



Mary Taylor, CPA  
Auditor of State



VILLAGE OF SEVEN MILE  
BUTLER COUNTY

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**Mary Taylor, CPA**  
Auditor of State

Village of Seven Mile  
Butler County  
201 High Street  
Seven Mile, Ohio 45062

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.

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

December 17, 2007

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Seven Mile  
Butler County  
201 High Street  
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, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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 second following paragraph.

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, 2006 and 2005 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, 2006 and 2005, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, 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 Village of Seven Mile, Butler County, Ohio, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2007, 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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

December 17, 2007



**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, 2006**

|  | <u>General</u>         | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Capital<br/>Projects</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|------------------------|----------------------------|-------------------------|-----------------------------|---|
| <b>Cash Receipts:</b>  |                        |                            |                         |                             |   |
| Property and Local Taxes   | \$38,786               |                            | \$13,172                |                             | \$51,958                                |
| Intergovernmental  | 57,334                 | \$42,080                   | 1,997                   | \$80,246                    | 181,657                                 |
| Charges for Services   | 12,875                 | 42,553                     |                         |                             | 55,428                                  |
| Fines, Licenses and Permits  | 9,762                  | 690                        |                         |                             | 10,452                                  |
| Earnings on Investments  | 7,802                  | 2,953                      |                         |                             | 10,755                                  |
| Miscellaneous  | 7,104                  | 4,853                      |                         |                             | 11,957                                  |
| Total Cash Receipts  | <u>133,663</u>         | <u>93,129</u>              | <u>15,169</u>           | <u>80,246</u>               | <u>322,207</u>                          |
| <b>Cash Disbursements:</b>   |                        |                            |                         |                             |   |
| Current:   |                        |                            |                         |                             |   |
| Security of Persons and Property   | 64,219                 | 15,080                     |                         |                             | 79,299                                  |
| Public Health Services   | 429                    |                            |                         |                             | 429                                     |
| Leisure Time Activities  | 1,812                  |                            |                         |                             | 1,812                                   |
| Basic Utility Service  | 60                     |                            |                         |                             | 60                                      |
| Transportation   |                        | 7,872                      |                         |                             | 7,872                                   |
| General Government   | 73,078                 | 1,128                      | 200                     |                             | 74,406                                  |
| Debt Service:  |                        |                            |                         |                             |   |
| Redemption of Principal  |                        |                            | 10,000                  |                             | 10,000                                  |
| Interest and Fiscal Charges  |                        |                            | 1,030                   |                             | 1,030                                   |
| Capital Outlay   |                        | 40,780                     |                         | 80,246                      | 121,026                                 |
| Total Cash Disbursements   | <u>139,598</u>         | <u>64,860</u>              | <u>11,230</u>           | <u>80,246</u>               | <u>295,934</u>                          |
| Total Receipts Over/(Under) Disbursements  | <u>(5,935)</u>         | <u>28,269</u>              | <u>3,939</u>            | <u>0</u>                    | <u>26,273</u>                           |
| <b>Other Financing Receipts / (Disbursements):</b>   |                        |                            |                         |                             |   |
| Transfers-In   |                        | 2,076                      |                         |                             | 2,076                                   |
| Transfers-Out  | (2,076)                |                            |                         |                             | (2,076)                                 |
| Other Financing Sources  | 221                    |                            |                         |                             | 221                                     |
| Total Other Financing Receipts / (Disbursements)   | <u>(1,855)</u>         | <u>2,076</u>               | <u>0</u>                | <u>0</u>                    | <u>221</u>                              |
| Excess of Cash Receipts and Other Financing<br>Receipts Over/(Under) Cash Disbursements<br>and Other Financing Disbursements | (7,790)                | 30,345                     | 3,939                   | 0                           | 26,494                                  |
| Fund Cash Balances, January 1  | <u>61,064</u>          | <u>207,789</u>             | <u>13,544</u>           | <u>0</u>                    | <u>282,397</u>                          |
| <b>Fund Cash Balances, December 31</b>   | <b><u>\$53,274</u></b> | <b><u>\$238,134</u></b>    | <b><u>\$17,483</u></b>  | <b><u>\$0</u></b>           | <b><u>\$308,891</u></b>                 |

*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 FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

