receipts Over Disbursements	107,496
Fund Cash Balances, January 1	324,536
	<hr/>
Fund Cash Balances, December 31	<u><u>\$432,032</u></u>

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

**VILLAGE OF DEGRAFF
LOGAN 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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$195,976	\$6,566	\$202,542
Intergovernmental Receipts	44,232	45,977	90,209
Charges for Services	6,100		6,100
Fines, Licenses, and Permits	5,098		5,098
Earnings on Investments	10,197	387	10,584
Miscellaneous	4,254		4,254
	<u>265,857</u>	<u>52,930</u>	<u>318,787</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	78,245		78,245
Public Health Services	1,256		1,256
Leisure Time Activities	24,057		24,057
Community Environment	1,715		1,715
Basic Utility Services	9,422		9,422
Transportation	172,269	41,198	213,467
General Government	113,252		113,252
Intergovernmental Expenditures		6,217	6,217
Debt Service:			
Redemption of Principal	42,289		42,289
Interest and Other Charges	20,682		20,682
	<u>463,187</u>	<u>47,415</u>	<u>510,602</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	(197,330)	5,515	(191,815)
Fund Cash Balances, January 1	319,778	26,029	345,807
Fund Cash Balances, December 31	<u>\$122,448</u>	<u>\$31,544</u>	<u>\$153,992</u>
Reserves for Encumbrances, December 31	<u>\$10,245</u>		<u>\$10,245</u>

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

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

Operating Cash Receipts:	
Charges for Services	\$369,394
Miscellaneous	<u>12,002</u>
Total Operating Cash Receipts	<u>381,396</u>
Operating Cash Disbursements:	
Personal Services	95,682
Contractual Services	84,291
Supplies and Materials	32,326
Other	1,650
Capital Outlay	<u>22,391</u>
Total Operating Cash Disbursements	<u>236,340</u>
Operating Income	<u>145,056</u>
Non-Operating Cash Receipts:	
Interest	<u>5,454</u>
Non-Operating Cash Disbursements:	
Debt Service:	
Redemption of Principal	262,605
Interest	<u>30,512</u>
Total Non-Operating Cash Disbursements	<u>293,117</u>
Receipts (Under) Disbursements Before Interfund Transfers	(142,607)
Transfers-In	4,404
Transfers-Out	<u>(4,404)</u>
Net Receipts (Under) Disbursements	(142,607)
Fund Cash Balances, January 1	<u>467,143</u>
Fund Cash Balances, December 31	<u><u>\$324,536</u></u>

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

**VILLAGE OF DEGRAFF
LOGAN 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 DeGraff, Logan 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 general governmental services, street repair and maintenance, water and sewer utilities, park operations and police and fire services. The Village contracts with Riverside Emergency Medical Services, Inc. for emergency medical services.

The residents of the Village support the Greenwood Union Cemetery through a tax levy. The Cemetery is directed by an appointed three-member Board of Trustees. The Board is appointed by the Village and Pleasant Township. This relationship is further described in Note 4.

The Village is joint ownership with the Village of Quincy in the operation, use and maintenance of a sewerage treatment plant. The Board is comprised of five members plus one clerk and one assistant clerk. The Board is appointed by the Village of DeGraff and Quincy. This relationship is further described in Note 9.

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

Purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively. 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.

VILLAGE OF DEGRAFF
LOGAN COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Fund:

Street Construction, Maintenance, and Repair Fund - This fund receives motor vehicle license tax and gasoline tax money to maintain Village streets.

3. Enterprise Funds

These funds account 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 Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

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 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. 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 canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting. The budgetary presentations have been adjusted to include material items that should have been encumbered

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

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2003	2002
Demand deposits	\$473,829	\$376,964
Certificates of deposit	104,451	101,564
Total deposits	\$578,280	\$478,528

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$246,855	\$276,484	\$29,629
Special Revenue	46,100	56,109	10,009
Enterprise	366,000	387,069	21,069
Total	\$658,955	\$719,662	\$60,707

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$369,303	\$319,388	\$49,915
Special Revenue	77,645	51,617	26,028
Enterprise	549,960	279,573	270,387
Total	\$996,908	\$650,578	\$346,330

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

3. BUDGETARY ACTIVITY

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$234,855	\$265,857	\$31,002
Special Revenue	43,800	52,930	9,130
Enterprise	374,800	391,254	16,454
Total	\$653,455	\$710,041	\$56,586

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$554,633	\$473,432	\$81,201
Special Revenue	69,829	47,415	22,414
Enterprise	841,940	533,861	308,079
Total	\$1,466,402	\$1,054,708	\$411,694

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.

