



Dave Yost • Auditor of State



VILLAGE OF GRATIS  
PREBLE COUNTY

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# Dave Yost • Auditor of State

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

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

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

**Dave Yost**  
Auditor of State

October 11, 2012

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

We have audited the accompanying financial statements of Village of Gratis, Preble County, Ohio (the Village), as of and for the year ended December 31, 2011. 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(A) mandates 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 year ended December 31, 2011 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, 2011, 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 of Village of Gratis, Preble County, as of December 31, 2011, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As discussed in Note 12 to the financial statements, the Village has suffered operating losses and has a fund balance deficiency. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management has not disclosed any plans regarding this deficit.

As described in Note 1, during 2011 the Village of Gratis adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012, on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Dave Yost**  
Auditor of State

October 11, 2012



**VILLAGE OF GRATIS  
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$21,449	\$29,447		\$50,896
Intergovernmental	43,409	220,393		263,802
Charges for Services		294,471		294,471
Fines, Licenses and Permits	36,462			36,462
Earnings on Investments	930	514		1,444
Miscellaneous	22,349	15,501		37,850
<i>Total Cash Receipts</i>	<u>124,599</u>	<u>560,326</u>	<u>0</u>	<u>684,925</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	93,832	56,618		150,450
Public Health Services		242,287		242,287
Leisure Time Activities		124		124
Transportation		41,606		41,606
General Government	33,380	192		33,572
Capital Outlay		188,119		188,119
Debt Service:				
Principal Retirement	2,968	1,045		4,013
Interest and Fiscal Charges	178	257		435
<i>Total Cash Disbursements</i>	<u>130,358</u>	<u>530,248</u>	<u>0</u>	<u>660,606</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(5,759)</u>	<u>30,078</u>	<u>0</u>	<u>24,319</u>
<b>Other Financing Receipts (Disbursements)</b>				
Refund of Prior Year Expenditures	1,653	3,420		5,073
Transfers In		161,500		161,500
Transfers Out		(161,500)		(161,500)
Advances In	5,880			5,880
Advances Out	(5,880)			(5,880)
Other Financing Uses		(4,720)		(4,720)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>1,653</u>	<u>(1,300)</u>	<u>0</u>	<u>353</u>
<i>Net Change in Fund Cash Balances</i>	<u>(4,106)</u>	<u>28,778</u>	<u>0</u>	<u>24,672</u>
<i>Fund Cash Balances, January 1</i>	<u>(25,273)</u>	<u>296,037</u>	<u>58</u>	<u>270,822</u>
<b>Fund Cash Balances, December 31</b>				
Nonspendable	0	0	0	0
Restricted	0	323,527	0	323,527
Committed	0	1,288	0	1,288
Assigned	0	0	0	0
Unassigned (Deficit)	(29,379)	0	58	(29,321)
<i>Fund Cash Balances, December 31</i>	<u>(\$29,379)</u>	<u>\$324,815</u>	<u>\$58</u>	<u>\$295,494</u>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Types	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
<b>Operating Cash Receipts</b>			
Charges for Services	\$382,588		\$382,588
<i>Total Operating Cash Receipts</i>	<u>382,588</u>	<u>0</u>	<u>382,588</u>
<b>Operating Cash Disbursements</b>			
Personal Services	78,497		78,497
Employee Fringe Benefits	10,987		10,987
Contractual Services	151,745		151,745
Supplies and Materials	30,976		30,976
<i>Total Operating Cash Disbursements</i>	<u>272,205</u>	<u>0</u>	<u>272,205</u>
<i>Operating Income</i>	<u>110,383</u>	<u>0</u>	<u>110,383</u>
<b>Non-Operating Receipts (Disbursements)</b>			
Refund of Prior Year Expenditures	4,465		4,465
Miscellaneous Receipts	281		281
Capital Outlay	(5,061)		(5,061)
Principal Retirement	(55,742)		(55,742)
Interest and Other Fiscal Charges	(21,236)		(21,236)
Other Financing Sources		47,888	47,888
Other Financing Uses		(44,560)	(44,560)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(77,293)</u>	<u>3,328</u>	<u>(73,965)</u>
Advances In	5,880		5,880
Advances Out	(5,880)		(5,880)
<i>Net Change in Fund Cash Balances</i>	33,090	3,328	36,418
<i>Fund Cash Balances, January 1</i>	<u>224,875</u>	<u>7,398</u>	<u>232,273</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$257,965</u></u>	<u><u>\$10,726</u></u>	<u><u>\$268,691</u></u>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011**

**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 Gratis, 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 sewer utilities, emergency medical services, fire services and police services.

