



**Auditor of State
Betty Montgomery**

VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lithopolis
Fairfield County
33 North Market Street
P.O. Box 278
Lithopolis, Ohio 43136-0278

To the Council Members:

We have audited the accompanying financial statements of the Village of Lithopolis, Fairfield County, Ohio (the Village), as of and for the years ended December 31, 2002 and December 31, 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lithopolis, Fairfield County, Ohio, as of December 31, 2002 and December 31, 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, Council Members, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

September 17, 2003

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

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

	<u>Governmental Funds</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$130,512	\$11,626	\$142,138
Intergovernmental Receipts	64,093	45,409	109,502
Charges for Services	300	0	300
Fines, Licenses, and Permits	30,452	2,112	32,564
Earnings on Investments	2,863	0	2,863
Miscellaneous	8,521	0	8,521
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	236,741	59,147	295,888
Cash Disbursements:			
Current:			
Security of Persons and Property	126,215	12,513	138,728
Public Health Services	4,576	0	4,576
Leisure Time Activities	5,174	0	5,174
Community Environment	12,546	0	12,546
Basic Utility Services	38,051	0	38,051
Transportation	0	18,984	18,984
General Government	45,915	152	46,067
Debt Service	7,245		7,245
Capital Outlay	20,446		20,446
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	260,168	31,649	291,817
Total Receipts Over/(Under) Disbursements	(23,427)	27,498	4,071
Other Financing Receipts and (Disbursements):			
Proceeds of lease purchase	20,446		20,446
Transfers-Out	(22,500)	0	(22,500)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(2,054)	0	(2,054)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(25,481)	27,498	2,017
Fund Cash Balances, January 1	50,678	3,599	54,277
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$25,197	\$31,097	\$56,294
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Reserves for Encumbrances, December 31	\$0	\$0	\$0

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

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

	<u>Proprietary Funds</u>	<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$225,438	\$0	\$225,438
Miscellaneous	8,388	0	8,388
Total Operating Cash Receipts	233,826	0	233,826
Operating Cash Disbursements:			
Personal Services	95,128	0	95,128
Fringe Benefits	11,651	0	11,651
Contractual Services	249,454	0	249,454
Supplies and Materials	38,809	0	38,809
Total Operating Cash Disbursements	395,042	0	395,042
Operating Income/(Loss)	(161,216)	0	(161,216)
Non-Operating Cash Receipts:			
Special Assessments	61,739	0	61,739
Proceeds from Notes and Bonds	146,402	0	146,402
Other Non-Operating Receipts	0	25,945	25,945
Total Non-Operating Cash Receipts	208,141	25,945	234,086
Non-Operating Cash Disbursements:			
Debt Service	125,248	0	125,248
Other Non-Operating Cash Disbursements	0	25,945	25,945
Total Non-Operating Cash Disbursements	125,248	25,945	151,193
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(78,323)	0	(78,323)
Transfers-In	22,500	0	22,500
Net Receipts Over/(Under) Disbursements	(55,823)	0	(55,823)
Fund Cash Balances, January 1	132,100	(131)	131,969
Fund Cash Balances, December 31	<u>\$76,277</u>	<u>(\$131)</u>	<u>\$76,146</u>

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Funds</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$126,936	\$12,814	\$139,750
Intergovernmental Receipts	33,557	14,268	47,825
Charges for Services	430	0	430
Fines, Licenses, and Permits	15,702	1,680	17,382
Earnings on Investments	7,736	279	8,015
Miscellaneous	10,571	0	10,571
Total Cash Receipts	194,932	29,041	223,973
Cash Disbursements:			
Current:			
Security of Persons and Property	87,799	21,858	109,657
Public Health Services	4,071	0	4,071
Leisure Time Activities	13,463	0	13,463
Community Environment	987	0	987
Transportation	37,253	13,835	51,088
General Government	52,629	961	53,590
Capital Outlay	669	0	669
Total Cash Disbursements	196,871	36,654	233,525
Total Receipts Over/(Under) Disbursements	(1,939)	(7,613)	(9,552)
Other Financing Receipts and (Disbursements):			
Transfers-Out	(30,000)	0	(30,000)
Total Other Financing Receipts/(Disbursements)	(30,000)	0	(30,000)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(31,939)	(7,613)	(39,552)
Fund Cash Balances, January 1	82,617	11,212	93,829
Fund Cash Balances, December 31	<u>\$50,678</u>	<u>\$3,599</u>	<u>\$54,277</u>