The residents of the Village support the Greenwood Union Cemetery (the "Cemetery") through a tax levy. The levy for the Cemetery is voted millage. During 2003 and 2002, the Cemetery received \$6,329, and \$6,217, respectively in tax revenue from the residents of the Village. This money is reported as tax revenue and intergovernmental expenditures in the Special Revenue Fund Type on the Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types.

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

5. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
First Mortgage Sanitary Sewerage System Bond (1984)	\$276,000	5.00%
First Mortgage Sanitary Sewerage System Bond (1986)	63,100	6.375%
Ohio Water Development Authority Loan (1993)	55,039	6.750%
Ohio Public Works Commission Loan (1998)	169,444	n/a
Total	<u>\$287,583</u>	

The 1984 First Mortgage Sanitary Sewerage System Bonds, in the amount of \$627,481, represent the re-amortization of First Mortgage Sanitary Sewerage System Bonds initially issued during 1972 in the amount of \$649,000. The Bonds were issued for constructing a municipal sanitary sewerage system and treatment facilities. The Bonds require annual payments with maturity during 2012. As required by the Bond agreement, the Village has established and funded an Enterprise Debt Service Reserve Fund. The balance in the fund at December 31, 2003 is \$133,573.63. The Village has not established the required bond and interest sinking fund in which 1/12th of the annual debt service is to be recorded each month.

The First Mortgage Sanitary Sewerage System Revenue Bonds dated 1986, in the amount of amount of \$77,000, were for sewer improvements. The Bonds require annual installments with maturity during 2026.

The 1993 Ohio Water Development Authority (OWDA) loan, in the amount of \$70,904, was for water plant improvement that was mandated by the Ohio Environment Protection Agency. The loans will be repaid in semi-annual installments over twenty-five years.

The 1998 Ohio Public Works Commission (OPWC) loan, in the amount of \$254,000, was to pay for the South End Waterline Replacement Project. The interest free loan will be repaid in semi-annual installments of \$5,295 over twenty years. The bonds and loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

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

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

6. DEBT (Continued)

	Sanitary Sewer System Mortgage Revenue Bonds (1984)	Sanitary Sewer System Mortgage Revenue Bonds (1986)	Ohio Water Development Authority Loan (1993)	Ohio Public Works Commission (1998)
Year ending December 31:				
2004	\$44,200	\$5,506	\$5,948	\$10,590
2005	43,800	5,523	5,948	10,590
2006	44,350	5,533	5,948	10,590
2007	43,850	5,538	5,948	10,590
2008	44,250	5,535	5,948	10,590
2009-2013	136,500	27,626	29,749	52,952
2014-2019		27,879	29,740	52,952
2020-2024		28,213		10,590
2025-2026		11,774		
Total	\$356,950	\$123,127	\$89,229	\$169,444

In addition to the debt described above, during 2001 the Village entered into a municipal equipment lease for a backhoe. The lease will be paid in four installments of \$15,089 and will be paid through general operating funds. The balance at December 31, 2003 was \$15,089.

7. RETIREMENT SYSTEMS

The Village's 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 2003 and 2002, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries through December 31, 2003. The Village has paid all contributions required through December 31, 2003.

For 2003 and 2002, members of Social Security System contributed 6.2% of their wages to Social Security. The Village contributed an amount equal to 7.65% of their wages.

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- General liability - \$3,000,000, \$1,000 deductible;
- Auto liability & Auto Physical Damage - \$1,000,00, \$250 and \$500 deductible;
- Property Coverage - \$1,934,203, \$500 deductible;
- Public Official's liability - \$1,000,000, \$250 deductible;
- Inland Marine Coverage - \$351,096, \$500 deductible;
- Employee Benefits Liability Coverage - \$10,000, \$500 deductible;
- Commercial Crime Coverage - \$1,000,000, \$2,500 deductible;
- Law Enforcement Liability - \$1,000,000, \$2,500 deductible

The Village also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

9. JOINT VENTURE

The Village was under EPA mandate to upgrade their Waste Water Treatment Plant. The Village will share the costs of this upgrade with the Village of Quincy. The total cost of the project is estimated at \$3,000,000, minus grants, which will leave a balance of approximately \$1,600,000 to be financed. The project was completed and was in service starting April 12, 2004. As of July 19, 2004, the debt schedule for the project was not completed. Each Village's construction and operation costs will be based on flow into the plant. At this time, it is estimated that approximately 60-70% of the cost will be paid by the Village of DeGraff.