|  | <u>Proprietary<br/>Fund Type</u> | <u>Fiduciary<br/>Fund Type</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|----------------------------------|--------------------------------|---|
|  | <u>Enterprise</u>                | <u>Agency</u>                  |   |
| <b>Operating Cash Receipts:</b>          |                                  |                                |   |
| Charges for Services                     | \$123,796                        | \$0                            | \$123,796                               |
| Total Operating Cash Receipts            | 123,796                          | 0                              | 123,796                                 |
| <b>Operating Cash Disbursements:</b>     |                                  |                                |   |
| Personal Services                        | 12,800                           |                                | 12,800                                  |
| Employee Fringe Benefits                 | 1,883                            |                                | 1,883                                   |
| Contractual Services                     | 64,776                           |                                | 64,776                                  |
| Supplies and Materials                   | 4,506                            |                                | 4,506                                   |
| Total Operating Cash Disbursements       | 83,965                           | 0                              | 83,965                                  |
| Operating Income                         | 39,831                           | 0                              | 39,831                                  |
| <b>Non-Operating Cash Receipts:</b>      |                                  |                                |   |
| Other Non-Operating Cash Receipts        |                                  | 12,495                         | 12,495                                  |
| Total Non-Operating Cash Receipts        | 0                                | 12,495                         | 12,495                                  |
| <b>Non-Operating Cash Disbursements:</b> |                                  |                                |   |
| Redemption of Principal                  | 21,645                           |                                | 21,645                                  |
| Interest and Other Fiscal Charges        | 11,763                           |                                | 11,763                                  |
| Other Non-Operating Cash Disbursements   |                                  | 12,495                         | 12,495                                  |
| Total Non-Operating Cash Disbursements   | 33,408                           | 12,495                         | 45,903                                  |
| Net Receipts Over Disbursements          | 6,423                            | 0                              | 6,423                                   |
| Fund Cash Balances, January 1            | 109,815                          | 0                              | 109,815                                 |
| <b>Fund Cash Balances, December 31</b>   | <b><u>\$116,238</u></b>          | <b><u>\$0</u></b>              | <b><u>\$116,238</u></b>                 |

*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, 2005**

|  | <u>General</u>         | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> | <u>Capital<br/>Projects</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|------------------------|----------------------------|-------------------------|-----------------------------|---|
| <b>Cash Receipts:</b>  |                        |                            |                         |                             |   |
| Property and Local Taxes   | \$38,127               |                            | \$12,223                |                             | \$50,350                                |
| Intergovernmental  | 45,651                 | \$37,087                   | 1,522                   | \$75,099                    | 159,359                                 |
| Charges for Services   | 6,500                  | 37,529                     |                         |                             | 44,029                                  |
| Fines, Licenses and Permits  | 30,850                 | 2,615                      |                         |                             | 33,465                                  |
| Earnings on Investments  | 5,830                  | 1,852                      |                         |                             | 7,682                                   |
| Miscellaneous  | 11,368                 | 7,534                      |                         |                             | 18,902                                  |
| Total Cash Receipts  | <u>138,326</u>         | <u>86,617</u>              | <u>13,745</u>           | <u>75,099</u>               | <u>313,787</u>                          |
| <b>Cash Disbursements:</b>   |                        |                            |                         |                             |   |
| Current:   |                        |                            |                         |                             |   |
| Security of Persons and Property   | 48,995                 | 27,865                     |                         |                             | 76,860                                  |
| Public Health Services   | 90                     |                            |                         |                             | 90                                      |
| Leisure Time Activities  | 2,396                  |                            |                         |                             | 2,396                                   |
| Community Environment  | 1,025                  |                            |                         |                             | 1,025                                   |
| Basic Utility Service  | 377                    |                            |                         |                             | 377                                     |
| Transportation   |                        | 13,709                     |                         |                             | 13,709                                  |
| General Government   | 66,774                 | 2,560                      | 234                     |                             | 69,568                                  |
| Debt Service:  |                        |                            |                         |                             |   |
| Redemption of Principal  |                        |                            | 10,000                  |                             | 10,000                                  |
| Interest and Fiscal Charges  |                        |                            | 1,545                   |                             | 1,545                                   |
| Capital Outlay   | 2,266                  | 105,441                    |                         | 75,099                      | 182,806                                 |
| Total Cash Disbursements   | <u>121,923</u>         | <u>149,575</u>             | <u>11,779</u>           | <u>75,099</u>               | <u>358,376</u>                          |
| Total Receipts Over/(Under) Disbursements  | <u>16,403</u>          | <u>(62,958)</u>            | <u>1,966</u>            | <u>0</u>                    | <u>(44,589)</u>                         |
| <b>Other Financing Receipts / (Disbursements):</b>   |                        |                            |                         |                             |   |
| Transfers-In   |                        | 5,076                      |                         |                             | 5,076                                   |
| Transfers-Out  | (5,568)                |                            |                         |                             | (5,568)                                 |
| Other Financing Sources  | 117                    |                            |                         |                             | 117                                     |
| Total Other Financing Receipts / (Disbursements)   | <u>(5,451)</u>         | <u>5,076</u>               | <u>0</u>                | <u>0</u>                    | <u>(375)</u>                            |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 10,952                 | (57,882)                   | 1,966                   | 0                           | (44,964)                                |
| Fund Cash Balances, January 1  | 50,112                 | 265,671                    | 11,578                  | 0                           | 327,361                                 |
| <b>Fund Cash Balances, December 31</b>   | <u><b>\$61,064</b></u> | <u><b>\$207,789</b></u>    | <u><b>\$13,544</b></u>  | <u><b>\$0</b></u>           | <u><b>\$282,397</b></u>                 |
| Reserve for Encumbrances, December 31  | <u>\$8,250</u>         | <u>\$40,808</u>            | <u>\$0</u>              | <u>\$0</u>                  | <u>\$49,058</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 PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | <u>Proprietary<br/>Fund Type</u> | <u>Fiduciary<br/>Fund Type</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|--|----------------------------------|--------------------------------|---|
|  | <u>Enterprise</u>                | <u>Agency</u>                  |   |
| <b>Operating Cash Receipts:</b>  |                                  |                                |   |
| Charges for Services   | \$131,884                        | \$0                            | \$131,884                               |
| Total Operating Cash Receipts  | <u>131,884</u>                   | <u>0</u>                       | <u>131,884</u>                          |
| <b>Operating Cash Disbursements:</b>                                   |                                  |                                |   |
| Personal Services  | 12,430                           |                                | 12,430                                  |
| Employee Fringe Benefits   | 1,891                            |                                | 1,891                                   |
| Contractual Services   | 81,812                           |                                | 81,812                                  |
| Supplies and Materials   | 6,453                            |                                | 6,453                                   |
| Total Operating Cash Disbursements                                     | <u>102,586</u>                   | <u>0</u>                       | <u>102,586</u>                          |
| Operating Income   | <u>29,298</u>                    | <u>0</u>                       | <u>29,298</u>                           |
| <b>Non-Operating Cash Receipts:</b>                                    |                                  |                                |   |
| Miscellaneous Receipts   | 170                              |                                | 170                                     |
| Other Non-Operating Cash Receipts                                      |                                  | 37,951                         | 37,951                                  |
| Total Non-Operating Cash Receipts                                      | <u>170</u>                       | <u>37,951</u>                  | <u>38,121</u>                           |
| <b>Non-Operating Cash Disbursements:</b>                               |                                  |                                |   |
| Redemption of Principal  | 21,301                           |                                | 21,301                                  |
| Interest and Other Fiscal Charges                                      | 16,121                           |                                | 16,121                                  |
| Other Non-Operating Cash Disbursements                                 |                                  | 37,951                         | 37,951                                  |
| Total Non-Operating Cash Disbursements                                 | <u>37,422</u>                    | <u>37,951</u>                  | <u>75,373</u>                           |
| Excess of Receipts (Under) Disbursements<br>Before Interfund Transfers | (7,954)                          | 0                              | (7,954)                                 |
| Transfers-In   | <u>492</u>                       |                                | <u>492</u>                              |
| Net Receipts (Under) Disbursements                                     | (7,462)                          | 0                              | (7,462)                                 |
| Fund Cash Balances, January 1  | <u>117,277</u>                   | <u>0</u>                       | <u>117,277</u>                          |
| <b>Fund Cash Balances, December 31</b>                                 | <b><u>\$109,815</u></b>          | <b><u>\$0</u></b>              | <b><u>\$109,815</u></b>                 |
| Reserve for Encumbrances, December 31                                  | <u>\$1,842</u>                   | <u>\$0</u>                     | <u>\$1,842</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, 2006 AND 2005**