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUNDS
AND SIMILAR FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Proprietary Funds</u>	<u>Fiduciary Fund</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$219,543	\$0	\$219,543
Miscellaneous	2,095	0	2,095
	<hr/>	<hr/>	<hr/>
Total Operating Cash Receipts	221,638	0	221,638
Operating Cash Disbursements:			
Personal Services	64,933	0	64,933
Fringe Benefits	19,046	0	19,046
Contractual Services	218,579	0	218,579
Supplies and Materials	20,165	0	20,165
	<hr/>	<hr/>	<hr/>
Total Operating Cash Disbursements	322,723	0	322,723
Operating Income/(Loss)	(101,085)	0	(101,085)
Non-Operating Cash Receipts:			
Special Assessments	65,749	0	65,749
Proceeds from Loans	70,944	0	70,944
Other Non-Operating Receipts	0	20,077	20,077
	<hr/>	<hr/>	<hr/>
Total Non-Operating Cash Receipts	136,693	20,077	156,770
Non-Operating Cash Disbursements:			
Debt Service	84,672	0	84,672
Other Non-Operating Cash Disbursements	0	20,155	20,155
	<hr/>	<hr/>	<hr/>
Total Non-Operating Cash Disbursements	84,672	20,155	104,827
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(49,064)	(78)	(49,142)
Transfers-In	30,000	0	30,000
	<hr/>	<hr/>	<hr/>
Net Receipts Over/(Under) Disbursements	(19,064)	(78)	(19,142)
Fund Cash Balances, January 1	151,164	(53)	151,111
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$132,100</u>	<u>(\$131)</u>	<u>\$131,969</u>

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Lithopolis, Fairfield County, Ohio (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, and police services. The Village contracts with Bloom Township for fire protection services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

Police Operating Levy Fund -This fund receives tax revenues for providing police protection services.

3. Enterprise Funds

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

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

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

4. Fiduciary Fund

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

Mayor's Court - This fund receives money from citations issued by the Village's Police Department. Money collected is distributed in accordance with the Ohio Revised Code to the Village and State.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all governmental and proprietary funds. A separate demand deposit account is maintained for the Agency Fund activity. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments in the pool at December 31 was as follows:

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

	2002	2001
Demand deposits	\$6,501	(\$6,323)
Total deposits	6,501	(6,323)
STAR Ohio		
Total investments	126,070	192,700
Total deposits and investments	\$132,571	\$186,377

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

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

Interest Earnings: The Ohio Revised Code requires interest earned to be apportioned among those funds expressly required by the law. The Village did not allocate interest earnings to the Street Construction, Maintenance and Repair fund or the Permissive Motor Vehicle License Tax fund as required.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2002 and December 31, 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$155,500	\$257,187	\$101,687
Special Revenue	22,600	59,147	36,547
Enterprise	363,000	464,467	101,467
Total	\$541,100	\$780,801	\$239,701

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$259,018	\$282,668	(\$23,650)
Special Revenue	34,597	31,649	2,948
Enterprise	507,523	520,290	(12,767)
Total	\$801,138	\$834,607	(\$33,469)

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$151,295	\$194,932	\$43,637
Special Revenue	54,770	29,041	(25,729)
Enterprise	216,300	388,331	172,031
Total	\$422,365	\$612,304	\$189,939

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$229,950	\$226,871	\$3,079
Special Revenue	55,507	36,654	18,853
Enterprise	504,216	407,395	96,821
Total	\$789,673	\$670,920	\$118,753

Contrary to Ohio law, budgetary appropriations exceeded the total of the estimated revenue available for expenditure in the General and Water Funds by \$70,921 and \$82,236, respectively for the year ended December 31, 2002 and in the Water Fund by \$202,361 for the year ended December 31, 2001. In addition, the Village did not certify their fund balances to the County Auditor.

