



Mary Taylor, CPA
Auditor of State

VILLAGE OF VERONA
PREBLE COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

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

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

Mary Taylor, CPA
Auditor of State

September 23, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

We have audited the accompanying financial statements of the Village of Verona, Preble County, Ohio (the Village), as of and for the year ended December 31, 2007. 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. 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 year ended December 31, 2007 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, 2007, or its changes in financial position or cash flows, for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Verona, Preble County, as of December 31, 2007, and its combined cash receipts and disbursements for the year 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.

We conducted our audit to opine on the financial statements that collectively comprise the Village's financial statements. The accompanying federal awards expenditure schedule is required by the *U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2008, 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.



Mary Taylor, CPA
Auditor of State

September 23, 2008

**VILLAGE OF VERONA
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Local Taxes	\$ 29,405	\$ 26,331	\$ 55,736
Intergovernmental	42,743	27,530	70,273
Charges for Services	331	70,439	70,770
Fines, Licenses and Permits	551		551
Earnings on Investments	38,173		38,173
Miscellaneous	2,144	171	2,315
Total Cash Receipts	113,347	124,471	237,818
Cash Disbursements:			
Current:			
Security of Persons and Property	30,699	54,800	85,499
Leisure Time Activities	5,642		5,642
Community Environment	657		657
Basic Utility Service	3,725	4,064	7,789
Transportation		29,380	29,380
General Government	38,712	2,345	41,057
Debt Service:			
Redemption of Principal			
Interest and Fiscal Charges			
Capital Outlay		31,251	31,251
Total Cash Disbursements	79,435	121,840	201,275
Total Receipts Over Disbursements	33,912	2,631	36,543
Other Financing Receipts / (Disbursements):			
Transfers-In		1,879	1,879
Transfers-Out	(27,574)		(27,574)
Total Other Financing Receipts / (Disbursements)	(27,574)	1,879	(25,695)
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	6,338	4,510	10,848
Fund Cash Balances, January 1	59,216	123,970	183,186
Fund Cash Balances, December 31	\$ 65,554	\$ 128,480	\$ 194,034

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

VILLAGE OF VERONA
PREBLE COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

Operating Cash Receipts:	
Charges for Services	\$140,071
Miscellaneous	494
	<hr/>
Total Operating Cash Receipts	140,565
	<hr/>
Operating Cash Disbursements:	
Personal Services	29,672
Travel Transportation	1,134
Contractual Services	55,312
Supplies and Materials	9,126
Capital Outlay	3,106,648
	<hr/>
Total Operating Cash Disbursements	3,201,892
	<hr/>
Operating (Loss)	(3,061,327)
	<hr/>
Non-Operating Cash Receipts:	
Intergovernmental	1,605,898
Sale of Bonds	1,649,000
Other Debt Proceeds	305,700
	<hr/>
Total Non-Operating Cash Receipts	3,560,598
	<hr/>
Non-Operating Cash Disbursements:	
Redemption of Principal	251,115
Interest and Other Fiscal Charges	58,606
	<hr/>
Total Non-Operating Cash Disbursements	309,721
	<hr/>
Excess of Receipts Over Disbursements Before Interfund Transfers	189,550
Transfers-In	25,695
	<hr/>
Net Receipts Over Disbursements	215,245
Fund Cash Balances, January 1	440,296
	<hr/>
Fund Cash Balances, December 31	\$655,541
	<hr/> <hr/>

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

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007**

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 Verona, Preble County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and refuse utilities, park operations, and police services.

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. Investments in STAR Ohio are recorded at share values that STAR Ohio reports.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

Fire Operating Fund – This fund receives fire levy money and contract monies for providing fire protection services.

3. Enterprise Funds

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

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

Sewer Fund - This fund receives pre-construction charges from residents as well as grant and loan proceeds from Ohio Public Works Commission, Community Block Development Grant and the United States Department of Agriculture.

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 object 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. 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. The Village canceled \$210,853 in encumbrances at December 31, 2007 and re-encumbered these amounts in subsequent years against current appropriations. The Village did not encumber all commitments required by Ohio law.

A summary of 2007 budgetary activity appears in Note 3.

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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, 2007 was as follows:

Demand deposits	\$491,534
Certificates of deposit	150,061
Total deposits	<u>641,595</u>
STAR Ohio	<u>207,980</u>
Total investments	<u>207,980</u>
Total deposits and investments	<u><u>\$849,575</u></u>

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 are not evidenced by securities that exist in physical or book-entry form.