**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 Seven Mile, Butler County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water utilities, fire and ambulance services, and police services.

The Village participates in the Public Entities Pool of Ohio (PEP). PEP is a risk-sharing pool available to Ohio local governments, which provides property and casualty coverage for its members. Note 7 to the financial statements provides additional information for this entity.

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

**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 Investments**

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**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.

**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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.

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

**3. Debt Service Fund**

This fund accounts for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

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 accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Capital Projects 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 to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

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

**6. Fiduciary Fund (Agency Fund)**

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for Village Mayor's court activity.

**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level 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 2006 and 2005 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.

**2. Equity in Pooled Cash and Investments**

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

|                                | 2006      | 2005      |
|--------------------------------|-----------|-----------|
| Demand deposits                | \$198,514 | \$173,289 |
| Certificates of deposit        | 104,774   | 102,873   |
| Total deposits                 | 303,288   | 276,162   |
| STAR Ohio                      | 121,841   | 116,050   |
| Total investments              | 121,841   | 116,050   |
| Total deposits and investments | \$425,129 | \$392,212 |

**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**2. Equity in Pooled Cash and Investments (Continued)**

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

**Investments:** Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

| 2006 Budgeted vs. Actual Receipts |                      |                    |            |
|-----------------------------------|----------------------|--------------------|------------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance   |
| General                           | \$117,436            | \$133,884          | \$16,448   |
| Special Revenue                   | 77,231               | 95,205             | 17,974     |
| Debt Service                      | 13,600               | 15,169             | 1,569      |
| Capital Projects                  | 87,988               | 80,246             | (7,742)    |
| Enterprise                        | 166,397              | 123,796            | (42,601)   |
| Total                             | \$462,652            | \$448,300          | (\$14,352) |

| 2006 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |           |
|---|----------------------------|---------------------------|-----------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance  |
| General   | \$188,170                  | \$141,674                 | \$46,496  |
| Special Revenue                                       | 277,781                    | 64,860                    | 212,921   |
| Debt Service  | 26,814                     | 11,230                    | 15,584    |
| Capital Projects                                      | 0                          | 80,246                    | (80,246)  |
| Enterprise  | 246,279                    | 117,373                   | 128,906   |
| Total   | \$739,044                  | \$415,383                 | \$323,661 |

| 2005 Budgeted vs. Actual Receipts |                      |                    |          |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance |
| General                           | \$131,436            | \$138,443          | \$7,007  |
| Special Revenue                   | 69,020               | 91,693             | 22,673   |
| Debt Service                      | 760                  | 13,745             | 12,985   |
| Capital Projects                  | 69,072               | 75,099             | 6,027    |
| Enterprise                        | 129,500              | 132,546            | 3,046    |
| Total                             | \$399,788            | \$451,526          | \$51,738 |