Also contrary to Ohio law, at December 31, 2002 and 2001, the General and COPS Universal Hiring funds had cash deficit balances of \$19,213 and 33,345, respectively.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

The Ohio Revised Code requires taxes received to be credited to specific funds. The Village did not allocate receipts related to levies passed for the operation of the police department to the Police Operating Fund.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. The income tax is collected by the City of Columbus and remitted to the Village. Income tax receipts are credited to the Village's General Fund.

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Police Cruiser Lease/Purchase Agreement	\$13,201	6.45%
OWDA Loan #844	614,869	7.11%
OWDA Loan #217	102,299	2.00%
Ohio Public Works Commission Loan	119,376	0.00%
Joint OWDA Loan with Canal Winchester	<u>103,565</u>	7.36%
Total	<u>\$953,310</u>	

The Village entered into a lease agreement with Ford Motor Credit Company for the lease/purchase of a police cruiser. The lease is being repaid in annual installments of \$7,245, including interest.

The Ohio Water Development Authority (OWDA) loans relate to water and sewer plant expansion projects that were mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semiannual installments of \$41,225 and \$5,226, respectively, including interest. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

The Ohio Public Works Commission (OPWC) loan also relates to water and sewer plant expansion project that was mandated by the Ohio EPA. This loan is being repaid in semiannual installments of \$5,190. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

The Joint OWDA loan with Canal Winchester is for the construction and maintenance of sewer system. Canal Winchester constructed and operates the sewer system. The Village entered into an agreement whereby the Village shares in the cost of the loan. The Village agreed to pay 30% of the loan in semiannual installments of \$10,983, including interest. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

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

Year ending December 31:	Police Cruiser	OWDA Loan #844	OWDA Loan #217	OPWC Loan	Canal Winchester Loan
2003	\$7,245	\$82,449	\$10,453	\$10,380	\$21,967
2004	7,245	82,449	10,453	10,380	21,967
2005	-	82,449	10,453	10,380	21,967
2006	-	82,449	10,453	10,380	21,967
2007	-	82,449	10,453	10,380	21,967
2008-2012	-	412,243	52,263	51,902	21,967
2013-2014	-	82,449	10,453	15,574	0
Total	<u>\$14,490</u>	<u>\$906,937</u>	<u>\$114,981</u>	<u>\$119,376</u>	<u>\$131,802</u>

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant and 24% of fire participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village paid all required contributions through October, 31, 2002.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

9. CONTINGENT LIABILITIES

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

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Lithopolis
Fairfield County
33 North Market Street
P.O. Box 278
Lithopolis, Ohio 43136-0278

To the Council Members:

We have audited the financial statements of the Village of Lithopolis, Fairfield County, Ohio (the Village) as of and for the years ended December 31, 2002 and December 31, 2001, and have issued our report thereon dated September 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 17, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-001 through 2002-010.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated September 17, 2003.

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

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

Betty Montgomery
Auditor of State

September 17, 2003

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2002-001

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

The Fiscal Officer may also issue "Then and Now" Certificates for obligations made prior to certification. Then and Now Certificates allows the Fiscal Officer to certify that both at the time that the contract or order was made and at the time the certification is completed, 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. For obligations less than \$1,000, the certificates can be certified by the Fiscal Officer without subsequent approval from Council. However, Then and Now Certificates in excess of \$1,000 must be approved by resolution or ordinance of the Board within 30 days after receiving such certificate. As of April 7, 2003, the threshold for "Then and Now" Certificates that require Council approval is \$3,000.