The Village participates in the Public Entities Pool of Ohio, a risk sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Note 8 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, except the financial statements do not include debt service funds external custodians maintain. Note 6 to the financial statement describes these assets.

**B. Accounting Basis**

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

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

**C. Cash and Deposits**

Village funds are pooled in checking and savings accounts with local commercial banks.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and deposits 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 GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

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

Fire Fund - This fund receives real estate and personal property taxes and contracts with Gratis Township to provide for the protection of area citizens.

EMS Fund - This fund receives real estate and personal property taxes and contracts with Gratis Township and the Village of West Elkton to provide for the protection of area citizens.

**3. 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 a Capital Project Fund used to construct a capital improvement.

**4. Enterprise Funds**

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

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

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

**5. Fiduciary Funds**

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 the collection and distribution of Mayor's court fines and fees.

**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, function or 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.

VILLAGE OF GRATIS  
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2011 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact. The Village did not have any nonspendable fund balance in 2011.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute. The Village did not have any assigned fund balance in 2011.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

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

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. 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.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Equity in Pooled Deposits**

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

Demand deposits	\$459,834
Other time deposits (savings and NOW accounts)	104,351
Total deposits	\$564,185

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

**3. Budgetary Activity**

Budgetary activity for the year ending December 31, 2011 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$112,707	\$126,252	\$13,545
Special Revenue	287,300	725,246	437,946
Capital Projects	0	0	0
Enterprise	380,000	387,334	7,334
Total	\$780,007	\$1,238,832	\$458,825

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**3. Budgetary Activity (Continued)**

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$124,489	\$130,358	(\$5,869)
Special Revenue	363,429	696,468	(333,039)
Capital Projects	0	0	0
Enterprise	460,674	354,244	106,430
Total	\$948,592	\$1,181,070	(\$232,478)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General fund by \$11,732; the Street fund by \$2,168; the Fire fund by \$178,520; the FEMA fund by \$161,500; and the Trash fund by \$15,742 for the year ended December 31, 2011.

**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, 2011 was as follows:

	Principal	Interest Rate
Sewer Revenue Bonds	\$233,000	5.00%
Water Revenue Bonds	10,000	Varies
Ohio Public Works Commission Loan	90,078	0.00%
Ohio Water Development Authority Loan	555,546	4.42%
Police Cruiser Loan	761	5.79%
Ford Truck Loan	14,013	4.50%
Total	\$903,398	

The Sewer Revenue Bonds relate to mortgage revenue bonds issued in 1980. The bonds will be repaid in annual installments over 40 years. The bonds are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**5. Debt (Continued)**

The Water Revenue Bonds relate to mortgage revenue bonds issued in 1998 to fund improvements to the Village's water system. The bonds will be repaid in semi-annual installments over 15 years.

The bonds are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

Ohio Public Works Commission (OPWC) loan was obtained in 2005 in the amount of \$102,947 for water treatment storage and distribution improvements. Starting in July 2009, the loan will be repaid in semi-annual installments of \$2,574 over 20 years.

The Ohio Water Development Authority (OWDA) loan was obtained in 2004 in the amount of \$768,390 for water system improvements. The loan had a negative disbursement of \$138,008 in February 2008, which brought the disbursed funds and capitalized interest at December 31, 2009 to \$610,552, and was a reduction of the principal balance. The loan will be repaid over 30 years. The loan is collateralized by water and sewer receipts. The Village had agreed to set water rates sufficient to cover bond payment requirements.

The police cruiser loan was obtained in March 2008 for \$11,110 for the purpose of acquiring a police cruiser. The loan is to be repaid in monthly installment payments of \$258 over 4 years. The loan is collateralized by the police cruiser.

The truck loan was obtained in November 2006 for \$24,505 for the purpose of acquiring a new truck. The loan is to be repaid in annual installment payments of \$5,738 over 5 years. The loan is collateralized by the truck.

The Ford truck loan was obtained in March 2010 for \$17,147 for the purpose of acquiring a new truck. The loan is to be repaid in annual installment payments of \$3,906 over 5 years. The loan is collateralized by the truck.