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2007 follows:

Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$83,011	\$113,347	\$30,336
Special Revenue	136,299	126,350	(9,949)
Enterprise	4,510,593	3,726,858	(783,735)
Total	<u>\$4,729,903</u>	<u>\$3,966,555</u>	<u>(\$763,348)</u>

Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$120,664	\$107,009	\$13,655
Special Revenue	198,068	121,840	76,228
Enterprise	4,427,333	3,511,613	915,720
Total	<u>\$4,746,065</u>	<u>\$3,740,462</u>	<u>\$1,005,603</u>

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007
(Continued)**

3. Budgetary Activity (Continued)

Contrary to Ohio law, estimated receipts exceeded actual receipts in the Fire and Sewer Funds. Contrary to Ohio law, expenditures exceeded appropriations for various line items in the General Fund, Fire Fund and Sewer Fund.

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.

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan #2900	\$7,500	0.00%
Ohio Water Development Authority Loan #3201	15,000	0.00%
Ohio Public Works Commission Loan CK008	342,418	0.00%
Ohio Public Works Commission Loan CK14G	305,700	0.00%
Fire Truck Lease	23,164	5.00%
Sewer System Temporary Mortgage Revenue Bonds	1,649,000	4.15%
Total	\$2,342,782	

The Ohio Water Development Authority (OWDA) loans #2900 and #3201 relate to the preliminary and detailed engineering plans for a new wastewater treatment system. The OWDA has approved up to \$25,000 and \$50,000 respectively in loans to the Village for this project. The loans will be repaid in annual installments of \$2,500 and \$5,000 respectively over ten years. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loan #CK008 was obtained in 2000 in the amount of \$472,300 for water system replacement and improvement. The loan will be repaid in semi-annual installments of \$11,808 over twenty years. The loan is collateralized by water receipts. The Village has agreed to set water rates sufficient to cover bond payment requirements.

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007
(Continued)**

5. Debt (Continued)

The Ohio Public Works Commission (OPWC) loan #CK14G was obtained in 2007 in the amount of \$305,700 for wastewater treatment and collection system. The loan will be repaid in semi-annual installments of \$7,643 over twenty years. The loan is collateralized by sewer receipts. The Village has agreed to set sewer rates sufficient to cover bond payment requirements.

The fire truck lease purchase agreement was obtained in 1999 in the amount of \$173,467 to purchase a new fire truck. The lease will be repaid in annual installments of \$24,299, including interest, over nine years. The lease is collateralized by the fire truck.

The Sewer System Temporary Mortgage Revenue Bonds, Series 2007, were issued in 2007 in the amount of \$1,649,000 for the purpose of paying the cost of acquiring, constructing and installing improvements necessary for the construction of a municipal sewer system. The Village has agreed to issue permanent bonds, to have a maturity of forty years, to provide permanent financing of the municipal sewer system.

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

Year ending December 31:	OWDA Loan #2900	OWDA Loan #3201	OPWC Loan #CK008	OPWC Loan #CK14G
2008	\$2,500	\$5,000	\$23,615	\$7,643
2009	2,500	5,000	23,615	15,285
2010	2,500	5,000	23,615	15,285
2011			23,615	15,285
2012			23,615	15,285
2013 - 2017			118,075	76,425
2018 - 2022			106,268	76,425
2023 - 2027				76,425
2028 - 2032				7,642
Total	<u>\$7,500</u>	<u>\$15,000</u>	<u>\$342,418</u>	<u>\$305,700</u>

Year ending December 31:	Fire Truck Lease	Sewer System Temporary Mortgage Revenue Bonds
2008	24,299	1,682,748
Total	<u>\$24,299</u>	<u>\$1,682,748</u>

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007
(Continued)**

6. Retirement Systems

A. Ohio Public Employee Retirement System

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

The Ohio Revised Code also prescribes contribution rates. For 2007, OPERS members contributed 9.5 of their gross salaries and the Village contributed an amount equaling 13.85 of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the OPERS have an option to choose Social Security. As of December 31, 2007, 23 employees of the Village have elected Social Security. The employees' liability is 6.2 percent of wages paid.

7. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village increased their insurance coverage in 2007 to include the wastewater treatment system.

8. Contingent Liabilities

The Village is defendant in a lawsuit. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

9. Related Party Transactions

A Village Council member is the spouse of the owner of a company from which the Village rented equipment and purchased materials during the year. The Village paid \$801 for the rental of equipment and materials. This Council member resigned from office in January 2008.

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007
(Continued)**

10. Subsequent Events

In 2008 the Village Council received a \$350,000 grant from the United States Department of Agriculture to assist with the acquisition of land used for the construction of the sanitary sewer system.