None of the expenditures tested were certified at the time of the obligation. Although the Fiscal Officer did certify the transactions via "Then and Now" certification, they were not approved by Council as required.

We recommend the Fiscal Officer ensure funds are certified as available prior to the obligation through the issuance of a purchase order containing appropriate certification. Where appropriate the Village should also consider the use of so-called blanket or super blanket certificates as further permitted by Section 5705.41(D). A blanket certificate can be issued for one line item appropriation, not to exceed three months or \$5,000. The blanket certificates must be canceled at the end of each fiscal year. A super blanket certificate can be issued for any amount and any time period, not to exceed the fiscal year, and may be used for recurring and reasonably predictable operating expenses. More than one super blanket certificate can be outstanding for an appropriation line item.

This matter was also communicated in the management letter for the audit of the 1999-2000 financial statements.

Finding Number 2002-002

Ohio Rev. Code Section 5705.10 states in part that money paid into any fund shall be used only for the purpose for which such fund is established.

The Village's COPS Universal Hiring Fund had a deficit cash balance of \$33,345 at the end of 2001 and the Water Fund had a deficit cash balance of \$13,016 at the end of 2002. A deficit balance indicates that moneys of other funds have been used for the obligations of the COPS and Water funds.

We recommend the Fiscal Officer and Council monitor fund balances more closely and develop solutions for declining fund balances. The Council should consider an advance or transfer as allowed by Ohio law if necessary.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number 2002-003

Ohio Rev. Code Section 5705.36 requires that on or about the first day of each fiscal year, the Fiscal Officer is to certify to the County Auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

The Fiscal Officer did not certify Village fund balances to the County Auditor until August 10, 2001 and April 1, 2002. In addition, we noted the Village has not yet certified the fund balances at December 31, 2002 to the County Auditor in 2003.

The lack of filing this certificate limits appropriations and also limits Village management's ability to monitor actual receipts against certified estimated receipts throughout the year.

The Fiscal Officer should certify the Village's fund balances to the County Auditor as required.

This matter was also communicated in the management letter for the audit of the 1999-2000 financial statements.

Finding Number 2002-004

Ohio Rev. Code Section 5705.39 states that total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure as certified by the budget commission. The following funds had appropriations which exceeded the estimated revenue available for expenditure:

<u>Year</u>	<u>Fund Type / Fund</u>	<u>Amount Appropriated</u>	<u>Total Available For Expenditure</u>	<u>Variance</u>
2001	Enterprise Funds			
	Water Fund	\$279,465	\$77,104	(\$202,361)
2002	General Fund	\$259,018	\$188,097	(\$70,921)
2002	Enterprise Funds			
	Water Fund	\$269,534	\$187,298	(\$82,236)

The Fiscal Officer and Council should compare appropriations from each fund with total estimated revenues when appropriation resolutions are passed.

In addition, Ohio Rev. Code Section 5705.36, permits a village to obtain an amended certificate of estimated resources from the county budget commission for monies received in excess of the prior estimate or from new sources. For both 2001 and 2002, the Village could have obtained an amended certificate in an amount greater than originally estimated.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number 2002-005

Ohio Rev. Code Section 5705.04 requires taxes received to be credited into specific funds. Ohio Rev. Code Section 5705.10 states in part that all revenue derived from a source which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for that purpose.

All of the real and personal property taxes for the police levy were allocated to the General Fund in 2001 and 2002. Levies passed by the electors of the Village for the operation of the police department were not allocated into the Police Operating Fund.

Lack of proper allocation of taxes could allow restricted funds to be used for improper purposes.

We recommend the Fiscal Officer utilize settlement sheets when posting tax receipts and ensure they are posted to the appropriate funds.

The financial statements have been adjusted to properly reflect tax revenues in the correct funds.