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

Year ending December 31:	Sewer Revenue Bonds	Water Revenue Bonds	Ohio Public Works Commission Loan	OWDA Loan
2012	\$32,650	\$11,125	\$5,147	\$18,469
2013	32,600	10,563	5,147	36,937
2014	32,500		5,147	36,937
2015	33,350		5,147	36,937
2016	33,100		5,147	36,937
2017-2021	130,850		25,737	184,686
2022-2026			25,737	184,686
2027-2031			12,869	184,686
2032-2036				184,686
2037				18,469
Total	\$295,050	\$21,688	\$90,078	\$923,430



**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**5. Debt (Continued)**

	Police Cruiser Loan	Ford Truck Loan
Year ending December 31:		
2012	\$769	\$3,906
2013		3,906
2014		3,906
2015		3,906
2016		
2017-2021		
Total	\$769	\$15,624

**6. Debt Service Trust Funds**

The 1998 Water Revenue bond agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2011, the custodian held \$10,563 in Village assets. The bond agreement also required the Village to establish a debt service reserve fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2011, the custodian held \$11,500 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

**7. 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 the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

**8. 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

VILLAGE OF GRATIS  
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)

8. Risk Management (Continued)

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2010 (the latest information available):

Assets	\$34,952,010
Liabilities	(14,320,812)
Net Assets	<u>\$20,631,198</u>

At December 31, 2010, respectively, the liabilities above include approximately \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.4 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Village's share of these unpaid claims collectible in future years is approximately \$14,000.

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.

<b><u>Contributions to PEP</u></b>
<b><u>2011</u></b>
\$15,054

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. 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.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)**

**9. Related Party Transactions**

On November 17, 2011 Village Council approved hiring a temporary part-time utility clerk. The minutes do not document Council approving Julie Sowder as the temporary part-time utility clerk. A contract hiring Julie Sowder as the part-time utility clerk was signed on November 23, 2011 by Randy Kemper, Former Mayor and Gary Vest, Former President of Village Council. Julie's parents, Gary and Debbie Vest, were Council members at the time of Ms. Sowder's hiring. As of October 11, 2012, Gary Vest is the Village Mayor.

**10. Fiscal Distress**

The Village incurred operating losses and negative fund balances. A summary follows:

- The Village had a negative fund balance of (\$29,379) for the General Fund at December 31, 2011.
- The Village had operating losses as follows for 2011: General Fund - \$5,758; Community Center Fund - \$124; Fire - \$155,779; and Trash Operating Fund - \$7,104.

**11. Noncompliance**

The Village operates public utilities but does not have a Board of Public Affairs or a Village Administrator.

The Village passed temporary appropriations on January 20, 2011, but it was never submitted to the County Auditor. Since the ordinance was not submitted to the County Auditor, the Village did not receive the required certificate and therefore the Village's temporary appropriations were not effective.

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# Dave Yost • Auditor of State

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

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

We have audited the financial statements of the Village of Gratis, Preble County, Ohio (the Village), as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 11, 2012, wherein we noted that 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 that the Village suffered operating losses and has a net asset deficiency. 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(A) mandates the Auditor of State to audit Ohio governments. The Village also adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-07 through 2011-10 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2011-11 through 2011-13 described in the accompanying schedule of findings to be significant deficiencies.

### **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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-01 through 2011-06.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 11, 2012.

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, the audit committee, Village Council, and others within the Village. We intend it for no one other than these specified parties



**Dave Yost**  
Auditor of State

October 11, 2012

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
FOR YEAR ENDED DECEMBER 31, 2011**

**FINDING NUMBER 2011-01**

**Noncompliance**

**Ohio Revised Code, Section 735.28**, states, in part, that in each village in which a water works, electric light plant, artificial or natural gas plant, or other similar public utility is situated, such legislative authority shall establish a board of trustees of public affairs, which shall consist of three members who are residents of the village. When the legislative authority establishes such board, the mayor shall appoint the members thereof, subject to the confirmation of the legislative authority. The successors of such appointed members shall be elected at the next regular election of municipal officers held in the village which occurs more than one hundred days after the appointment.

**Ohio Revised Code, Section 735.272**, states, in part, that upon the establishment of the position of village administrator, his appointment by the mayor and confirmation by the legislative authority of the village, as provided by section 735.271 of the Revised Code, the board of trustees of public affairs, if such a board has been created in accordance with section 735.28 of the Revised Code, shall be abolished and the term of office of members of such board shall terminate.

In the event the legislative authority abolishes the position of village administrator, as provided by section 735.271 of the Revised Code, a board of trustees of public affairs shall be established by operation of law and the mayor shall appoint three members of such board, subject to the confirmation of the legislative authority, who shall serve until the successors of such appointed members have been elected at the next regular election of municipal officers held in the village occurring more than one hundred days after the appointment of such members by the mayor, as provided by section 735.28 of the Revised Code. Such board of trustees of public affairs shall have those powers and duties as provided by sections 735.28 and 735.29 of the Revised Code and as otherwise provided by law.

