



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

November 30, 2011

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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 the Village of Gratis, Preble County, Ohio (the Village), as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in paragraph six, 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 third following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 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, 2009 and 2008, or its changes in financial position or cash flows, where applicable for the years then ended.

We were unable to obtain sufficient evidence to support the completeness of mayor's court fines and forfeitures receipts for 2009 and 2008, comprising 100% of total cash receipts for 2009 and 2008 for the Agency Fund, nor were we able to satisfy ourselves of the completeness by other auditing procedures. We were also unable to obtain sufficient evidence to support the completeness of charges for services receipts for 2009 and 2008, comprising 93% and 60% of total Enterprise Fund cash receipts for 2009 and 2008, respectively, nor were we able to satisfy ourselves of the completeness by other auditing procedures.

Also, except for any adjustments, if any, that might have been determined to be necessary had we been able to obtain sufficient evidence supporting the Agency Fund Fines and Forfeitures and Enterprise Fund Charges for Services receipts noted in the previous paragraph, the financial statement referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Gratis, Preble County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As discussed in Note 10 to the financial statements, the Village has suffered operating losses and has a net asset 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 these deficits.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, 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.



Dave Yost
Auditor of State

November 30, 2011

**VILLAGE OF GRATIS
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, 2009**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$22,375	\$25,967	\$0	\$48,342
Intergovernmental	38,963	63,407		102,370
Special Assessments		1,501		1,501
Charges for Services		180,134		180,134
Fines, Licenses and Permits	21,394			21,394
Earnings on Investments	2,835	157		2,992
Miscellaneous	2,505	40,771		43,276
	<u>88,072</u>	<u>311,937</u>	<u>0</u>	<u>400,009</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	49,655	51,201		100,856
Public Health Services		167,609		167,609
Leisure Time Activities	138			138
Transportation		36,447		36,447
General Government	45,723	5,669		51,392
Debt Service:				
Redemption of Principal	2,630			2,630
Interest and Fiscal Charges	470			470
Capital Outlay		66,279		66,279
	<u>98,616</u>	<u>327,205</u>	<u>0</u>	<u>425,821</u>
Total Cash Disbursements				
Total Receipts (Under) Disbursements	<u>(10,544)</u>	<u>(15,268)</u>	<u>0</u>	<u>(25,812)</u>
Other Financing (Disbursements):				
Other Financing Uses		(7,537)		(7,537)
	<u>0</u>	<u>(7,537)</u>	<u>0</u>	<u>(7,537)</u>
Total Other Financing (Disbursements)				
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(10,544)	(22,805)	0	(33,349)
Fund Cash Balances, January 1	(2,713)	311,589	58	308,934
Fund Cash Balances, December 31	<u>(\$13,257)</u>	<u>\$288,784</u>	<u>\$58</u>	<u>\$275,585</u>
Reserve for Encumbrances, December 31	<u>\$596</u>	<u>\$1,351</u>	<u>\$0</u>	<u>\$1,947</u>

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

**VILLAGE OF GRATIS
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$336,832	\$0	\$336,832
Total Operating Cash Receipts	<u>336,832</u>	<u>0</u>	<u>336,832</u>
Operating Cash Disbursements:			
Personal Services	68,009		68,009
Employee Fringe Benefits	14,617		14,617
Contractual Services	143,794		143,794
Supplies and Materials	58,041		58,041
Other	4,011		4,011
Total Operating Cash Disbursements	<u>288,472</u>	<u>0</u>	<u>288,472</u>
Operating Income	<u>48,360</u>	<u>0</u>	<u>48,360</u>
Non-Operating Cash Receipts:			
Special Assessments	14,975		14,975
Other Debt Proceeds	622		622
Miscellaneous Receipts	10,244		10,244
Other Non-Operating Cash Receipts		25,321	25,321
Total Non-Operating Cash Receipts	<u>25,841</u>	<u>25,321</u>	<u>51,162</u>
Non-Operating Cash Disbursements:			
Capital Outlay	5,194		5,194
Redemption of Principal	65,369		65,369
Interest and Other Fiscal Charges	51,241		51,241
Other Non-Operating Cash Disbursements		19,485	19,485
Total Non-Operating Cash Disbursements	<u>121,804</u>	<u>19,485</u>	<u>141,289</u>
Net Receipts Over/(Under) Disbursements	(47,603)	5,836	(41,767)
Fund Cash Balances, January 1	<u>261,515</u>	<u>9,464</u>	<u>270,979</u>
Fund Cash Balances, December 31	<u>\$213,912</u>	<u>\$15,300</u>	<u>\$229,212</u>
Reserve for Encumbrances, December 31	<u>\$647</u>	<u>\$0</u>	<u>\$647</u>

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

**VILLAGE OF GRATIS
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, 2008**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$21,327	\$24,940	\$0	\$46,267
Intergovernmental	44,998	66,037		111,035
Special Assessments		231		231
Charges for Services		269,840		269,840
Fines, Licenses and Permits	47,286			47,286
Earnings on Investments	2,794	172		2,966
Miscellaneous	11,257	37,113		48,370
Total Cash Receipts	<u>127,662</u>	<u>398,333</u>	<u>0</u>	<u>525,995</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	68,090	61,027		129,117
Public Health Services		139,808		139,808
Leisure Time Activities	194			194
Transportation		39,631		39,631
General Government	65,282	2,664		67,946
Debt Service:				
Redemption of Principal	1,825			1,825
Interest and Fiscal Charges	500			500
Capital Outlay	11,078	97,622		108,700
Total Cash Disbursements	<u>146,969</u>	<u>340,752</u>	<u>0</u>	<u>487,721</u>
Total Receipts Over/(Under) Disbursements	<u>(19,307)</u>	<u>57,581</u>	<u>0</u>	<u>38,274</u>
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Other Debt Proceeds	11,015			11,015
Transfers-In		25		25
Transfers-Out	(25)			(25)
Other Financing Uses		(2,206)		(2,206)
Total Other Financing Receipts / (Disbursements)	<u>10,990</u>	<u>(2,181)</u>	<u>0</u>	<u>8,809</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(8,317)</u>	<u>55,400</u>	<u>0</u>	<u>47,083</u>
Fund Cash Balances, January 1	<u>5,604</u>	<u>256,189</u>	<u>58</u>	<u>261,851</u>
Fund Cash Balances, December 31	<u>(\$2,713)</u>	<u>\$311,589</u>	<u>\$58</u>	<u>\$308,934</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$9</u>	<u>\$0</u>	<u>\$9</u>

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

**VILLAGE OF GRATIS
PREBLE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$355,304	\$0	\$355,304
Total Operating Cash Receipts	<u>355,304</u>	<u>0</u>	<u>355,304</u>
Operating Cash Disbursements:			
Personal Services	71,180		71,180
Employee Fringe Benefits	11,611		11,611
Contractual Services	152,614		152,614
Supplies and Materials	27,324		27,324
Other	2,401		2,401
Total Operating Cash Disbursements	<u>265,130</u>	<u>0</u>	<u>265,130</u>
Operating Income	<u>90,174</u>	<u>0</u>	<u>90,174</u>
Non-Operating Cash Receipts:			
Intergovernmental	115,923		115,923
Special Assessments	2,552		2,552
Other Debt Proceeds	119,197		119,197
Other Non-Operating Cash Receipts		42,858	42,858
Total Non-Operating Cash Receipts	<u>237,672</u>	<u>42,858</u>	<u>280,530</u>
Non-Operating Cash Disbursements:			
Capital Outlay	186,451		186,451
Redemption of Principal	52,257		52,257
Interest and Other Fiscal Charges	36,304		36,304
Other Non-Operating Cash Disbursements		52,504	52,504
Total Non-Operating Cash Disbursements	<u>275,012</u>	<u>52,504</u>	<u>327,516</u>
Net Receipts Over/(Under) Disbursements	52,834	(9,646)	43,188
Fund Cash Balances, January 1	<u>208,681</u>	<u>19,110</u>	<u>227,791</u>
Fund Cash Balances, December 31	<u><u>\$261,515</u></u>	<u><u>\$9,464</u></u>	<u><u>\$270,979</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, 2009 AND 2008**

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 (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). 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 statements 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 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, 2009 AND 2008
(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 the following significant Capital Project Fund:

Capital Improvement Fund – This fund was 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 Fund (Agency Fund)

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

Mayor's Court Fund – This fund is used to account for the collection and distribution of 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 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. Unencumbered appropriations lapse at year end.