This matter was also communicated in the management letter for the audit of the 1999-2000 financial statements.

Finding Number 2002-006

Ohio Rev. Code Sections 135.21 and 5705.10 require interest earned to be apportioned among those funds expressly required by the law. Section 5705.10, Revised Code, requires all interest to be credited to the general fund; however, 1982 O.A.G. No. 82-031 requires that interest earned on the proceeds of a motor vehicle license tax or fuel tax be paid into the fund to which the principal belongs.

The Village credits all interest earnings to the General Fund. The Street Construction, Maintenance and Repair and Permissive Motor Vehicle License Tax Funds are also required to receive interest.

A Finding for Adjustment is hereby issued against the General Fund in favor of the Street Construction, Maintenance and Repair Fund in the amount of \$690 and in favor of the Permissive Motor Vehicle License Fund in the amount of \$561.

We recommend the Village develop procedures to allocate interest earnings correctly among the appropriate funds.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number 2002-007

Property and Income Tax Receipts

All transactions should be recorded at the gross amount to accurately reflect receipts and expenditures.

The Fiscal Officer recorded property and income tax proceeds at net and did not record related deductions as expenditures.

The lack of posting transactions at gross can understate receipts and disbursements.

We recommend the Fiscal Officer record all future transactions at gross when applicable.

The financial statements have been adjusted to reflect gross receipts and related disbursements.

This matter was also communicated in the management letter for the audit of the 1999-2000 financial statements.

Finding Number 2002-008

Financial Records

The Fiscal Officer should maintain the following records:

1. Cash Journal that contains the following information: the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction,
2. Receipts Ledger that classifies receipts into separate accounts for each type of receipt of each fund the village uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transaction can be recorded in this ledger, and
3. Appropriations Ledger that classifies disbursements into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of the disbursement, and other information required for the transaction can be recorded in this ledger.

These records were not maintained by the Fiscal Officer during 2002.

We recommend the Council periodically review these records to help ensure they are available, accurate, and complete.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding Number 2002-009

Monthly Financial Reports

The Village Council should review monthly financial information (receipts and expenditure reports, fund status reports and bank reconciliations) on a monthly basis.

The Village Council was only provided fund reports on a sporadic basis, including budget to actual activity relating to receipts and disbursements.

Lack of monitoring and review of the Village's financial information limits the Council's ability to make timely and informed decisions about the Village's finances.

We recommend Council request the Fiscal Officer provide monthly bank reconciliations, fund status reports, and monthly receipt and expenditure reports to the Council each month. Council should review the reports and follow up on matters deemed to be significant or unusual. This review should be documented in the record of minutes. We also recommend that a Council member periodically agree financial reports to the Fiscal Officer's ledgers.

This matter was also communicated in the management letter for the audit of the 1999-2000 financial statements.

Finding Number 2002-010

Posting of Receipts

Village receipts should be posted to the accounting system when received. The amounts posted to the accounting system should reconcile to the amounts deposited.

The Fiscal Officer did not record receipts in a timely manner. Several instances were noted where receipts were not posted for up to 12 months after receipt. We also noted a few instances where receipts were recorded prior to the actual receipt.

The lack of timely and accurate posting of receipts leads to inaccurate financial information and in some cases significantly understated and overstated the Village fund balances. Untimely and inaccurate posting also makes it difficult to reconcile amounts posted with amounts deposited.

We recommend the Fiscal Officer record receipts in a timely manner after they are received. We also recommend the Fiscal Officer reconcile receipt postings when making deposits. Amounts posted should correspond directly with amounts deposited.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

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

Prior Comment	<u>Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
Ohio Rev. Code Section 5705.39 for appropriations exceeding the budget.	No	Not corrected - see finding #2002-004.
ORC 5705.10 for maintaining a negative balance in COPS Fund.	No	Not corrected - see finding #2002-002.



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VILLAGE OF LITHOPOLIS

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 14, 2003**