The Village operates public utilities; however does not have a Board of Public Affairs or a Village Administrator. Failure to appoint a Board of Public Affairs or Village Administrator results in noncompliance with Ohio law and lack of oversight of the public utility operations. We recommend the Village appoint a Board of Public Affairs or appoint a Village Administrator to oversee the Village public utilities.

**Officials' Response:**

The Village does not have the funds at this time to hire a Village Administrator. The Village has been and is still trying to find 3 individuals to establish a Board of Public Affairs. Postings have been posted around the Village and individuals are encouraged to request a position on the board. To keep the utility operations moving forward a utility report is presented at each Council meeting which the Council reviews and approves.

**FINDING NUMBER 2011-02**

**Noncompliance**

**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.

**FINDING NUMBER 2011-02  
(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.

Five of the 22 transactions we tested were not properly encumbered. Two expenditures did not have purchase orders certifying that they were lawfully appropriated. 13 transactions were supported by super blanket purchase orders which had exceeded the amounts established on them when they were opened by the Fiscal Officer. 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 properly, 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.



**FINDING NUMBER 2011-02  
(Continued)**

**Officials' Response:**

The Village will review and comply with section 5705-41(D)(1).

**FINDING NUMBER 2011-03**

**Noncompliance**

**Ohio Revised Code, Section 5705.38(A)**, requires that on or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure. If the taxing authority desires to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based on actual balances, it may pass a temporary appropriation measure for meeting the ordinary expenses of the taxing unit until no later than April 1 of the current year, and the appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriation measure for that fiscal year when passed.

Also, **Ohio Revised Code, Section 5705.39**, in part, states that no appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate.

Contrary to the above, the Village passed temporary appropriations on January 20, 2011, but it was never submitted to the County Auditor. Since the ordinance was not submitted to the County Auditor, the Village did not receive the required certificate and therefore the Village's temporary appropriations were not effective.

The Village passed an annual appropriation ordinance on March 31, 2011 and submitted it to the County Auditor.

Failure to approve and submit appropriations to the County Auditor can result in overspending and negative fund balances. We recommend the Village approve appropriations by the required date and submit them to the County Auditor.

**Officials' Response:**

The Village was without a Fiscal Officer for most of the 1<sup>st</sup> Quarter of 2011. A Fiscal Officer was hired in the 2<sup>nd</sup> Quarter and the Village will approve and submit Village appropriations to the County Auditor in a timely manner.

**FINDING NUMBER 2011-04**

**Noncompliance**

**Ohio Revised Code, Section 5705.10(H)**, requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. At December 31, 2011, the General Fund had a negative cash balance of \$29,379.

We recommend the Village monitor financial activity and develop a plan to avoid negative cash balances.

**FINDING NUMBER 2011-04  
 (Continued)**

**Officials' Response:**

We believe this issue is the result of our past Fiscal Officer being indicted and receiving the financial audit information for the years 2008, 2009 and 2010 very late within the year 2011. The Village has and will continue to monitoring the financial activity to ensure a positive balance within the Village fund.

**Auditor of State's Conclusion:**

While the completion of prior audits was delayed due to an investigation related to an alleged theft of Village funds, management was still responsible to monitor financial activity and balances on a current basis.

**FINDING NUMBER 2011-05**

**Noncompliance**

**Ohio Revised Code, Section 5705.41(B)**, states no taxing authority shall make any expenditures of money unless it has been appropriated.

Expenditures exceeded appropriations at December 31, 2011 as follows:

Fund	Appropriations	Expenditures	Variance
General	\$124,489	\$136,221	\$(11,732)
Street	41,849	44,017	(2,168)
Fire	58,744	237,264	(178,520)
FEMA	0	161,500	(161,500)
Trash	58,000	73,742	(15,742)

Failure to properly monitor appropriations may result in negative fund balances. We recommend the Village take steps to ensure appropriations are being properly approved, monitored, and recorded in the ledgers. No expenditure should be made unless funds have been sufficiently appropriated.

**Officials' Response:**

We believe due to receiving past financial audit information late within the year 2011, and not having a Fiscal Officer for the first part of the quarter lead to this finding. The Village is taking steps to ensure appropriations are being properly approved, monitored, and recorded in the Village ledgers. We have hired a new Fiscal Officer and are developing a plan to protect negative cash balances.

**Auditor of State's Conclusion:**

While the completion of prior audits was delayed due to an investigation related to an alleged theft of Village funds, management was still responsible to monitor expenditures against related appropriations on a current basis.

## FINDING NUMBER 2011-06

### Noncompliance

**Ohio Revised Code, Section 2921.42(A)(1)**, states that no public official shall knowingly authorize, or employ the authority or influence of the public official's office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest.