VILLAGE OF GRATIS
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)

1. Summary of Significant Accounting Policies (Continued)

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

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

A summary of 2009 and 2008 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

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

	2009	2008
Demand deposits	<u>\$504,797</u>	<u>\$579,913</u>
Total deposits	<u>504,797</u>	<u>579,913</u>

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

**VILLAGE OF GRATIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$128,241	\$88,072	(\$40,169)
Special Revenue	273,102	311,937	38,835
Capital Projects			0
Enterprise	346,610	362,673	16,063
Agency		25,321	25,321
Total	\$747,953	\$788,003	\$40,050

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$135,201	\$99,212	\$35,989
Special Revenue	373,426	336,093	37,333
Capital Projects			0
Enterprise	565,314	410,923	154,391
Agency		19,485	(19,485)
Total	\$1,073,941	\$865,713	\$208,228

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$129,314	\$138,677	\$9,363
Special Revenue	293,468	398,358	104,890
Capital Projects			0
Enterprise	367,846	592,976	225,130
Agency		42,858	42,858
Total	\$790,628	\$1,172,869	\$382,241

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$130,553	\$146,994	(\$16,441)
Special Revenue	496,636	342,967	153,669
Capital Projects	58		58
Enterprise	504,313	540,142	(35,829)
Agency		52,504	(52,504)
Total	\$1,131,560	\$1,082,607	\$48,953

Contrary to Ohio law, the Village's appropriations exceeded the actual resources in various funds at the end of 2008 and 2009.

Also, contrary to Ohio law, the Village had expenditures that exceeded appropriations in the General and Water Operating Funds at December 31, 2008.

**VILLAGE OF GRATIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

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, 2009 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer Revenue Bonds	\$272,000	5.00%
Water Revenue Bonds	\$40,000	Varies
Ohio Public Works Commission Loan	\$100,373	0.00%
Ohio Water Development Authority Loan	\$577,828	4.42%
Police Cruiser Loan	\$6,451	5.79%
Truck Loan	10,595	5.49%
Total	<u>\$1,007,247</u>	

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.

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. A final amortization schedule will be established upon completion of the project. The loan is collateralized by water and sewer receipts. The Village had agreed to set water rates sufficient to cover bond payment requirements.

**VILLAGE OF GRATIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

5. Debt (Continued)

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.

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

Year ending December 31:	Sewer	Water	OPWC Loan
	Revenue Bond	Revenue Bond	
2010	\$32,600	\$12,235	\$5,147
2011	32,650	11,685	5,147
2012	32,650	11,125	5,147
2013	32,600	10,563	5,147
2014	32,500		5,147
2015-2019	164,750		25,737
2020-2024	32,550		25,737
2025-2029			23,164
Total	<u>\$360,300</u>	<u>\$45,608</u>	<u>\$100,373</u>

Year ending December 31:	Police Cruiser	Truck Loan
	Loan	
2010	\$3,096	\$5,758
2011	3,096	5,758
2012	774	
Total	<u>\$6,966</u>	<u>\$11,516</u>

In addition to the debt described above, the Village has defeased certain debt issues from prior years.

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, 2009, the custodian held \$11,118 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, 2009, 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.

**VILLAGE OF GRATIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

7. Retirement Systems (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008 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, 2009.

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, 2009, ten employees of the Village have elected Social Security. The employees' liability is 6.2 percent of wages paid.

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.

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, 2009, 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, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Assets	\$36,374,898	\$35,769,535
Liabilities	(15,256,862)	(15,310,206)
Net Assets	<u>\$21,118,036</u>	<u>\$20,459,329</u>

**VILLAGE OF GRATIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

8. Risk Management (Continued)

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Village's share of these unpaid claims collectible in future years is approximately \$16,000.

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.

<u>Contributions to PEP</u>	
<u>2009</u>	<u>2008</u>
\$16,421	\$16,396

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.

9. Compliance

Contrary to Ohio law:

- Village ledgers were not accurately maintained.
- The Village does not have a Board of Public Affairs or a Village Administrator.
- Various records were not retained by the Village.
- The Village did not record OPWC monies disbursed on behalf of the Village.
- The Mayor did not submit a monthly Mayor's Court report and did not disburse all monies due to the Village in a timely manner.
- The Village did not submit all required fees to the Treasurer of State by the required deadline.
- The Village did not properly deposit all receipts.
- The Village Mayor's Court Clerk did not maintain dockets, files and other records in the appropriate manner.

**VILLAGE OF GRATIS
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008
(Continued)**

10. Fiscal Distress

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

- The Village had a negative fund balance of (\$2,713) for the General Fund at December 31, 2008. The Village had a negative fund balance of (\$13,257) for the General Fund at December 31, 2009.
- The Village had operating losses as follows for 2008: General Fund - \$8,317; State Highway Fund - \$157; Fire District Fund - \$48,283; and Gratis Beautification Fund - \$345.
- The Village had operating losses as follows for 2009: General Fund - \$10,544; Community Center Fund - \$139; Parks and Recreation Fund - \$9,340; EMS Fund - \$1,567; Water Operating Fund - \$37,908; Sewer Operating Fund - \$12,446; Water Debt Service Fund - \$1,538.

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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 years ended December 31, 2009 and 2008, and have issued our report thereon dated November 30, 2011 wherein we qualified our opinion over Agency Fund Fines and Forfeitures and Enterprise Fund Charges for Services receipts for 2009 and 2008. We also noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village 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 also noted the Village suffered operating losses and has a net asset deficiency at December 31, 2009 and December 31, 2008. 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.

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 2009-08 through 2009-10, 2009-13, 2009-14 through 2009-17, 2009-21, 2009-26, and 2009-27 described in the accompanying schedule of findings to be material weaknesses.

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 2009-01 through 2009-08, 2009-11, 2009-12, 2009-15, 2009-17 through 2009-20, 2009-22, and 2009-23 through 2009-25.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 30, 2011.

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



Dave Yost
Auditor of State

November 30, 2011

VILLAGE OF GRATIS
PREBLE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

FINDING NUMBER 2009-01

Finding for Recovery – Overpayment to Serrer Phillips

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a “proper public purpose” rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper “Public Purpose” states that governmental entities may not make expenditures of public monies unless they are for a valid public purpose. First, the expenditure is required for the general good of all inhabitants and second, the primary objective of the expenditure is to further a public purpose, even if an incidental private end is advanced.