**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. Budgetary Activity (Continued)**

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |           |
|---|----------------------------|---------------------------|-----------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance  |
| General   | \$183,078                  | \$135,741                 | \$47,337  |
| Special Revenue                                       | 318,578                    | 190,383                   | 128,195   |
| Debt Service  | 13,178                     | 11,779                    | 1,399     |
| Capital Projects                                      | 68,272                     | 75,099                    | (6,827)   |
| Enterprise  | 246,853                    | 141,850                   | 105,003   |
| Total   | \$829,959                  | \$554,852                 | \$275,107 |

Contrary to Ohio law, budgeted receipts exceeded actual receipts in the State Highway Fund by \$23,227 and the Water Operating Fund by \$42,601 for the year ended December 31, 2006. Budget receipts exceeded actual receipts in the State Highway Fund by \$1,985 for the year ended December 31, 2005.

Also contrary to Ohio law, appropriations exceeded total estimated revenue for the General Fund by \$14,279 and the Street Construction Fund by \$20 for the year ended December 31, 2006. Appropriations exceeded total estimated revenue for the Life Squad Bond Fund by \$840 for the year ended December 31, 2005.

Also contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Grant Construction Fund by \$80,246 for the year ended December 31, 2006. Budgetary expenditures exceeded appropriation authority in the Grant Construction Fund by \$6,827 for the year ended December 3, 2005.

**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.

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.

**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**5. Debt**

Debt outstanding at December 31, 2006 was as follows:

|  | <u>Principal</u> | <u>Interest Rate</u> |
|--|------------------|----------------------|
| 1995 Ohio Water Development Authority Loan #2870 | \$228,168        | 2%                   |
| 1997 Ohio Water Development Authority Loan #2871 | 29,670           | 2%                   |
| 1995 Ohio Water Development Authority Loan #3056 | 95,922           | 6.24%                |
| 1997 Life Squad Bonds                            | 10,000           | 5.15%                |
| Total  | <u>\$363,760</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 OWDA of \$392,530, \$136,929, and \$44,483 to improve the Village's existing water treatment plant. These loans are 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 received 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 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.

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

| Year ending December 31: | <u>OWDA Loan<br/>#2870</u> | <u>OWDA Loan<br/>#2871</u> | <u>OWDA Loan<br/>#3056</u> | <u>Life Squad<br/>Bonds</u> |
|--------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|
| 2007                     | \$20,106                   | \$2,615                    | \$10,957                   | \$10,515                    |
| 2008                     | 20,106                     | 2,615                      | 10,957                     |                             |
| 2009                     | 20,106                     | 2,615                      | 10,957                     |                             |
| 2010                     | 20,106                     | 2,615                      | 10,957                     |                             |
| 2011                     | 20,106                     | 2,615                      | 10,957                     |                             |
| 2012 – 2016              | 100,530                    | 13,075                     | 54,785                     |                             |
| 2017 – 2019              | 60,318                     | 7,845                      | 32,871                     |                             |
| Total                    | <u>\$261,378</u>           | <u>\$33,995</u>            | <u>\$142,441</u>           | <u>\$10,515</u>             |

**6. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management (Continued)**

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

| <u>Casualty Coverage</u> | <u>2006</u>         | <u>2005</u>         |
|--------------------------|---------------------|---------------------|
| Assets                   | \$30,997,868        | \$29,719,675        |
| Liabilities              | <u>(15,875,741)</u> | <u>(15,994,168)</u> |
| Retained earnings        | <u>\$15,122,127</u> | <u>\$13,725,507</u> |

| <u>Property Coverage</u> | <u>2006</u>        | <u>2005</u>        |
|--------------------------|--------------------|--------------------|
| Assets                   | \$5,125,326        | \$4,443,332        |
| Liabilities              | <u>(863,163)</u>   | <u>(1,068,245)</u> |
| Retained earnings        | <u>\$4,262,163</u> | <u>\$3,375,087</u> |

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$34,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

| <u>Contributions to PEP</u> |          |
|-----------------------------|----------|
| 2004                        | \$15,191 |
| 2005                        | \$14,962 |
| 2006                        | \$16,976 |

**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. Risk Management (Continued)**

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**8. Compliance**

Contrary to Ohio law:

- The Village Clerk did not maintain the books of the Village and exhibit accurate statements of monies received and expended;
- The Village did not maintain public records as required.
- The Village did not comply with certain Village ordinances related to delinquent payments from water customers.

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# Mary Taylor, CPA

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 Seven Mile  
Butler County  
201 High Street  
Seven Mile, Ohio 45062

To the Village Council:

We have audited the financial statements of the Village of Seven Mile, Butler County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated December 17, 2007, 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. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 to 2006-006 and 2006-008.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2006-001, 2006-002, 2006-004, 2006-005, and 2006-008 are also material weaknesses.

We also noted certain matters that we reported to the Village's management in a separate letter dated December 17, 2007.