**Ohio Revised Code, Section 102.03 (D)**, states that no public official or employee shall use or authorize the use of the authority or influence of office or employment to secure anything of value or promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

**Ohio Revised Code, Section 102.03 (E)**, states that no public official or employee shall solicit or accept anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

The above-referenced statutes are supported by Ohio Ethics Commission Advisory Opinion 2010-03.

On November 17, 2011 Village Council approved hiring a temporary part-time utility clerk. The minutes do not document Council approving Julie Sowder as the temporary part-time utility clerk. A contract hiring Julie Sowder as the part-time utility clerk was signed on November 23, 2011 by Randy Kemper, Former Mayor and Gary Vest, Former President of Village Council. Julie's parents, Gary and Debbie Vest, were Council members at the time of Ms. Sowder's hiring. As of October 11, 2012, Gary Vest is the Village Mayor. This matter has been referred to the Ohio Ethics Commission.

### Officials' Response:

The Village disagrees with this finding. Council members are to vote yea, or nay, on all issues unless it involves family, certain close friends, and business acquaintances. The Council was asked by the Village Mayor to create a job position titled Temporary Part-Time Utility Clerk in order to help the Fiscal Officer. All Council members voted yea on this position. However after creating the job, Council member Gary Vest and Council member Debby Vest abstained when hiring Julie Sowder. The contract for the Temporary Part-Time Utility Clerk was signed by Council member Gary Vest do to past practice of the Mayor and the President Pro-Temp signing all contracts for the Village. To prevent this from happening again contracts will be signed by two of three individuals as follows: Mayor, President Pro-Temp and Fiscal Officer.

### Auditor of State's Conclusion:

The official Village minutes document only the Council vote to approve the position of temporary part-time utility clerk; there is no documentation of the vote to hire Julie Sowder. As stated above Julie Sowder's parents, Gary and Debbie Vest, were Council members at the time of Ms. Sowder's hiring, and Mr. Vest signed the employment contract. Therefore, this matter has been referred to the Ohio Ethics Commission.

## FINDING NUMBER 2011-07

### 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 2011-07  
(Continued)**

The Village lacks management oversight in the posting of debt activity. Due to this lack of oversight errors were not detected by the Village and the following audit adjustments were identified to the Village's funds:

- General Fund Debt Service-Principal was increased and General Fund Debt Service-Interest was decreased by \$263 to correct Cruiser Loan payments. Also, a late fee of \$45 was posted to General Fund Debt Service-Principal in error.
- Water Debt Fund Debt Service - Principal was increased and Water Debt Fund Debt Service Interest was decreased by \$739 to correct Water Bond payments.
- The Truck Loan payment of \$6,041 was paid from General Fund Security of Persons and Property rather than Water Operating Fund Debt Service Principal (\$2,719), Water Operating Fund Debt Service Interest (\$301), Sewer Operating Fund Debt Service Principal (\$2,719), and Sewer Operating Fund Debt Service Interest (\$301).
- The OWDA Water Tower Loan payments were posted to Water Operating Fund Contractual Services (\$3,516), Water Debt Service Fund Debt Service Principal (\$17,740), and Water Debt Service Fund Debt Service Interest (\$729) rather than Water Operating Fund Debt Service Principal (\$15,640) and Water Operating Fund Debt Service Interest (\$6,345).
- The OPWC Promissory Note payment of \$2,574 was posted to Water Operating Fund Contractual Services rather than Water Operating Fund Debt Service Principal.
- The Ford Truck Loan payment of \$3,906 was posted to Capital Outlay (\$1,302) rather than Debt Service Principal (\$1,045) and Debt Service Interest (\$257) for each of the following funds: Sewer Operating Fund, Water Operating Fund, and Street Fund.

Adjustments were posted to the financial statements and Village accounting records where applicable 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 expenditures, we recommend that all debt payments be properly posted. For guidance the Village should utilize the Village Officers' Handbook on the Ohio Auditor of State's website under the "Publications" tab.

**Officials' Response:**

The Village has hired a new Fiscal Officer to work closely with the Council and is taking proper steps to ensure all debt payments are reviewed and properly posted as the Village Officers Handbook requires.