The Village issued check #19253 on October 15, 2009 to Paul Raab, Fire Chief for \$150 for Halloween candy. Mr. Raab submitted a receipt dated October 27, 2009 from Walmart for \$150 detailing the candy purchased. On November 30, 2009, the Village issued a check, #19424 to Serrer Phillips, Fiscal Officer, for \$235.97 for a petty cash reimbursement. The support for the petty cash reimbursement included Mr. Raab’s receipt for Halloween candy for which Mr. Raab was previously reimbursed. The second check was signed by the Village’s Fiscal Officer and Gary Vest, the President of Council.

In accordance with the foregoing facts and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Serrer Phillips, former Fiscal Officer and her bonding company, Cincinnati Insurance Company in the amount of \$150 in favor of the Village of Gratis Fire Fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att’y Gen. No. 80-074.

Gary Vest is President of the Village Council and signed the check issued to Serrer Phillips. Therefore, Gary Vest and his bonding company, Cincinnati Insurance Company are jointly and severally liable for approving the payment, in the amount of \$150 in favor of the Village of Gratis Fire Fund to the extent that recovery is not obtained from Serrer Phillips.

Officials’ Response:

The Village is looking into the Village Bonding & Insurance purchased on the individuals for overpayment of \$150. The payment will go into the Fire Fund.

FINDING NUMBER 2009-02

Finding for Recovery Partially Repaid Under Audit – Overpayment to Olivia Hill

Olivia Hill, former Fiscal Officer, received three checks dated June 19, 2008 (check numbers 17239, 17267 and 17268) for the gross payroll amount of \$501.93 each. Check number 17239 was for regular payroll wages for the pay period ended January 16, 2008. In addition to her regular pay, Ms. Hill received 80 hours vacation leave each year. The two additional checks (17267 and 17268) were to pay out her 80 hours of vacation leave upon retirement from the Village. Ms. Hill's timecards for 2008 were reviewed to determine if any vacation leave had been used. The timecards indicated she used one vacation day (8 hours) on March 21, 2008. Therefore, Ms. Hill was overpaid by 8 hours for her vacation balance at a wage rate of \$12.55/hour, resulting in an overpayment of \$100. The checks were signed by Olivia Hill, Former Fiscal Officer, and Randy Kemper, Mayor.

Also, for the pay period ending January 16, 2008, there is documentation supporting Ms. Hill worked only 31.75 hours and used 2.75 hours of sick leave for a total of 34.50 hours to be compensated during the pay period. However, Ms. Hill was compensated for 40 hours. Therefore, Ms. Hill was overpaid by 5.5 hours at \$12.55/hour resulting in an overpayment of \$69. The check was signed by Olivia Hill, Fiscal Officer, and Randy Kemper, Mayor.

The total amount overpaid to Olivia Hill was \$169.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Olivia Hill, former Fiscal Officer and her bonding company, Cincinnati Insurance Company, in the amount of \$169, and in favor of the Village of Gratis General Fund in the amount of \$67, Fire Fund in the amount of \$19, EMS Fund in the amount of \$19, Water Fund in the amount of \$32, and Sewer Fund in the amount of \$32.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex.rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Randy Kemper, Village Mayor, signed the check resulting in the overpayment. Therefore, Randy Kemper and his bonding company, Cincinnati Insurance Company, are jointly and severally liable for approving the payments, in the amount of \$169, and in favor of the Village of Gratis General Fund in the amount of \$67, Fire Fund in the amount of \$19, EMS Fund in the amount of \$19, Water Fund in the amount of \$32, and Sewer Fund in the amount of \$32 to the extent that recovery is not obtained from Olivia Hill.

On December 2, 2011, Olivia Hill made a payment of \$55 on the finding above. Therefore, the amount outstanding is \$114.

Officials' Response:

Mrs. Olivia Hill has agreed to make three monthly payments to the Village which total \$169. The General Fund will receive \$67, the Fire Fund will receive \$19, the EMS Fund will receive \$19, the Water Fund will receive \$32, and the Sewer Fund will receive \$32. This will begin in December 2011. If payment is not paid, the Village Bonding & Insurance purchased on her will be looked into for the recovery.

FINDING NUMBER 2009-03

Finding for Recovery – Overpayment to Serrer Phillips

The Village Mayor appointed Serrer Phillips to the Fiscal Officer position, pursuant to her contract signed by Ms. Phillips and the Mayor and approved by Village Council, she was to receive \$250 a month for her duties as clerk of the Mayor's Court and received more than \$250 per month. Serrer Phillips received 13 checks in the amount of \$250/month for Mayor's Court in 2009. All thirteen checks cleared the bank. Therefore, she was overpaid \$250. The check was signed by Serrer Phillips, Former Fiscal Officer, and Randy Kemper, Mayor. The Village Council did not have a resolution or ordinance establishing Ms. Phillips pay rate for the Mayor's Court Clerk position.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code, Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Serrer Phillips and her bonding company, Cincinnati Insurance Company, in the amount of \$250, and in favor of the Village of Gratis General Fund, in the amount of \$250.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Randy Kemper, Village Mayor, signed the check resulting in the overpayment. Therefore, Randy Kemper and his bonding company, Cincinnati Insurance Company, are jointly and severally liable for approving the payments, in the amount of \$250, and in favor of the Village of Gratis General Fund, in the amount of \$250 to the extent that recovery is not obtained from Serrer Phillips.

Officials' Response:

The Village is looking into the Village Bond & Insurance purchased on the individuals for overpayment of \$250. Payment will go into the General Fund.

FINDING NUMBER 2009-04

Finding for Recovery – Utilities Monies Unaccounted For

When a utility customer paid their bill, Serrer Phillips, former Fiscal Officer stamped the utility billing stub with the date paid, circled the amount paid, and posted the payment amount to the customer's account in the Village's utility system. When preparing to deposit funds collected, Ms. Phillips added the total of the payments circled on the customer stubs. This was written on a post-it note and the stubs were rubber banded together. She then prepared a deposit slip, deposited the funds, and periodically prepared a receipt for the UAN accounting system.

Based on a reconciliation of the Utility Billing History Report to stubs maintained by the Village and deposits by type of tender and by examining utility account adjustments posted by Serrer Phillips, we determined Serrer Phillips did not deposit utility collections totaling \$44,900 into a Village bank account.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued against Serrer Phillips and her bonding company, The Cincinnati Insurance Company, jointly and severally, for public money collected but unaccounted for totaling \$44,900, and in favor of the Village of Gratis Water Fund in the amount of \$19,419, Sewer Fund in the amount of \$18,306, and the Trash Fund in the amount of \$7,175.

**FINDING NUMBER 2009-04
(Continued)**

Officials' Response:

The Village is looking into the Village Bonding & Insurance purchased on the individual for \$44,900. The payment of \$19,419 will go into the Water Fund, and \$18,306 will go into the Sewer Fund and \$7,175 will go into the Trash Fund. Utility deposits will be done daily.

FINDING NUMBER 2009-05

Finding for Recovery – Mayor's Court Monies Unaccounted For

Ohio Traffic Rule 13(A) states in part "(e)ach court shall establish a traffic violations bureau... The court shall appoint its clerk as violations clerk... Fines and costs shall be paid to, receipted by, and accounted for by the violations clerk." Through review of Mayor's Court records and discussion with former Mayor's Court Clerk Serrer Phillips, it was determined that a duplicate receipt was issued by Ms. Phillips when a defendant came to the Village to pay for a ticket and also the blue copy of the defendant's ticket would only be obtained when the defendant had paid the ticket.

We identified a total of \$4,137 in fine, bond, and court costs payments received which were not deposited during 2009. Duplicate receipts were issued by Ms. Phillips in the amount of \$4,002 which were not deposited into the Village's bank accounts. We also identified one blue copy of the defendant's ticket totaling \$135 that was collected but not deposited.