#### **Compliance and Other Matters**

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 and 2006-003 and items 2006-007 through 2006-009.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated December 17, 2007.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



**Mary Taylor, CPA**  
Auditor of State

December 17, 2007



**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2006-001**

**Noncompliance Citation / Material Weakness**

**Ohio Revised Code, Section 733.28**, requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of monies received and expended.

Review of the Village's ledgers noted the following exceptions:

- Returned check fees of \$10 for 2006 and \$9 for 2005 were not posted to the UAN system.
- Interest revenue was under recorded by \$2,017 for 2006 and over recorded by \$669 for 2005.
- Water revenue was under recorded by \$1,163 for 2006 and over recorded by \$7,550 for 2005.
- Receipts of \$876 for 2006 and \$4,966 for 2005 were posted to the UAN system twice.
- Deposits of \$2,351 for 2005 were not posted to the UAN system.
- Outstanding check lists were not reported accurately. At December 31, 2006, outstanding checks were overstated by \$741. At December 31, 2005, outstanding checks were overstated by \$490.
- One debt payment of \$3,744 was made twice. A refund was issued by OWDA and receipted by the Village; thus overstating revenue and debt service.
- Debt service interest of \$1,014 for 2005 was posted to contractual services rather than interest.
- Payments of \$4,930 for 2006 and \$4,287 for 2005 from the Water Fund were misposted as operating supplies and materials rather than contractual services.
- The transfer resolutions that were approved in the minutes were not properly posted to the UAN system. The Village overstated transfers by \$2,645 for 2006 and understated transfers by \$4,389 for 2005.

Adjustments were made to the financial statements for the above misstatements.

Failure to accurately maintain the Village's accounting records 1) reduces the accountability over Village funds, 2) reduces the Council's ability to monitor financial activity, 3) increases the likelihood that monies will be misappropriated and not detected, and 4) increases the likelihood that the Village's financial statements will be misstated.

We recommend the Village Clerk accurately maintain the Village's accounting records using the Village Officer's Handbook as guidance.

**Officials' Response:**

The Village is requesting a copy of the Village Officers' Handbook from the Auditor of State.

## FINDING NUMBER 2006-002

### Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village did not accurately reconcile its bank account to fund balances for the two year audit period necessitating a proof of cash to be performed to determine the completeness and accuracy of the amounts reported. Examples of discrepancies found are:

- Seven of twelve monthly bank reconciliations for 2005 had other adjusting factors and did not have adequate support for these other adjusting factors. The amounts ranged from \$20 to \$16,244. Three of twelve monthly bank reconciliations for 2006 had other adjusting factors and did not have adequate support for these other adjusting factors.
- The Village posted negative fund balance adjustments of \$8,189 for 2005 and \$15,135 for 2006. There was no support for these fund balance adjustments.
- The Village outstanding check value did not equal the Auditor of State recalculated outstanding check value for the 24 months. The Village had outstanding checks that cleared the bank and did not include checks that had not cleared the bank.
- The Village did not post interest for Certificates of Deposit with interest that was re-invested. The Village had unrecognized interest for these Certificates of Deposit of \$711 for 2004, \$1,061 for 2005 and \$1,901 for 2006.
- The Village overstated interest for Star Ohio of \$1,888 for 2005 by double posting May, June, July, and September interest. The Village also posted \$360 of 2005 Star Ohio interest that could not be traced to a statement. The Village overstated interest for Star Ohio of \$446 for 2006 by double posting April interest. The Village did not post Star Ohio interest of \$562 for 2006.
- The Village posted \$111 of checking account interest that could not be traced to a statement. The Village did not post January 2005 checking account interest of \$119.
- Interest of \$2,076 for 2006 and \$1,179 for 2005 was posted to the Life Squad Fund. This is not an allowable fund to receive interest. This interest should have been posted to the General Fund and then transferred to the Life Squad Fund as desired by Council.
- Investment amounts were not properly reflected in the UAN system for 2005 and 2006. Star Ohio was overstated by \$1,780 at December 31, 2005. Star Ohio was understated by \$1,046 at December 31, 2006. Seven of eleven Certificates of Deposit were not reported at the correct value at December 31, 2005. Eight of eleven Certificates of Deposit were not reported at the correct value at December 31, 2006.
- As a result of our proof of cash procedures, the Village's fund balances as of December 31, 2006 were increased by 4% or \$17,699.

We were able to accurately reconcile the Village's accounts through proof of cash auditing procedures.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Village officials rely on accurate reconciliations to make sound financial decisions. Adjustments were posted to the financial statements to correct the above transactions.

**FINDING NUMBER 2006-002**  
**(Continued)**

We recommend the Village Clerk complete accurate monthly reconciliations. Other adjusting factors should be documented and adequately explained. Deposits in transit should be documented by receipt numbers reflecting the date, amount, and source of the deposit in transit. These deposits in transit should trace to the subsequent month's bank statement. Village officials should review and sign the reconciliations indicating their approval. Adjustments should be documented, and any unexplained differences should be investigated and resolved immediately. Outstanding checks older than six months should be investigated and appropriate actions taken to remove them from the reconciliation if they no longer apply. To improve record keeping and accountability of receipts we recommend that all interest and investment activity be properly posted. For guidance the Village should utilize the Village Officer's Handbook.