On April 21, 2008 the Village Council authorized the issuance of \$1,212,000 and \$437,000 sewer system mortgage revenue refunding bonds to repay the sewer system temporary mortgage revenue bonds.

On May 19, 2008, the Ohio Public Works Commission awarded a \$200,000 grant to the Village for the State Street construction project.

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**VILLAGE OF VERONA
PREBLE COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2007**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT <i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant Program	C-W-05-205-1	14.228	<u>\$350,000</u>
Total U.S. Department of Housing & Urban Development			<u>350,000</u>
U.S. DEPARTMENT OF AGRICULTURE			
Water and Waste Disposal Systems for Rural Communities		10.760	<u>2,757,554</u>
Total U.S. Department of Agriculture			<u>2,757,554</u>
Total			<u>\$3,107,554</u>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF VERONA
PREBLE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that the Village contribute non-Federal fund (matching funds) to support the Federally-funded programs. The Village has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



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 Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

We have audited the financial statements of the Village of Verona, Preble County, Ohio (the Village), as of and for the year ended December 31, 2007, and have issued our report thereon dated September 23, 2008, 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 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: 2007-001 and 2007-002.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2007-001 and 2007-002 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated September 23, 2008.

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 we must report under *Government Auditing Standards*, which are described in the accompanying schedule of finding as items 2007-003 through 2007-006.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated September 23, 2008.

We intend this report solely for the information and use of the management, Village Council, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 23, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

Compliance

We have audited the compliance of the Village of Verona, Preble County, Ohio (the Village), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Village's major federal programs. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village of Verona complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

Corporate Centre of Blue Ash / 11117 Kenwood Rd. / Blue Ash, OH 45242
Telephone: (513) 361-8550 (800) 368-7419 Fax: (513) 361-8577
www.auditor.state.oh.us

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to administer a federal program such that there is more than a remote likelihood that the Village's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Village's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the management, Village Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

September 23, 2008

**VILLAGE OF VERONA
PREBLE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Community Development Block Grant Program – CFDA# 14.228 Water and Waste Disposal Systems for Rural Communities – CFDA # 10.760
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2007-001

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.

**FINDING NUMBER 2007-001
(Continued)**

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

- General Fund basic utility services were posted to security of persons and property in the amount of \$1,035, leisure time activities in the amount of \$426 and general government in the amount of \$2,264.
- General Fund transfers-out of \$27,574 were posted to general government.
- Street Fund basic utility services and capital outlay were posted to transportation in the amounts of \$943 and \$4,325 respectively.
- Fire Fund basic utility services and capital outlay were posted to security of person and property in the amounts of \$3,121 and \$2,627 respectively.
- Fire Fund transfers-in of \$1,879 were posted to earnings on investments.
- Sewer Fund transfers-in of \$25,695 were posted to earnings on investments.
- A fund balance adjustment to move the December 31, 2006 balance of \$12,805 from the Ambulance and EMS Fund to the Fire Fund was posted to charges for services and not as a fund balance adjustment.
- The annual financial report did not properly foot and crossfoot.
- Preble County local government disbursements of \$29,569, Preble County tangible local government disbursements of \$87 and Montgomery County local governmental disbursements in the amount of \$1,351 were posted to General Fund taxes instead of General Fund intergovernmental revenue.
- Public utilities excess reimbursement of \$75 was posted to Water Fund charges for services instead of General Fund intergovernmental revenue.
- The second half Preble County homestead and rollback settlement of \$1,565 was posted to Street Fund charges for services instead of General Fund intergovernmental revenue.
- The Time Warner Cable Franchise Fee payment of \$1,401 was posted to General Fund intergovernmental revenue instead of General Fund miscellaneous receipts.
- Preble County auto license disbursement of \$3,887, Montgomery County auto license disbursements of \$103, permissive tax disbursements of \$2,472, gasoline-cents tax disbursements of \$11,309 and gas tax disbursements of \$6,629 were posted to Street Fund special assessments instead of Street Fund intergovernmental revenue.
- Public utilities reimbursements of \$71 and Preble and Montgomery County first half homestead and rollback of \$2,007 and \$168 respectively, were posted to the Street Fund charges for services instead of Street Fund intergovernmental revenue.
- Preble and Montgomery Counties first half homestead and rollback settlements of \$403 and \$67 respectively, and public utilities of \$14 were posted to Fire Fund taxes instead of Fire Fund intergovernmental revenue.