We identified a total of \$4,699 in fine, bond, and court costs payments received which were not deposited during 2010. Duplicate receipts were issued by Ms. Phillips in the amount of \$3,443 which were not deposited into the Village's bank accounts. We also identified nine blue copies of the defendant's tickets totaling \$1,256 that were collected but not deposited.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, we hereby issue a finding for recovery against Serrer Phillips and her bonding company, Cincinnati Insurance Company, for \$8,836 of public monies collected but unaccounted for in favor of the Village of Gratis' Mayor's Court and distributed to the appropriate agencies.

Officials' Response:

The Village hired a Mayor's Court Clerk to do Mayor's Court. The Village is looking to the Village Bonding & Insurance Company purchased on the individual for repayment of the unaccounted Mayor's Court monies. The repayment of \$8,836 will be placed in the Mayor's Court fund and distributed to the appropriate agencies.

FINDING NUMBER 2009-06

Finding for Recovery – Money Owed To Treasurer of State

Ohio Rev. Code Section 2743.70(A)(1) states in part that, "The court, in which any person is convicted of or pleads guilty to any offense that is not a moving violation, shall impose the following sum as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender; (a) Thirty dollars, if the offense is a felony; (b) Nine dollars, if the offense is a misdemeanor. ...All such moneys shall be transmitted on the first business day of each month by the clerk of the court to the treasurer of state and deposited by the treasurer in the reparations fund."

**FINDING NUMBER 2009-06
(Continued)**

Ohio Rev. Code, Section 2949.091(A)(1), states in part, "The court, in which any person is convicted of or pleads guilty to any offense other than a traffic offense that is not a moving violation, shall impose the sum of fifteen dollars as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender. All such moneys collected during a month shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of state and deposited by the treasurer of state into the general revenue fund. "

During the time period 2008 through 2010, the Mayor's Court distributed only \$12,618 of the \$19,596 due to the Treasurer of State.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a finding for recovery is hereby issued against Serrer Phillips for \$6,978 for public monies collected but unaccounted for in favor of the Treasurer of State's General fund.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is liable for the amount of such expenditure. *Seward v. National Surety Co.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex.rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. 1980 Op. Att'y Gen. No. 80-074.

Randy Kemper, Village Mayor is the official in charge of supervising the Mayor's Court Clerk. Therefore, Randy Kemper and his bonding company, Cincinnati Insurance Company, are jointly and severally liable for public monies collected but unaccounted for, in the amount of \$6,978, and in favor of the Treasurer of State's General Fund to the extent that recovery is not obtained from Serrer Phillips.

Officials' Response:

The Village is looking at the Village Bonding & Insurance purchased on the individuals for the repayment of \$6,978. The Village has hired a Mayor's Court Clerk to do Mayor's Court duties. The payment will go into the Treasurer of State's General Fund.

FINDING NUMBER 2009-07

Finding for Adjustment – Amounts due Village

Ohio Rev. Code Section 733.40 provides that the mayor shall account for and dispose of all such fines, forfeitures, fees, and costs collected. All monies collected shall be paid by the mayor into the Village on the first Monday of each month. Also, at the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury.

During the time period 2008 through 2010 the Mayor's Court did not pay fines and court costs due to the Village totaling \$2,087.

A finding for adjustment is hereby issued against the Mayor's Court bank account for \$2,087 in favor of the Village's General Fund for \$2,087.

**FINDING NUMBER 2009-07
(Continued)**

Officials' Response:

The Mayor's Court will pay all fines and court costs from the Mayor's Court bank to the Village General fund. The Village has hired a Mayor's Court Clerk to do duties of the Mayor's Court.

FINDING NUMBER 2009-08

Material Noncompliance / Material Weakness

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

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

- \$92,447 of receipts posted to the accounting system for 2008 and \$322,863 of receipts posted to the accounting system for 2009 did not agree to the bank.
- Deposits shown on Village bank statements of \$158,865 for 2008 and \$393,359 for 2009 did not agree to the UAN system.
- Expenditures shown on Village bank statements of \$2,447 for 2008 and \$53,325 for 2009 were not posted to the UAN system.
- Voided checks of \$4,398 for 2008 and \$1,100 for 2009 cleared the bank.
- Expenditure posting errors of \$310 and \$(3) were noted for 2008.
- Expenditures of \$14 for 2008 did not trace to the bank.
- Outstanding check lists were not reported accurately. At December 31, 2008, outstanding checks were understated by \$477. At December 31, 2009, outstanding checks were overstated by \$43,412.
- The outstanding check list for December 31, 2009 prepared by the Village included 81 checks totaling \$42,698, which cleared the bank prior to December 31, 2009.

The above exceptions were noted during the performance of a proof of cash. The proof of cash facilitated the determination that transactions that cleared the bank were posted in the Village accounting records and financial activity posted to the Village accounting records cleared the bank.

Adjustments were made to the financial statements and posted to accounting records where applicable for the above misstatements.

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

We recommend the Village Fiscal Officer accurately maintain the Village's accounting records using the Village Officer's Handbook and village chart of accounts as guidance which can be located at www.auditor.state.oh.us under Publications.

**FINDING NUMBER 2009-08
(Continued)**

Officials' Response:

The Village has hired a new Fiscal Officer and Village Clerk to maintain the Village's accounting records using the Village Officer's Handbook and Village chart of accounts.

FINDING NUMBER 2009-09

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

- Reconciliations were not completed for five months in 2008 and for two months in 2009.
- The Village reported outstanding checks that were greater than one year old.
- Seven of twelve monthly bank reconciliations for 2008 had other adjusting factors and did not have adequate support for these other adjusting factors. The amounts ranged from \$876 to \$93,625.
- Nine of twelve monthly bank reconciliations for 2009 had other adjusting factors and did not have adequate support for these other adjusting factors. The amounts ranged from \$123 to \$65,868.
- The Village's outstanding check value did not equal the Auditor of State's recalculated outstanding check value for December 31, 2008 and December 31, 2009. The Village included checks that cleared the bank on their outstanding check listing and improperly excluded checks that had not cleared the bank from the list.
- As a result of our proof of cash procedures, the Village fund balances as of December 31, 2009 were increased by 18% or \$78,622.

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

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

**FINDING NUMBER 2009-09
(Continued)**

Officials' Response:

The Village has hired a new Fiscal Officer and Village Clerk to do an accurate monthly reconciliation, which will include all adjustments.

FINDING NUMBER 2009-10

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 was unable to provide documentation supporting 1,926 utility account balance adjustments ranging from a decrease of \$67,862 to an increase of \$687 in customer accounts. Additionally, only five of these adjustments were authorized by Village officials. At times, these adjustments were used to post payments to the utility system. The Fiscal Officer posted utility receipts as an adjustment related to only one service instead of breaking out the adjustment against the appropriate water-, sewer- or trash-related services.

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

Failure to properly post adjustments and allocate to the various services of water, sewer, and trash can lead to inaccurate fund balances and also cause customer account balances to be incorrect.

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. 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. The adjustment should be posted appropriately between the water, sewer, and trash funds.

Officials' Response:

The Village has hired a Utility Clerk to handle all Utility postings. The Village Public Officials will develop a specific, written procedure for requesting, posting, and approving customer utility account adjustments.

FINDING NUMBER 2009-11

Material Noncompliance

Ohio Revised Code, Section 735.28, states 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 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 is looking into appointing someone to the Board of Public Affairs or a Village Administrator to oversee the Village utilities.