**Officials' Response:**

The Village is requesting a copy of the Village Officers' Handbook from the Auditor of State.

**FINDING NUMBER 2006-003**

**Noncompliance Citation / Significant Deficiency**

**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 resulted in a loss of water revenues for the Village, customers' accounts that are more than two months 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 monitor compliance with the adopted procedures.

**FINDING NUMBER 2006-003  
(Continued)**

**Officials' Response:**

As the audit was being conducted, the Village's Board of Public Affairs was in the process of reviewing policy and procedure for the new superintendent and water clerk. The Board of Public Affairs has been more involved to see that ordinances and procedures are being followed. The Board will follow recommendations for reports. **Board of Public Affairs (BPA) Response regarding Ordinance 93-3:** The BPA hired a new Water Department Manager and Water Department Superintendent in July of 2007. We addressed this issue immediately with the new Manager. The BPA included a copy of the ordinance with the August Village newsletter to inform all of the residents that the Village would be strictly adhering to this policy from that point forward. The Village is now in compliance and adhering to this ordinance. **BPA response regarding Ordinance 96-15:** The Village BPA has addressed this issue in our monthly minutes. We have been in contact with the Butler County Auditor and have received the requirements in order to properly attach liens. The Village's Water Department Manager has identified the outstanding accounts and is working to notify residents and attempt collection. On or around January 1, 2008 we will be sending a letter to each outstanding account holder or property owner with the ordinance attached advising them that they have thirty days to pay or dispute the old charges or a lien will be placed on their property. Any new unpaid account holders or property owners will be sent a copy of the ordinance within the guidelines of such, and the lien will be placed accordingly.

**FINDING NUMBER 2006-004**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that all transactions are properly authorized in accordance with management's policies, accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacked management oversight in the water department. This oversight was illustrated by the following:

- Meter readings were taken with a hand held voice recorder;
- Village procedures were not followed for delinquent accounts and shut off procedures;
- Late fees were inconsistently applied to accounts or not paid by the customer;
- Required documentation (delinquent, disconnect, and adjustment reports) were not retained/provided for audit;
- The Board of Public Affairs did not approve waivers of late fees for arranged payment plans;
- Controls over the water billing software could not be determined because the Village would not permit access to the system;
- One item tested was improperly posted as to the date the payment was received.

The local bank collects 100% of the utility revenue for the Village. Therefore, despite incomplete records, we were able to determine completeness through confirmation of bank records.

**FINDING NUMBER 2006-004  
(Continued)**

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 member 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. The Board should monitor to ensure delinquent accounts are being handled, and attempts are being made to collect on the accounts, and to ensure that shut off notices and procedures are being performed as per Village policy. The Board should develop a policy on the handling of late fees and payment plans, and monitor these to ensure there are being consistently applied to all customers. Any waiver of the late fees should be approved by the BPA board. Meter reading should be maintained on a manual log with a page for each customer's account.

**Officials' Response:**

As the audit was being conducted, the Village's Board of Public Affairs was in the process of reviewing policy and procedure for the new superintendent and water clerk. The Board of Public Affairs has been more involved to see that ordinances and procedures are being followed. The Board will follow recommendations for reports. **Board of Public Affairs Response:** The use of the voice recorder was discontinued by the new Water Manager in September 2007. The Village is now using a manual log. We are looking into the cost of a new meter reading gun to hold all the data electronically to reduce the errors. Shut-off procedures are now being strictly adhered to and delinquent accounts are being addressed per ordinance guidelines. Late fees are now being consistently applied per the new Water Department Manager. Documentation is now being kept and filed accordingly per the new Water Department Manager. Waivers or payment arrangement requests are now being brought to the Board of Public Affairs by the individuals requesting such arrangements. The Board of Public Affairs was in transition from the old superintendent to the new department at the time of the audit and access to the water billing software is now available. Weekly and monthly reports are being retained and the Board feels this is sufficient at this time. The Water Department Manager is bringing these reports to the Board monthly meetings and we will look at nominating a board member to specifically review these reports.

**FINDING 2006-005**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacks management oversight in the posting of receipts. This lack of oversight is illustrated by the following:

- The June 2005 Homestead and Rollback settlement of \$2,272 was posted entirely to General Fund tax revenue rather than being split into General Fund and Debt Service Fund intergovernmental revenue. The December 2005 Homestead and Rollback settlement of \$2,287 was posted to tax revenue rather than intergovernmental revenue. The April 2006 Homestead and Rollback settlement of \$2,407 was posted to General Fund tax revenue and Debt Service Fund special assessments rather than General Fund and Debt Service Fund intergovernmental revenue. The November 2006 Homestead and Rollback settlement of \$2,401 was posted to General Fund tax revenue and Debt Service Fund special assessments and tax revenue rather than General Fund and Debt Service Fund intergovernmental revenue.