**FINDING NUMBER 2007-001
(Continued)**

- Preble County second half homestead and rollback of \$2,966 was posted to Street Fund charges for services instead of Fire Fund intergovernmental revenue.
- Community Development Block Grant funds of \$350,000, United States Department of Agriculture grant funds of \$1,118,277 and Ohio Public Works Commission grant funds of \$71,073 were posted to Sewer Fund charges for services instead of Sewer Fund intergovernmental revenue.
- United States Department of Agriculture mortgage revenue bonds in the amount of \$1,649,000 were posted to Sewer Fund other financial sources instead of Sewer Fund sale of bonds.
- Ohio Public Works Commission grant funds of \$66,548 were posted to Sewer Fund other financing sources instead of Sewer Fund intergovernmental revenue.
- Ohio Public Works Commission loan funds in the amount of \$305,700 were posted to Sewer Fund charges for services and other financing sources in the amount of \$140,875 and \$164,825 respectively, instead of Sewer Fund proceeds of debt.
- The Village posted the transfer of funds in the amount of \$1,729,888 from the First Financial Bank account to STAR Ohio as Sewer Fund other financing sources and capital outlay.
- A receipt/expenditure in the amount of \$208,163 that did not belong to the Village was erroneously posted to Sewer Fund other financing sources and capital outlay. Additional procedures performed confirmed that this was not the Village's money.
- The Village erroneously posted the reimbursement for land rights and permits of \$85,914. Per review of the approval letter from USDA these funds were reimbursed with the receipt of the Temporary Mortgage bonds (interim financing). Therefore, posting this amount separately resulted in it being posted twice.
- OWDA payments totaling \$7,500 were posted to Sewer Fund capital outlay rather than Sewer Fund debt service – principal.
- OPWC payments totaling \$23,615 were posted to Water Fund capital outlay rather than Sewer Fund debt service – principal.
- The First Financial Promissory note payment of \$70,000 principal and \$3,543 interest was posted to Sewer Fund capital outlay.
- The US Bank Promissory note payment of \$150,000 principal and \$4,441 interest was posted to Sewer Fund capital outlay. The corresponding receipt was erroneously posted to Sewer Fund other financing sources.
- Sewer System Temporary Mortgage Revenue Bond debt payments totaling \$50,622 were posted to the Sewer Fund capital outlay.
- The Fire Truck lease payments of \$24,299 were posted to the Fire Fund security of persons property rather than capital outlay.

Adjustments were posted to the financial statements and Village ledgers, where appropriate, to correct the above classifications.

The lack of proper management oversight could result in material misstatement relating to financial data.

**FINDING NUMBER 2007-001
(Continued)**

To improve record keeping and accountability of receipts and expenditures we recommend that all activity be posted properly. For guidance the Village should utilize the Village Officers' Handbook.

FINDING NUMBER 2007-002

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. Management should also ensure the collection and compilation of the data needed for the timely preparation of financial statements, as well as verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records. The Village does not have proper controls and procedures over bank reconciliations as evidenced by incorrect bank and certificate of deposit balances used on the end of year monthly bank reconciliation. The total certificate of deposit balance at December 31, 2007 was \$150,061. The Village used an incorrect balance of \$147,519 which is a variance of \$2,542. The variance is the result of the Village's failure to post certificate of deposit interest totaling \$2,542 during the audit period.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and that all recorded transactions have been deposited with the financial institution.

Transactions should be posted in a timely manner.

We recommend the Village properly reconcile their books on a monthly basis. Any variances should be immediately investigated, justified, and adjusted for if necessary. We recommend the Village post all transactions timely and accurately.

FINDING NUMBER 2007-003

Material Noncompliance

Ohio Revised Code, Section 5705.41(B), states that no subdivision or taxing unit shall make any expenditure of money unless it has been appropriated as provided in such chapter. Expenditures exceeded appropriations as follows:

**FINDING NUMBER 2007-003
 (Continued)**

Fund – Object Code	Month	Appropriations	Expenditures	Variance
General Fund – Zoning Contractual Service	September through December	\$0	\$300	\$(300)
General Fund – Parks Capital Outlay	June, July and October	1,300	3,015	(1,715)
General Fund – Transfer General to Special Revenue	May	1,600	13,555	(11,955)
	June	1,600	20,027	(18,427)
	August	1,600	24,474	(22,874)
	September	1,600	25,791	(24,191)
	October	1,600	26,508	(24,908)
	November	1,600	27,074	(25,474)
	December	1,600	27,574	(25,974)
Fire EMS (Lewisburg)	December	0	5,902	(5,902)
Transfer to Fire Fund	December	0	12,804	(12,804)
Sewer Fund – Land & Rights	March, May and June	115,412	142,326	(26,914)
	July through December	115,412	143,252	(27,840)
Sewer Fund – Sewer Reserve Fund	March, May through December	0	1,575,448	(1,575,448)
Sewer Fund – Sewer Capital Outlay	March and May	7,500	309,547	(302,047)
	June	7,500	334,985	(327,495)
Sewer Fund – Sewer Engineering Services	June	0	8,904	(8,904)
	July	0	122,680	(122,680)
	August	0	171,091	(171,091)
	September	0	186,053	(186,053)
	October	0	165,848	(165,848)
	November and December	0	199,777	(199,777)
	Sewer Fund – Debt Service/Interest/Principal Loan	August through October	0	1,538,156
November and December		0	1,521,282	(1,521,282)
July		0	1,555,030	(1,555,030)
Sewer Fund – Sewer Reimbursement Miscellaneous	July through December	0	1,575,448	(1,575,448)

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 Fiscal Officer should deny any payments until Council has passed the necessary changes to the appropriation measure.

FINDING NUMBER 2007-004

Material Noncompliance

Ohio Revised Code, 5705.36 (A)(4), states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision 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, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Estimated receipts exceeded actual receipts in the funds noted below. Furthermore, the amount of the deficiency reduced available resources below the current level of appropriations.

Fund	Appropriations	Available Resources	Variance
Fire Fund	\$125,948	\$124,172	(\$1,776)
Sewer Fund	4,229,900	3,584,915	(644,985)

The General, Street and Fire Funds unencumbered balances on the Certificates of Estimated Resources were incorrect.

Fund	Unencumbered Balance per Amended Certificate of Estimate Resource	Unencumbered Balance per FY06 Audit Report	Variance
General Fund	\$59,567	\$59,216	\$(351)
Street Fund	82,229	80,697	(1,532)
Fire Fund	41,390	43,272	1,882

Failure to properly obtain amended certificates when the amount of deficiency will reduce available resources below the current level of appropriation can result in overspending and negative fund balances. Failure to properly post budgetary amounts to the Village's accounting system could result in an ability to monitor activity. We recommend that the Village use correct amounts on the budgetary documents and monitor estimated and actual receipts and obtain amendments when required.

FINDING NUMBER 2007-005

Material Noncompliance

Ohio Revised Code, Section 5705.41(D)(1), states that no subdivision or taxing entity shall make any contract or give any involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet any such a commitment 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. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

FINDING NUMBER 2007-005
(Continued)

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

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.
2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not properly certify the availability of funds for purchase commitments for 18 percent and none of the exceptions above applied. We were unable to determine if two of the expenditures were properly certified because the invoice was not dated. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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.

This was also reported in the management letter of the audit of the 2006-2005 financial statements.

FINDING NUMBER 2007-006

Material Noncompliance

Ohio Revised Code, 135.12, provides, in part, that each governing board other than the state board of deposit shall meet every five years on the third Monday or such regularly scheduled meeting date of the month preceding the date of the expiration of its designation of depositories for the purpose of designating the public depositories of the public moneys of the subdivision, and at such meeting or any adjourned session thereof, shall designate such public depositories and award the public moneys of the subdivision to and among the public depositories so designated for the period of five years commencing on the date of the expiration of the next preceding designation. The Village did not designate a depository during the audit period nor execute any depository agreements. A depository agreement should include a requirement that a pledge of collateral: (1) be in writing, (2) be executed contemporaneously with the acquisition of the asset by the depository institution, (3) be approved by the financial institution's board of directors or loan committee and the approval must be reflected in the minutes of the financial institution's board or committee, and (4) be an official record of the depository institution continuously since it was executed. Requirements (1) through (4) are necessary under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), to assure the pledge would be valid in the event of a claim under FDIC.

Entities not having a depository agreement with a depository could risk public funds not being covered by collateral if the depository ceases to exist. We recommend that the Village approve the official designation of a depository.

We received no responses from officials to the findings reported above.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**VILLAGE OF VERONA
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Ohio Rev. Code, Section 5705.41 (B), expenditures exceeding appropriations.	No	Not corrected. Repeated as Finding 2007-003.
2006-002	Ohio Rev. Code, Section 5705.10 (H), negative fund balances.	No	Partially corrected. This issue is addressed in the 2007-2006 management letter.
2006-003	Ohio Rev. Code, Section 5705.39, appropriations exceeded estimated resources.	Yes	



Mary Taylor, CPA
Auditor of State

VILLAGE OF VERONA

PREBLE 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
OCTOBER 14, 2008**