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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 DeGraff
Logan County
107 South Main Street
P.O. Box 309
DeGraff, Ohio 43318

To the Members of Council:

We have audited the financial statements of the Village of DeGraff, Logan County, (the "Village"), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated September 20, 2004, wherein we noted that we were not able to perform procedures to satisfy ourselves as to the processing of income tax revenues. Except as discussed above, 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 in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 20, 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. 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-003.

**Internal Control over Financial Reporting
(Continued)**

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, we believe the reportable condition described above is a material weakness. We also 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 September 20, 2004.

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



Betty Montgomery
Auditor of State

September 20, 2004

VILLAGE OF DEGRAFF
LOGAN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2003-001

Noncompliance

Ohio Rev. Code Section 5705.41 (D) states that no order or contract involving the expenditure of money is to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrances, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

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

One hundred percent of Village's transactions were not certified by the Clerk/Treasurer prior to making orders for the expenditure of Village funds. In addition, neither of the two exceptions above were utilized for these transactions. Procedures should be implemented to not only help assure compliance with this requirement, help prevent the unauthorized obligation of Village funds.

FINDING NUMBER 2003-002

Noncompliance

First Mortgage Sanitary Sewerage System Revenue Bonds, dated May 23, 1972, state that after funds for the necessary current expenses of operation and maintenance of the sewage system have been met for the ensuing month, there shall be transferred each month into the First Sanitary Sewerage System Revenue Bond and Interest Sinking Fund, an amount equal to at least 1/12th (or such larger amount as is necessary) of the amount equal to the interest due on the next ensuing interest due date with respect to all Bonds outstanding and the sum necessary to provide for payment of the next ensuing principal maturity of all Bonds outstanding. If for any such reason, there is a failure to make such monthly deposit, then an amount equal to the deficiency shall be set aside and depositing into this Fund in the ensuing month or months, which shall be in addition to the regular monthly deposit required during such succeeding month or months.

Although the Village made the required payments on this debt, they have failed to establish the required fund. The failure to establish this required fund could result in the Village not having the required funds to meet its annual debt service requirements.

**FINDING NUMBER 2003-002
(Continued)**

The Village should establish the required fund within the Enterprise Fund Type. In addition, the Village should further review this debt agreement and all other debt agreements to help assure compliance with debt covenants. To help assure the completeness of its debt agreements and the continuing applicability of covenants, the Village should contact each lender.

FINDING NUMBER 2003-003

Reportable Condition / Material Weakness

Obtaining a SAS 70 Audit Report

When an entity uses a service organization to process financially significant accounting transactions, the organization should provide a Tier II SAS 70 audit report. This report gives the user entity insight to the controls and their operating effectiveness at the service organization. The failure to obtain this type of report prevents the user entity from knowing if significant deficiencies in the control system exist at the third party administrator. The Village did not obtain a SAS 70 audit report from its third-party administrator who processes income tax revenue.

The Village should revise their third-party administrator contract to include a requirement for an annual Tier II SAS 70 audit. A SAS 70 audit should be conducted in accordance with American Institute of Certified Public Accountants' (AICPA) standards by a firm registered and considered in "good standing" with the Accountancy Board of the respective State. The Village should be provided with a copy of the SAS 70 report and then review the report's content. The Village should take steps to address any user control considerations identified in the report.

**VILLAGE OF DEGRAFF
LOGAN COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-30246-001	ORC Sec. 135.18 (A) - Inadequate collateral for deposits	Yes	
2001-30246-002	ORC Sec. 5705.40 - Failure to adopt annual appropriations	Yes	
2001-30246-003	ORC Sec. 5705.41(B) - Expenditures greater than appropriations	Yes	
2001-30246-004	ORC Sec. 5705.41(D) – Failure to obtain prior certification of expenditures	No	Repeated as finding 2003-001



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**VILLAGE OF DEGRAFF
LOGAN 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**