**FINDING NUMBER 2011-08**

**Material Weakness**

**Ohio Admin. Code Section 117-2-02(C)(1)** states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

Appropriations were not accurately posted to the financial accounting system at December 31, 2011 as follows:

**FINDING NUMBER 2011-08  
 (Continued)**

Fund	Approved Appropriations	Appropriations posted to the UAN System	Variance
General	\$123,886	\$118,006	\$5,880
Trash	58,000	52,120	5,880

Estimated receipts were not accurately posted to the financial accounting system at December 31, 2011 as follows:

Fund	Estimated Receipts	Estimated Receipts posted to the UAN System	Variance
General	\$112,707	\$112,916	\$(209)
Street CMR	38,000	51,425	(13,425)
State Highway	2,500	4,125	(1,625)
Community Center	200	-	200
Parks and Recreation	200	500	(300)
Fire District	60,000	60,815	(815)
EMS	186,000	189,020	(3,020)
Gratis Beautification	400	1,000	(600)
Water Operating	170,000	109,840	60,160
Sewer Operating	105,000	90,000	15,000
Water Debt Service	20,000	22,205	(2,205)
Sewer Debt Service	30,000	11,845	18,155

Failure to properly post appropriations and estimated receipts can result in an inability to monitor unrealized budgetary receipts and remaining uncommitted balances of appropriations timely and accurately. We recommend the Village properly post appropriations and estimated receipts to the financial accounting system.

**Officials' Response:**

We believe this happened because of the Village not having a Fiscal Officer for part of the year and a new Fiscal Officer learning the Village budgetary system. The Village has taken steps to review and properly post appropriations and estimated receipts.

**FINDING NUMBER 2011-09**

**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 financial activity. Due to this lack of oversight errors were not detected by the Village and the following audit adjustments were identified:

**FINDING NUMBER 2011-09  
(Continued)**

General Fund Tax Revenue was decreased by \$15,920; Miscellaneous Revenue decreased by \$160,904; Other Financing Sources decreased by \$2,138; Intergovernmental Revenue was increased by \$9,400; Fines, Licenses and Fees was increased by \$1,582; General Government Expenditures decreased by \$6.70 and Fund Balance was decreased by \$167,973. These adjustments were due to the improper posting of tax rollback, local government funds, and a FEMA grant.

Street Fund Tax Revenue was decreased \$9,242; Intergovernmental Revenue was increased \$6,032 and Fund Balance was decreased \$3,210. These adjustments were due to the improper posting of auto license and local government revenues.

State Highway Fund Intergovernmental Revenue was decreased by \$339 and Fund Balance decreased by \$339. These adjustments were due to the improper posting of auto license and local government revenues.

Fire Fund Tax Revenue was decreased by \$945; Intergovernmental Revenue was increased by \$11,354; Security of Persons and Property was decreased by \$1,110 and Fund Balance was increased by \$11,519. These adjustments were due to the improper posting of revenues from a tax levy.

EMS Fund Tax Revenue was decreased by \$741; Intergovernmental Revenue was increased by \$4,234; Public Health Services was decreased by \$1,151 and Fund Balance was increased by \$4,644. These adjustments were due to the improper posting of a FEMA grant.

FEMA Fund Intergovernmental Revenue was increased by \$161,500 and Fund Balance was increased by \$161,500 due to the improper posting of a FEMA grant.

Water Operating Fund Intergovernmental Revenue was decreased by \$2,054 and Charges for Services was increased by \$2,054 due to the improper posting of utility billing receipts.

Sewer Debt Service Fund Tax Revenue was decreased by \$1,660 and Charges for Services was increased by \$1,660 due to the improper posting of utility billing receipts.

Miscellaneous revenue totaling \$7,153 and a refund of expenditures to Public Health Services totaling \$3,913 were erroneously posted to Charges for Services in the EMS fund.

The breakdown for assessments for unpaid utility bills does not appear to be correct. No support was maintained to document how the assessments should have been posted so no audit adjustments were proposed.

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

The lack of proper management oversight could result in material misstatements relating to financial data. To improve record keeping and accountability of receipts and expenditures we recommend that all activity be properly posted. For guidance, the Village should utilize the Village Officer's Handbook available at [www.auditor.state.oh.us/publications](http://www.auditor.state.oh.us/publications).

**Officials' Response:**

With the Village hiring a new Fiscal Officer, new procedures have been put into place and for the Council to review all expenditures and receipts. The Village Officers' Handbook will be reviewed and used on these issues.