FINDING NUMBER 2009-12

Material Noncompliance

Ohio Revised Code, Section 149.351, provides that no public record shall be removed or disposed of, in whole or part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Code, Section 149.28 to 149.42.

The Village did not maintain the following records:

- Monthly billing reports from MBI Solutions, the Village third party administrator for EMS billings. Refer to finding 2009-14 for further information about this matter.
- Three voided checks from the EMS bank account.

**FINDING NUMBER 2009-12
(Continued)**

- Supporting documentation for five receipts totaling \$16,000 from the Eagles. (We were able to satisfy ourselves on the completeness and accuracy of these receipts through other auditing procedures.)

Failure to maintain supporting documentation can result in incorrect posting of financial activity and questions regarding funding received. We recommend that the Village keep all records and supporting documentation.

Officials' Response:

The Village Fiscal Officer and Village Clerk will maintain all financial records and supportive documentation.

FINDING NUMBER 2009-13

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 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 that the Village of Gratis issued to them. This process is done based on the contract signed by the entities. Also, the Village did not record TPA service charges.

This process causes a delay in recording Village receipts, causes Village receipts to be recorded in the wrong fiscal year, increases the risk that the Village may not receive receipts for contracted services it has provided, and needlessly increases the complexity of the accounting and record keeping.

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 are originally deposited into the bank account. The Village also failed to record all Medicare payments deposited into the Twin Valley Bank account for four months in 2009. 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.

Audit adjustments were required to increase 2008 Charges for Services revenue by \$31,998 and Public Safety expenditures by \$471. Audit adjustments were required to decrease 2009 Charges for Services revenue by \$40,698 and increase Public Safety expenditures by \$654.

Adjustments were made to the accompanying financial statements for these items.

**FINDING NUMBER 2009-13
(Continued)**

We recommend that the Village improve controls over the EMS receipts by depositing and recording the entire amount of EMS receipts and related fees upon receipt of the check and account information from the TPA.

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 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.

Officials' Response:

The Village is improving controls over the EMS receipts by depositing and recording the entire amount of EMS receipts and related fees upon receipt of the check and account information from the TPA.

FINDING NUMBER 2009-14

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. Significant posting errors were noted in the testing of taxes, intergovernmental, and miscellaneous revenues. These errors resulted in the following adjustments to the Village's funds:

- 2008 General Fund Tax Revenue was decreased by \$20,207; Intergovernmental Revenue was increased by \$8,081; General Government Expenditures were increased by \$1,518; Fines, Licenses, and Permits were decreased by \$441; miscellaneous revenue was increased by \$1,581; and Fund Balance was decreased by \$12,836. This was mostly due to the Village posting homestead and rollback as taxes instead of intergovernmental, a permissive tax receipt posted to General instead of Street, and local government receipts being posted to taxes instead of intergovernmental.
- 2008 Fire Fund Tax Revenue was increased by \$417; Intergovernmental Revenue was increased by \$10,969; General Government Expenditures were increased by \$188; Miscellaneous Revenue was decreased by \$7,561; and Fund Balance was increased by \$3,638. This was mostly due to the improper posting of homestead and rollback as taxes instead of intergovernmental, posting taxes at net instead of gross, and improper posting of public utility deregulation.
- 2008 Street Fund Intergovernmental Revenue was increased by \$10,235; Tax Revenue was decreased by \$8,989; Miscellaneous Revenue was decreased by \$231; Special Assessment Revenue was increased by \$231; and Fund Balance was increased by \$1,247. This was mostly due to the improper posting of permissive tax.

**FINDING NUMBER 2009-14
(Continued)**

- 2008 Water Fund Intergovernmental Revenue was increased by \$87,927; Special Assessments were increased by \$1,123; Expenditures were increased by \$52; Loan Proceeds were decreased by \$20,395; Capital Outlay was increased by \$67,532; and Fund Balance was increased by \$1,071. This was mostly due to the improper recording of a state capital improvement project.
- 2009 General Fund Tax Revenue was decreased by \$6,253; Intergovernmental Revenue was increased by \$6,425; General Government Expenditures were increased by \$2,737; Miscellaneous Revenue was decreased by \$875; and Fund Balance was decreased by \$3,439. This was mostly due to homestead and rollback being posted to taxes instead of intergovernmental and auto license receipts being posted to the General Fund instead of being divided between the Street and State Highway funds.
- 2009 Street Fund Intergovernmental Revenue was increased by \$16,480; Tax Revenue was decreased by \$11,962; General Government Expenditures were increased by \$70; Miscellaneous Revenue was decreased by \$3,020; Special Assessment Revenue was increased by \$1,502; and Fund Balance was increased by \$2,930 due to the improper posting of permissive taxes.
- 2009 Water Fund Special Assessment Revenue was increased by \$6,589; Miscellaneous Revenue was decreased by \$4,475; Expenditures were increased by \$282; and Fund Balance was increased by \$1,832 due to the improper posting of special assessments.
- 2009 Sewer Fund Special Assessment Revenue was increased by \$6,140; Miscellaneous Revenue was decreased by \$4,475; Expenditures were increased by \$262; and Fund Balance was increased by \$1,402 due to the improper posting of special assessments.

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 receipts we recommend that all county, state and federal revenue receipts be posted properly. For guidance the Village should utilize the Village Officers' Handbook and village chart of accounts which can be located at www.auditor.state.oh.us under Publications.

Officials' Response:

The Village has hired a new Fiscal Officer and Village Clerk to improve management over the financial record keeping and accountability of receipts. The Village Officers' Handbook and Village chart of accounts will be used.

FINDING NUMBER 2009-15

Material Noncompliance/Material Weakness

Ohio Revised Code, Section 5705.09(F), requires the Village to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure and anticipated expenditures should be included in the Village's appropriations.

**FINDING NUMBER 2009-15
(Continued)**

As further discussed in Ohio Compliance Supplement Chapter 1 and Auditor of State Bulletin 2000-008, the Clerk shall record the appropriations in accordance with the terms and conditions of the on-behalf grant or project agreement. Ohio Rev. Code Section 5705.42 requires Federal and State grants or loans are "deemed appropriated for such purpose by the taxing authority" as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection. "Deemed an appropriation" under this section means the Federal or State government has already appropriated and established the purpose(s) for which a government can spend monies received from Federal or State grants and loans. The taxing authority cannot deviate from this purpose; the taxing authority can only resolve to spend the money for a purpose already prescribed in a contract, grant agreement, loan agreement, etc. Therefore, Federal and State grants and loans received under Ohio Rev. Code Section 5705.42 do not require formal appropriation by the legislative body. In other words, Ohio Rev. Code Section 5705.42 effectively eliminates an unnecessary appropriation action by the taxing authority. However, Ohio Rev. Code Section 5705.42 directs the fiscal officer to record the appropriation amount in the accounting system. The fiscal officer should also include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity.

The Village did not record OPWC monies disbursed on behalf of the Village totaling \$67,531 of grants and \$102,947 of loan proceeds for 2008. Also, the appropriations related to the grant money and loan proceeds were not properly posted to the accounting system. The accompanying financial statements have been adjusted to reflect the activity. We recommend that the Village following the accounting treatment as prescribed in Auditor of State Bulletin 2000-008 for on-behalf grants and loans.

Officials' Response:

The Village has hired a new Fiscal Officer and Village Clerk to record OPWC money as prescribed in the Auditor of State Bulletin 2000-008.