**FINDING NUMBER 2006-005  
(Continued)**

- The March 2006 (\$6,994) and October 2006 (\$6,139) Debt Service portions of the General Property Tax settlements were posted to special assessments rather than tax revenue.
- The December 2004 Personal Property Tax settlement (posted in January 2005) General Fund portion of \$195 was posted to the Debt Service Fund. The October 2005 Personal Property Tax settlement Debt Service portion of \$228 was posted to intergovernmental revenue rather than tax revenue.
- The June 2005 Intangible Tax settlement of \$88 was posted to tax revenue rather than intergovernmental revenue. The August 2006 Intangible Tax settlements of \$2 and \$9 were posted to the Street and State Highway funds rather than the General Fund. The September 2006 Intangible Tax settlement of \$1 was posted to tax revenue rather than intergovernmental revenue.
- The 2006 Excess Auto License settlement of \$73 was posted to Street Fund miscellaneous revenue rather than Street and State Highway Funds intergovernmental revenue. \$300 of the April 2006 Auto License settlement was posted to the State Highway Fund rather than the Street Fund. The Street Fund portion of the August (\$413), September (\$637), and December (\$349) Auto License settlements was posted to the State Highway Fund.
- 2005 County Auditor Deductions of \$234 for the Debt Service Fund were posted to the General Fund. 2006 County Auditor Deductions of \$200 for the Debt Service Fund were posted to the General Fund.
- The March 2005 Gasoline-Cents Per Gallon settlement Street Fund portion of \$668 was posted to the State Highway Fund. The November 2005 Gasoline-Cents Per Gallon settlement of \$759 was voided and not re-posted. The October 2006 Gasoline-Cents Per Gallon settlement of \$876 was posted to the accounting system twice.
- EMS remittances of \$375 were posted to intergovernmental revenue rather than charges for services for the EMS Fund. EMS remittances of \$105 were posted to intergovernmental revenue in the Water Fund rather than charges for services in the EMS Fund.
- One 2005 CDBG on-behalf payment was receipted for \$1,510 less than the disbursements. One 2005 CDBG on-behalf payment of \$6,827 was not recognized. The 2006 CDBG on-behalf payment was over-stated by \$7,742.
- The July 2006 Personal Property Tax Replacement settlement was posted to General Fund taxes (\$45) and Debt Service Fund special assessments (\$44) rather than intergovernmental revenue. The October 2006 (\$266) and December 2006 (\$266) Personal Property Tax Replacement settlements were posted to taxes rather than intergovernmental revenue.

Adjustments were posted to the financial statements to correct the above classifications.

The lack of proper management oversight could result in material misstatement relating to financial data. To improve record keeping and accountability of receipts we recommend that all county and state revenue receipts be posted properly. For guidance the Village should utilize the Village Officers' Handbook.

**Officials' Response:**

The Village is requesting a copy of the Village Officers' Handbook from the Auditor of State.

## FINDING NUMBER 2006-006

### Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Mayor's Court Clerk completed monthly bank reconciliations of the Mayor's Court and monthly receipt reports. However, the reconciliations and receipt reports were not reviewed and approved by someone other than the Mayor's Court Clerk. The failure to have supervisory review of the completed monthly bank reconciliations and receipt reports enhances the possibility that errors or irregularities could occur and not be detected in a timely manner.

We recommend that the monthly bank reconciliations and receipt reports for the Mayor's Court be reviewed and approved by someone other than the Mayor's Court Clerk. The reviews and approval should be evidenced by initials of the reviewer and the date.

The police department citation log had many different sequences of tickets issued out in the field. Citation books were not always issued to officers in the next sequence of tickets available. The Village does not maintain a list of voided citations. Two tickets from the sequence of tickets tested could not be traced to the docket. Failure to properly maintain the accountability of all tickets could result in a misappropriation of funds without timely detection.

The Village utilizes a rubber stamp of the Mayor's signature in signing the Mayor's Court docket. Unauthorized use of the rubber stamp could result in inaccurate information being documented in the docket book. We recommend that the Village discontinue the use of rubber signature stamps.

While reviewing the checkbook register, we observed four blank checks with the signature of the mayor already included on the blank check. Signing a check before it is completed may lead to the misappropriation of mayor's court monies or unallowable expenditures being made from the mayor's court account. We recommend the Village discontinue the use of signing checks before the checks are properly completed. The signature of the authorized user should be the last step in the check writing process.

To properly maintain Mayor's Court records, we recommend that proper control be maintained over issued and unissued tickets by the Police Chief or Mayor's Court Clerk. We recommend the following:

- Unissued ticket books should be stored in a secure location.
- Tickets should be issued in sequential order.
- All tickets should be accounted for before the next book is issued. Any discrepancies should be investigated promptly.
- A periodic (perhaps yearly) inventory should be taken to determine the status of the issued tickets.
- All parts of a voided ticket should be retained and stored in sequence with the other tickets. Normally, the next ticket issued should replace the voided ticket.

By implementing the above procedures, this will help ensure an accurate record of all tickets issued and help mitigate the likelihood of funds being misappropriated.

**FINDING NUMBER 2006-006  
(Continued)**

**Officials' Response:**

The Village is reviewing this finding. The Police Chief has been asked to do a yearly inventory of issued and un-issued tickets.

**FINDING NUMBER 2006-007**

**Noncompliance Citation**

**Ohio Revised Code, Section 5705.41(D)(1)**, prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

32% percent of the transactions tested in 2005 and 24% if transactions tested in 2006 were not certified by the fiscal officer at the time the commitment was incurred. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. The Village did utilize Blanket Certificates.