## FINDING NUMBER 2011-10

### 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 audit period. Examples of inaccuracies follow:

- Checks totaling \$7,056 were included on the Auditor of State's revised December 31, 2010 outstanding checklist but were not included on the Village's December 31, 2010 or December 31, 2011 outstanding checklists.
- Fund balance adjustments totally \$2,254 were erroneously posted to the General, Street Construction and Maintenance and EMS funds during the audit period.
- Twenty-seven adjustments relating to outstanding checks totaling \$2,482 were improperly voided. These transactions should have been posted as Refunds of Prior Year Expenditures.
- Seven deposits totaling \$7,320 were not posted to the system.
- Eighteen receipts and three expenditures cleared the bank for amounts different than the amount posted to the system for a total variance of \$114.
- Four receipts posted to the system totaling \$3,392 could not be traced to the bank.
- A receipt in the amount of \$2,370 was posted in December 2010 and February 2011.
- Four bank fees totaling \$68 were not posted to the system.
- Two voided checks totaling \$2,722 cleared the bank and therefore should not have been voided.
- Five posting errors, adjustments and corrections totaling \$35 that were posted to the system could not be traced to the bank.
- Three checks marked as cleared totaling \$1,124 should have been voided.
- As a result of our proof of cash procedures, the Village fund balances as of December 31, 2011 were increased by 26% or \$104,301.

The Village has posted adjustments for these items in their accounting system.

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 and to accounting records to correct the above transactions.

**FINDING NUMBER 2011-10  
(Continued)**

We recommend the Village Fiscal Officer complete accurate monthly reconciliations. Other adjusting factors should be documented and adequately explained. All transactions should be accurately posted in the accounting system. 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. 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, which can be located at [www.auditor.state.oh.us](http://www.auditor.state.oh.us) under Publications.

**Officials' Response:**

The Village does monthly reconciliations and has the Village Council approved it. We believe part of this issue is due to receiving audit information for 2010 late in the year of 2011.

**Auditor of State's Conclusion:**

While the completion of prior audits was delayed due to an investigation related to an alleged theft of Village funds, management was still responsible to perform accurate, timely reconciliations.

**FINDING NUMBER 2011-11**

**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. 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 over emergency medical services (EMS) billing revenue as evidenced by the following:

- In addition to providing EMS services to residents of the Village of Gratis, the Village also provides EMS services to the Village of West Elkton and Gratis Township through contracts. A third party administrator (TPA) bills the appropriate parties for these services and receives and processes the collections. The TPA forwards on a quarterly basis the proceeds of the collections for services provided to the three entities to the Village of Gratis. The Village of Gratis then records revenue for the portion of the EMS collections related to services provided to Village of Gratis residents, and writes checks to the Village of West Elkton and Gratis Township for the portion of the EMS collections that related to those entities. The Village of West Elkton and Gratis Township then issue checks back to the Village of Gratis for the original amount obtained from the Credit Detail report from the TPA that the Village of Gratis issued to them. This process is based on the contract signed by the entities.

The Village failed to send all checks due to the Village of West Elkton and Gratis Township during the audit period. Also, the Village failed to record the activity on their books when the monies were originally deposited into the bank account. In addition, the Village did not record any of the service charges or interest deposits on their books from the Fifth Third MBI lockbox account.

An audit adjustment was required to increase EMS expenditures by \$841.

We recommend that the Village records all service charges and interest associated with the EMS Services account.



**FINDING NUMBER 2011-11  
(Continued)**

Effective September 23, 2011, Ohio Revised Code Section 505.441 states that a township that enters into a contract that the contracting party shall collect and retain any fee that the township may charge for each run involving ambulance service, emergency medical service, or nonemergency patient transport service. According to this section, the Village may retain the fees instead of sending the monies to the entities and then the entities sending the money back to the Village. In order to follow this section, the entities would need to amend their contract to include these Ohio Revised Code requirements. Also, in accordance with Ohio Revised Code Section 505.441, the contract shall require that once each month, the contracting party shall provide a written report that includes the previous month's number of runs the contracting party made in the township, the amount that was billed for each run, and the amount received for each run from the person that was billed for that particular run. The report also shall include the total amount collected that calendar year to date and the total amount outstanding that calendar year to date.

The Village continued to send some monies to the contracting entities. A monthly written report was not made available to the contracting entities. We recommend the Village re-address the contracts with the Village of West Elkton and Gratis Township to ensure that the contracts are in compliance with the Ohio Revised Code.

**Officials' Response:**

The contracts with the Village of West Elkton and Gratis Township has been addressed and changed to monthly reporting. Checks will not be given to the two entities but instead a Memo receipt will be done by them based on the monthly report given to them. The contracts will be reviewed and honored.

**FINDING NUMBER 2011-12**

**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 Fiscal Officer kept documentation supporting utility adjustments, however, the Council did not always sign off on adjustments to document their approval. Some adjustments were signed by the Mayor.

Failure to obtain supervisory approval and reconcile adjustments posted to those authorized, prevents the timely detection of utility payments collected and not deposited.