FINDING NUMBER 2009-16

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 Mayor's Court maintains a separate bank account which was not reconciled by the Former Mayor's Court Clerk on a monthly basis. Monthly receipt reports and dockets were not always prepared timely. Monthly reports and dockets were not created for the months of September through December 2009. We were not provided monthly cash reports for April 2008, July through December 2008, or April through July 2009. The Clerk subsequently prepared the monthly cash reports and dockets for September through December 2009. She also provided monthly cash reports for April through July 2009. Monthly cash reports were not created for the months of January through September 2010. The December 2010 cash report was created by the assistant Mayor's Court Clerk using the docket and duplicate receipts. The dockets did not always contain all the pertinent information pertaining to the case such as receipt numbers, receipt dates and case disposition. Therefore, the clerk could not reconcile all receipts to the related dockets. The receipt reports were not reviewed and approved by someone other than the Mayor's Court Clerk. The failure to have supervisory review of completed monthly bank reconciliations and receipt reports enhances the possibility that errors or irregularities could occur and not be detected in a timely manner.

**FINDING NUMBER 2009-16
(Continued)**

By reviewing the bank statements and reconciliations, the Mayor can reduce the potential for fraud or irregularities occurring in the bank account.

The Mayor's Court Clerk maintained a checkbook register and monthly reports of revenues received. However, a "cash book" was not maintained. All receipts received, checks written, and bank charges, etc., should be posted to the cash book. The cash book should maintain a running fund balance which can be reconciled to the monthly bank statements. Failure to maintain a complete and accurate cash book enhances the possibility that errors or irregularities could occur and not be detected in a timely manner.

A monthly open items list is not maintained that would agree to the amount of money held in the Mayor's Court checking account balance. Failure to maintain monthly open items list enhances the possibility that errors or irregularities could occur and not be detected in a timely manner.

By not reviewing the bank statements, reconciling the cashbook to the bank balance, and maintaining accurate records, the Mayor cannot identify posting errors or other irregularities in a timely manner. This resulted in inaccurate reports being submitted to Council. To ensure accurate reports are presented to Council, we recommend the Mayor and/or his designee:

- Obtain and review a the monthly bank statement.
- Investigate any unusual entries posted to the cashbook or reflected on the monthly bank statement. Review the supporting documentation and ensure the activity is Court-related.
- Reconcile the bank account activity to the amounts deposited and disbursed by the Mayor's Court Clerk per the monthly cashbook.
- For returned checks/money orders, confirm the Court has made attempts to collect the fines and court costs due from the defendants in a timely manner.
- Review disbursements from the monthly cashbook and bank statement to ensure the amounts due to the Treasurer of State and the Village were remitted and that no other unrelated disbursements were made.

We recommend that the monthly bank reconciliations and receipt reports for the Mayor's Court be reviewed and approved by someone other than the Mayor's Court Clerk. The reviews and approval should be evidenced by initials of the reviewer and the date. We recommend that the Mayor's Court Clerk maintain a cash book of all Mayor's court activity. We recommend that the Mayor's Court Clerk maintain an open items list for items held in the Mayor's Court.

Officials' Response:

The newly hired Mayor's Court Clerk will do a monthly bank reconciliation and receipt report for the Mayor's Court. It will be reviewed and approved by the Mayor and Village Public Officials. Initials of the reviewer(s) and the date will be evidence for all approved reconciliation and reports.

FINDING NUMBER 2009-17

Material Noncompliance/Material Weakness

Ohio Revised Code, Section 1905.01(F), states, “In keeping a docket and files, the mayor, and a mayor’s court magistrate appointed under section 1905.05 of the Revised Code, shall be governed by the laws pertaining to county courts.” Ohio Revised Code, Section 1907.20 (B), regarding general provisions of county court administration states, in pertinent part, “The clerk shall file and safely keep all journals, records, books and papers belonging or appertaining to the court, record its proceedings, perform all other duties that the judges of the court may prescribe, and keep a book showing all receipts and disbursements, which shall be open for public inspection at all times.”

The Clerk did not maintain complete and accurate records and the Mayor’s Court lacks management oversight as illustrated by the following conditions:

2008 – Population: 320 Transactions

- The Village could not locate Mayor’s court receipts prior to September 22, 2008;
- Cash Receipt Journals for April, August, September, October and November could not be located;
- There were 47 instances in which a defendant’s payment was not recorded on the Cash Receipt Journal;
- A duplicate receipt was not written for money received in 44 instances;
- There were 75 instances in which a defendant’s payment was not recorded on the Court Docket;
- There were 33 instances in which a casefile was not created or could not be located.

2009 – Population: 242 Transactions

- Cash Receipt Journals for September 2009 through December 2009 were not available at the start of the audit. The former Mayor’s Court Clerk subsequently created those Cash Receipt Journals;
- There were 71 instances in which a defendant’s payment was not recorded on the Cash Receipt Journal;
- A duplicate receipt was not written for money received in 118 instances;
- There were 71 instances in which a defendant’s payment was not recorded on the Court Docket;
- There were 15 instances in which a casefile was not created or could not be located.

2010 – Population: 304 Transactions

- Cash Receipt Journals for January through September were not created. The December Cash Receipts Journal was created by the assistant Mayor’s Court Clerk was created using the docket and duplicate receipts.
- There were 2 instances in which a defendant’s payment was not recorded on the Cash Receipt Journal;
- A duplicate receipt was not written for money received in 168 instances;

**FINDING NUMBER 2009-17
(Continued)**

- There were 40 instances in which a defendant's payment was not recorded on the Court Docket;
- There were 14 instances in which a case file was not created or could not be located from January through November. Case files were not provided for 14 paying defendant's from December.

Test of Dockets

- There were many cases in which the Dockets were missing the transaction date, receipt number, case number, ticket number, amount and disposition of case. The Cash Receipt Journals were missing the transaction date, receipt number, case number and ticket number. The duplicate receipts were missing the case number, ticket number or the payment tender. Cash Receipt Journal and duplicate receipts did not always contain all pertinent information such as, date, the amount paid, ticket/case number or type of tender.

Test of Tickets

- We were unable to locate 11 of the 40 ticket numbers tested. We were unable determine the disposition (not used, lost, voided) of nine tickets out of 11 tickets. Two of the 11 tickets had information documented in the docket.

Receipts

- During the course of the audit we found a personal check in the amount of \$10 in a casefile for a defendant whose ticket was issued in 2008. We also found a Cashier's Check in the amount of \$135 in a casefile for a defendant whose ticket was issued in 2008. We found cash in the amount of \$145 in a casefile for a defendant whose ticket was issued in 2010. In 2011, the Assistant Mayor's Court Clerk found \$120 on the floor of the Village office, paper clipped to a receipt for a defendant whose ticket was issued in 2010. Failure to deposit funds could result in incomplete records which could result in the unwarranted issuance of an arrest warrant.

Disbursements

- We were unable to determine if the Mayor's court disbursed fines and fees correctly throughout the audit period. There were instances in which the Clerk did not properly document the information on the monthly receipt report. These errors were corrected on the monthly receipt book and are included in the amounts below. In 2008 the Mayor's Court disbursed \$26,106 to the Village. We were only provided documentation showing \$12,405 should have been disbursed to the Village for a variance of \$13,701. Therefore, the monthly receipt reports are inaccurate. In 2008, the Mayor's Court disbursed \$7,060 to the Treasurer of State. We were only provided documentation showing \$3,131 should have been disbursed to the Treasurer of State for a variance of \$3,929. Therefore, the monthly receipt reports are inaccurate.
- In 2009 the Mayor's Court disbursed \$19,152 to the Village. We were provided documentation showing \$19,439 should have been disbursed to the Village for a variance of \$287 that should have been paid to the Village. In 2009, the Mayor's Court did not disburse any funds to the Treasurer of State. We were provided documentation showing \$4,002 should have been disbursed to the Treasurer of State. (This 2009 amount is included in the \$6,978 amount noted as due to the Treasurer of State in Finding Number 2009-006.)