**FINDING NUMBER 2006-007  
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the 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 Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response:**

The Clerk, Council and the audit committee will be provided a copy of the Ohio Revised Code 5705.41. Better communication between Council and the Village Clerk is necessary.

**FINDING NUMBER 2006-008**

**Noncompliance Citation/Material Weakness**

**Ohio Revised Code, Section 149.351**, provides that no public records shall 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 commissions provided for under Ohio Rev. Code, Sections 149.38 to 149.42.

The Village could not locate the cancelled checks for 3 of 25 non-payroll disbursements tested, 18 of 176 payroll disbursements tested, and 3 of 33 payroll withholding disbursements tested in 2006; also, the Village could not locate the cancelled checks for 9 of 25 non-payroll disbursements tested, 78 of 198 payroll disbursements tested and 10 of 33 payroll withholding disbursements tested in 2005. The bank was able to provide copies of the missing cancelled checks. The Village could not locate the documentation establishing the pay rates in use for the fire department or any of the required withholding documents in the employee files. The Village's EMS department failed to retain run reports for 1 of 20 runs tested in 2006 and for 1 of 20 runs tested in 2005. Several monthly EMS billing folders contained at least one missing report for that month. Two reports could not be located to verify existence of the runs and subsequent billing and payment.

Failure to maintain proper documentation could result in problems when documents are needed to support actions take by the Village. We recommend that all records be maintained in accordance with a properly approved records retention schedule and proper documentation be obtained prior to making payment to a vendor.

**Officials' Response:**

A records committee is being formed in January 2008. Several members of our Village government have recently attended the required 3 hour seminar. This finding is under review.

**FINDING NUMBER 2006-009**

**Noncompliance Citation**

**Ohio Revised Code, Section 5705.36(A)(4)**, requires a subdivision to obtain an amended certificate when revenue to be collected will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations. At December 31, 2005 and 2006, the Village had estimated receipts that exceeded actual receipts and the deficiency reduced available resources below the current level of appropriations, as noted in the table below. Failure to monitor budgetary activity could result in overspending and negative fund balances. We recommend the Village comply with the above Ohio Revised Code Section and obtain amended certificates when necessary.

| <b>2005</b>          |                               |                       |               |
|----------------------|-------------------------------|-----------------------|---------------|
|                      | <b>Available Fund Balance</b> | <b>Appropriations</b> | <b>Excess</b> |
| State Highway Fund   | \$12,955                      | \$13,415              | \$460         |
|                      |                               |                       |               |
| <b>2006</b>          |                               |                       |               |
|                      |                               |                       |               |
| State Highway Fund   | 10,470                        | 34,998                | 24,528        |
| Water Operating Fund | 238,733                       | 246,279               | 7,546         |

In addition, **Ohio Revised Code, Section 5705.39**, provides that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimated resources or amended official estimated resources. Appropriations exceeded total estimated resources as follows:

| <b>2005</b>              |                            |                       |                 |
|--------------------------|----------------------------|-----------------------|-----------------|
|                          | <b>Estimated Resources</b> | <b>Appropriations</b> | <b>Variance</b> |
| Life Squad Bond Fund     | \$12,338                   | \$13,178              | \$(840)         |
|                          |                            |                       |                 |
| <b>2006</b>              |                            |                       |                 |
|                          |                            |                       |                 |
| General Fund             | 165,641                    | 179,920               | (14,279)        |
| Street Construction Fund | 78,061                     | 78,081                | (20)            |

Failure to limit appropriations to total estimated revenue may result in the Village incurring obligations that exceed their available resources and negative fund balances. We recommend that the Village limit appropriations to the total estimated revenue per fund.

Further, **Ohio Revised Code, Section 5705.41(B)**, provides that no subdivision shall make any expenditures of money unless it has been properly appropriated. Expenditures exceeded appropriations as follows:

| <b>2005</b>             |                       |                     |                 |
|-------------------------|-----------------------|---------------------|-----------------|
|                         | <b>Appropriations</b> | <b>Expenditures</b> | <b>Variance</b> |
| Grant Construction Fund | \$68,272              | \$75,099            | \$(6,827)       |
|                         |                       |                     |                 |
| <b>2006</b>             |                       |                     |                 |
|                         |                       |                     |                 |
| Grant Construction Fund | 0                     | 80,246              | (80,246)        |

**FINDING NUMBER 2006-009  
(Continued)**

Failure to limit expenditures to appropriations may result in overspending and negative fund balances. We recommend that the Village limit expenditures to the appropriated amount. The Clerk should deny any payments until Council has passed the necessary changes to the appropriation measure.

**Officials' Response:**

This finding is under review for future compliance..

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**VILLAGE OF SEVEN MILE  
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005**

| Finding Number | Finding Summary  | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|----------------|--|------------------|--|
| 2004-001       | Ohio Revised Code, Section 5705.41(D)(1), failure to properly certify funds. | No               | Not Corrected. Reissued as Finding 2006-007.   |





**Mary Taylor, CPA**  
Auditor of State

**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  
JANUARY 17, 2008**