We recommend that the Village develop specific, written procedures for requesting, posting, and approving customer utility account adjustments. All adjustments should be printed and signed by Council showing their approval of the adjustments at the monthly Council meetings. Upon establishment of a Board of Public Affairs, the adjustments would be approved by the Board. We also recommend that individual adjustment forms be completed and approved for each adjustment posted to the system. The Village should maintain documentation supporting the reason for the adjustment and reflect supervisory approval prior to posting the adjustment to the utility system. Periodically, an individual independent of the adjustment process should reconcile authorized adjustments to those posted to the utility system to verify only authorized adjustments were posted to the utility system.

**Officials' Response:**

The Village has established a Utility report that includes issues and adjustments within the utilities and are reviewed and approved by the Council. As soon as a Board of Public Affairs is established they will approved this report.

**FINDING NUMBER 2011-13**

**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 Village lacked controls over the monitoring of changes made to the utility system.

Village utility customers were not being charged the correct water rate during the audit period because the incorrect rate was input into the system. This rate was then used to calculate the utility bills that the residents received.

We recommend that the Village monitor rate changes made to the computer system and that policies and procedures be established to provide supervisory review over the utility process.

**Officials' Response:**

Only accounts that were over a minimum rate were affected on this issue. The Village has purchased a new Utility System. A Utility Clerk has been hired to run the system and the Fiscal Officer helps with the system. The Council approves and monitors all changes made to the utility system. A policy with procedures is being established.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011**

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>
2010-01	Finding for Recovery against Serrer Phillips with Randy Kemper and Gary Vest secondarily liable.	No	Partially corrected – Randy Kemper paid on April 30, 2012 and Gary Vest paid on April 6, 2012. Serrer Phillips – not repaid as of October 11, 2012.
2010-02	Finding for Recovery against Serrer Phillips.	No	Not corrected – not repaid as of October 11, 2012
2010-03	Lack of management oversight in the posting debt and expenditure activity.	No	Not corrected – Reissued as Finding 2011-07.
2010-04	Lack of management oversight in the posting of financial activity.	No	Not corrected - Reissued as Finding 2011-09.
2010-05	Ohio Rev. Code, Section 149.351, failure to maintain records.	No	Not corrected. Reissued as management letter comment.
2010-06	Ohio Rev. Code Section 5705.41(D)(1), failure to certify funds.	No	Not corrected. Reissued as Finding 2011-02.
2010-07	Ohio Rev. Code, Section 9.38, failure to make timely deposits	Yes	
2010-08	Ohio Rev. Code, Section 5705.36(A)(1), failure to complete a certificate of the total amount available for expenditure	Yes	
2010-09	Ohio Rev. Code, Section 5705.38(A) and 5705.39, failure to approve and submit appropriations to the county auditor	No	Not corrected – Reissued as Finding 2011-03.
2010-10	Ohio Rev. Code, Section 5705.36(A)(3), estimated receipts exceeded actual receipts.  Ohio Rev. Code, Section 5705.36(A)(4), the Village did not any amended certificates of estimated resources	No	Partially corrected – Reissued as management letter comment.

Village of Gratis  
 Preble County  
 Schedule of Prior Audit Findings  
 Page 2

2010-11	Ohio Rev. Code, Section 5705.41(B) – expenditures exceeded appropriations	No	Not corrected – Reissued as Finding 2011-05.
2010-12	Appropriations and estimated resources were not accurately posted to the accounting system	No	Not corrected – Reissued as Finding 2011-08.
2010-13	Ohio Rev. Code, Section 5705.10(H) – Negative cash balance in General Fund at December 31, 2010	No	Not corrected – Reissued as Finding 2011-04.
2010-14	Ohio Rev. Code, Section 5705.10 – Failure to pay debt from proper funds	Yes	
2010-15	Ohio Rev. Code Sections 733.28 and 117.38 and Ohio Admin. Code, Section 117-2-02(A) – Failure to maintain accurate records	Yes	
2010-16	Village did not accurately reconcile its bank account to fund balances	No	Not corrected – Reissued as Finding 2011-10.
2010-17	Ohio Rev. Code, Section 17 and Ohio Rev. Code Section 735.272, failure to establish a Board of Public Affairs or Village Administrator.	No	Not corrected - Reissued as Finding 2011-01.
2010-18	Village does not have proper controls over EMS	No	Not corrected – Reissued as Finding 2011-11.
2010-19	Ohio Rev. Code, Section 5705.09(F) – Village did not properly record CDBG monies	Yes	



# Dave Yost • Auditor of State

VILLAGE OF GRATIS

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  
NOVEMBER 13, 2012