**FINDING NUMBER 2009-17
(Continued)**

We recommend that receipts be written for all monies received. The amount of the receipt should match the amount deposited. All receipts should be properly posted to a cash book and the monthly receipt reports and the receipt information should be documented on the docket. Receipts posted to the cash book and monthly receipt reports should be reviewed for accuracy. Failure to properly post revenue can result in inaccurate records and misappropriation of funds. All tickets should be maintained and posted to the docket. The docket should be reviewed for completeness and accuracy. All required information (ticket number, disposition, amount of fine, receipt information, as applicable) should be posted to the docket in a timely manner.

We recommend the Mayor's Court Clerk maintain complete appearance dockets, receipt books, docket packets and cashbooks to document Court proceedings, and the collection and disbursement of fines, court costs and bonds. The before mentioned documents should include the date, payer, the amount paid, the ticket/case number; the type of tender received and the receipts should be signed by the individual collecting the money. The Dockets should also include the disposition of the case. Failure to complete the entire document could prevent the Court from identifying the amount received and the case the amount paid should be applied to. Not maintaining complete records could result in the unwarranted issuance of an arrest warrant. We recommend the individual collecting fine payments complete a pre-numbered receipt documenting the date, payee, ticket/case number, offense, amount, tender type and the defendant's name. These receipts should agree to the amount posted in the Court's Docket and Cashbook and to the amount deposited. If amounts received are adjusted, the individual making the adjustment should document the reason for the adjustment and the supervisor should review and document their approval of the adjustment.

We recommend the individual collecting fine payments complete a pre-numbered receipt documenting the date, payee, ticket/case number, offense, amount, tender type and the defendant's name. These receipts should agree to the amount posted in the Court's Docket and Cashbook and the money collected should be deposited. Monthly cash reconciliations should be performed to identify posting errors or irregularities.

Officials' Response:

The Village has hired a Mayor's Court Clerk to make sure receipts are written for all monies received. All receipts will be properly posted to a cash book and to the monthly receipt reports. Receipt information will be documented on the docket in a timely manner. Receipts will be reviewed for accuracy. The monthly cash reconciliation will be performed to identify posting errors or irregularities.

FINDING NUMBER 2009-18

Material Noncompliance

Ohio Revised Code, Section 733.40, provides that at the first legislative meeting of each month the mayor shall submit a full statement of all money received, from whom and for what purpose received, and when paid into the treasury. The Mayor did not submit the aforementioned monthly reports.

Ohio Revised Code, Section 733.40, also requires that all fines, forfeitures, and costs in ordinance cases and all fees collected by the mayor, or which in any manner come into his hands, or which are due such mayor or a marshal, chief of police, or other officer of the municipal corporation, any other fees and expenses which have been advanced out of the treasury of the municipal corporation, shall be paid by him into such treasury of the first Monday of each month. Funds were disbursed to the Village monthly until August 2008. Funds were disbursed one time from August 2008 through December 2008, three times in 2009 (January, March and August), and seven times in 2010.

**FINDING NUMBER 2009-18
(Continued)**

We recommend that the Mayor submit a monthly report to Council to be in compliance with Ohio Revised Code and to enhance accountability of mayor's court activity. These monthly reports should be noted in the Council minutes. The Mayor should also disburse all monies due the Village in a timely manner.

Officials' Response:

At Village Council meetings the Mayor will provide monthly reports to Village Officials. The report will be noted in the Council minutes. Disbursement of all monies due to the Village will be done in a timely manner.

FINDING NUMBER 2009-19

Material Noncompliance

Ohio Revised Code, Section 2949.091, requires that the court shall impose the sum of fifteen dollars as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender. All such moneys collected during a month and owed to the state shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of the state. Funds were disbursed to the Treasurer of State monthly until August 2008. Funds were disbursed one time from August 2008 through December 2008 and five times in 2010. There were no funds disbursed to the Treasurer of State in 2009. Failure to timely submit the required fees to the State could subject the Village to penalties. We recommend that the Village submit the required fees by the required deadline.

Officials' Response:

All required fees will be submitted to the Treasurer of State by the required deadline.

FINDING NUMBER 2009-20

Material Noncompliance

Ohio Revised Code, Section 2743.70, requires that the court shall impose the sum of nine dollars (if the offense is a misdemeanor) as costs in the case in addition to any other court costs that the court is required by law to impose upon the offender. All such moneys shall be transmitted on the first business day of each month by the clerk of the court to the treasurer of state. Funds were disbursed to the Treasurer of State monthly until August 2008. Funds were disbursed one time from August 2008 through December 2008 and five times in 2010. There were no funds disbursed to the Treasurer of State in 2009. Failure to timely submit the required fees to the State could subject the Village to penalties. We recommend that the Village submit the required fees by the required deadline.

Officials' Response:

All required fees will be submitted to the Treasurer of State by the required deadline.

FINDING NUMBER 2009-21

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records and ensuring the collection and compilation of the data needed for timely and accurate preparation of financial statements.

The Village lacks management oversight in the posting of debt and expenditure activity. This lack of oversight is illustrated by the following:

- The Village did not recognize on-behalf OPWC loan payments. 2008 Water Operating Proceeds of Debt and Capital Outlay were increased by \$102,946 due to a loan not being recorded on the Village's financial records.
- In 2008, the Village posted expenditures to Capital Outlay that did not meet the definition of Capital Outlay expenditures as follows: General Fund - \$106 (copy contract and internet); Street Fund - \$473 (audit costs and fuel); Fire District Fund - \$12,029 (audit costs, gear and maintenance), EMS Fund - \$3,489 (audit costs, EMT classes, maintenance, and petty cash reimbursement); Water Operating Fund - \$3,089 (insurance, shirts, audit costs, and uan fees); and Sewer Operating Fund - \$2,208 (backhoe parts, insurance, shirts, audit costs, uan fees, and sewer license).
- In 2008, the Village improperly posted \$5,120 of Fire District Fund Capital Outlay expenditures and \$10,239 of EMS Fund Capital Outlay expenditures to Other Financing Uses. This was for the purchase of pagers.
- 2009 Water Operating Debt Fund Service Principal Payments were increased by \$4,039 and Water Operating Fund Debt Service Interest Payments were increased by \$17,531, due to improper postings of the OWDA water tower loan and a OPWC promissory note.

The Fiscal Officer should use due care when posting transactions.

Failure to properly record and posted debt activity may result in misleading financial statements and incorrect fund balances. Any new debt incurred should be recognized as proceeds of debt for the gross amount received. Any payments made on behalf of the Village needs to be recorded as an expenditures. We recommend that the Village properly post debt activity.

Adjustments were posted to the financial statements and the accounting records where applicable to correct the above misstatements.

Failure to properly record and post debt activity may result in misleading financial statements and incorrect fund balances. Any new debt incurred should be recognized as proceeds of debt for the gross amount received. Any payments made on behalf of the Village should be recorded as expenditures. We recommend the Village properly post all debt activity.

Officials' Response:

The Fiscal Officer will record and post all debt activity dealing with financial statements and fund balances.

FINDING NUMBER 2009-22

Material 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.

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.

Seven percent of the transactions in 2008 (one out of 15) and 67 percent of transactions in 2009 (10 out of 15) tested were not certified by the Fiscal Officer at the time the commitment was incurred and no evidence was found that one of the above mentioned exceptions had been utilized. A resolution or ordinance was not authorized for five "then and now" certificates used exceeding \$3,000. 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.

**FINDING NUMBER 2009-22
 (Continued)**

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response:

All purchases will be certified by a purchase order. Purchase orders will be signed by the Fiscal Officer and another authorized individual. The Fiscal Officer will post approved purchase commitments to the proper appropriation code.

FINDING NUMBER 2009-23

Material Noncompliance

Ohio Revised Code, Section 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.

Appropriations exceeded actual resources at December 31 as follows:

Year	Fund	Approved Appropriations	Available Resources	Variance
2008	Street	\$74,632	\$56,284	(\$18,348)
2008	State Highway	6,800	5,870	(930)
2008	Trash	54,663	53,136	(1,527)
2009	General	135,201	95,944	(39,257)
2009	Water Operating	186,682	182,880	(3,802)
2009	Street	63,165	62,814	(351)
2009	State Highway	4,100	3,341	(759)

Failure to properly obtain amended certificates when the amount of deficiency will reduce available resources below the current level of appropriations can result in overspending and negative fund balances. We recommend that the Village monitor estimated and actual receipts and obtain amendments when required.

Officials' Response:

The Village will monitor estimated and actual receipts and obtain amendments when required.

FINDING NUMBER 2009-24

Material 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, 2008, the General Fund had a negative cash balance of \$2,713. At December 31, 2009, the General Fund had a negative cash balance of \$13,257. We recommend the Village monitor financial activity and develop a plan to avoid negative cash balances.

Officials' Response:

The Fiscal Officer and Village Officials will monitor financial activity and develop a plan to avoid negative fund cash balances.

FINDING NUMBER 2009-25

Material 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 as follows:

Year	Fund	Appropriations	Expenditures	Variance
2008	General	\$130,900	\$146,495	(\$15,595)
2008	Water Operating	179,274	329,195	(149,921)

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

Officials' Response:

The Village Council will review and approve all appropriations. Appropriations will be properly monitored and recorded in the Village ledgers.

FINDING NUMBER 2009-26

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 reasonable of financial data.

Of the 621 business days in which utility monies were received during 2008 through 2010, Serrer Phillips prepared and made only 348 utility deposits. This also affected the posting of the utility receipts to the utility computer system and also the financial accounting system. Not depositing the monies in the bank and recording the activity in the computer systems made it more difficult for the Village activity to be properly monitored and helped contribute to the Finding for Recovery Finding Number 2009-04. The activity not being recorded timely also made it harder to prepare bank reconciliations and helped contribute to Finding Numbers 2009-09 and 2009-10.

**FINDING NUMBER 2009-26
(Continued)**

The mayor and/or his designee should monitor the Village activity to ensure funds received are deposited as required by their policy.

Officials' Response:

The Mayor and Fiscal Officer will monitor the Village's activity to ensure funds are received and deposited. The Village Officials will prepare a policy on this issue.

FINDING NUMBER 2009-27

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 reasonable of financial data.

The Village lacks management oversight over the utility receipt cycle as illustrated by the following conditions:

- Beginning in July 2008, the former Fiscal Officer discontinued printing the batch reports and posting daily utility receipts to the UAN system. Instead, she periodically posted utility receipts to the UAN system and did not maintain support for her postings. This prevented the reconciliation of daily utility funds received to those deposited into the Village's bank account which resulted in inaccurate receipt ledgers and the untimely detection of incorrectly posted receipts and resulted in the loss of funds.
- Utility payments posted in the utility system did not reflect the type of tender received. As such, the Village was unable to reconcile the tender received per the utility system to the tender deposited to ensure funds collected were deposited intact. Inaccurately or not recording the type of tender received in the utility system prevents the detection of checks deposited in the place of cash.
- The former Fiscal Officer posted utility payments to the financial accounting system received days, weeks, or months after the payment was deposited to customer's account, failed to record the entire payment amount to customer accounts, posted payments as adjustments to accounts, and failed to record the deposited payment amount in the utility system. Failure to post the full amount of the payment received to a customer's account could result in improper customer penalties.
- Returned checks and the related penalties were not always added onto customer accounts. During our testing, we could not determine if returned checks of \$417 and the related penalties to customer accounts resulted in not collecting funds due to the Village or the misappropriation of Village funds.
- When the customer pays their bills and the receipt is posted to the utility billing system, the system automatically divides the receipt into water, sewer and trash portions. The receipts in the utility billing system needs to be manually entered into the UAN system. When posted to the UAN system, the utility receipts should be posted to the water, sewer and trash funds as the utility system has divided it. Utility receipts from the utility billing system were not always posted to the UAN system in a timely manner. When the Former Fiscal Officer did post the utility receipts to the UAN system, it was not always in the same proportions as the utility system divided it out. Failure to properly post utility receipts to the UAN system can lead to improper fund balances and can result in violations of debt covenants.

**FINDING NUMBER 2009-27
(Continued)**

Due to the above conditions, we recommend:

- Batch collection numbers be used in sequence. Batch reports should be processed daily each time a deposit is made. The batch report should agree to the amount deposited at the bank. When reconciling activity at month end, the Fiscal Officer should examine the batch report numbers to verify all batch reports have been received and compare the batch report amounts to UAN postings and amounts deposited to ensure funds received were posted and deposited into a Village account.
- The Fiscal Officer should record the type of tender received for each utility payment in the utility system. At the end of each day, an individual independent of the receipting process should verify the tender reflected on the Batch Report agrees to the tender to be deposited.
- Customer utility payments should be posted to the customer's account for the total payment amount on the date received.
- Returned checks and the related penalties should be added onto customer accounts upon notification from the bank that a check has been returned.
- Utility receipts should be timely and correctly posted to the UAN system.

Officials' Response:

A new Utility System has been purchased. The Village has established an Ordinance on return check fees. The Utility Clerk will post to the customer's account the total payment amount on the date received. The Utility Clerk will enter and prepare batch reports to the new system. The Clerk will process daily each time a bank deposit is made and the batch will agree to the bank deposit. The Fiscal Officer will enter and compare all batch reports and bank deposits into the UAN system. The Fiscal Officer will verify deposits have been placed in the correct accounts. All return checks and penalties will be added into the customers' accounts upon notification from the bank that a check has been returned. The deposit will be compared and entered into the UAN Utility System.

**VILLAGE OF GRATIS
PREBLE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2009 AND 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Lack of controls over EMS billing revenue.	No	Not corrected – Reissued as Finding Number 2009-13
2007-002	Lack of controls over the posting of receipts.	No	Not corrected- Reissued as Finding Number 2009-14
2007-003	Ohio Rev. Code, Section 5705.09(F), failure to record on-behalf activity.	No	Not corrected – Reissued as Finding Number 2009-15
2007-004	Lack of oversight over Mayor’s Court activity.	No	Not corrected – Reissued as Finding Number 2009-17
2007-005	Lack of oversight in the posting of debt and expenditures activity.	No	Not corrected – Reissued as Finding Number 2009-21
2007-006	Ohio Rev. Code, Section 5705.36(A)(4), appropriations exceeded available fund balance.	No	Not corrected – Reissued as Finding Number 2009-23
2007-007	Estimated receipts and appropriations were not properly posted to the accounting system.	No	Not corrected – Reissued as management letter comment
2007-008	Ohio Rev. Code, Section 5705.41(B), expenditures exceeded appropriations	No	Not corrected – Reissued as Finding Number 2009-25

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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
DECEMBER 27, 2011