



**Auditor of State
Betty Montgomery**

VILLAGE OF GAMBIER
KNOX COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2004	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Fund Types - For the Year Ended December 31, 2004.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2003.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Fund Types - For the Year Ended December 31, 2003.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings	22

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**Auditor of State
Betty Montgomery**

Village of Gambier
Knox County
115 Meadow Lane
P.O. Box 191
Gambier, Ohio 43022

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 a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village 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 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 "Betty Montgomery".

Betty Montgomery
Auditor of State

August 11, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Gambier
Knox County
115 Meadow Lane
P.O. Box 191
Gambier, Ohio 43022

To the Village Council:

We have audited the accompanying financial statements of the Village of Gambier, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004, 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, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Gambier, Knox County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village's enterprise fund operations are experiencing certain financial difficulties. Those difficulties and management's plan are discussed in Note 8.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. 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 August 11, 2005, 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.



Betty Montgomery
Auditor of State

August 11, 2005

**VILLAGE OF GAMBIER
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$506,840	\$0	\$0	\$506,840
Intergovernmental Receipts	55,981	23,411	50,000	129,392
Charges for Services	11,471	0	0	11,471
Fines, Licenses, and Permits	25,120	0	0	25,120
Miscellaneous	16,467	35	0	16,502
	<u>615,879</u>	<u>23,446</u>	<u>50,000</u>	<u>689,325</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	119,412	0	0	119,412
Public Health Services	2,501	0	0	2,501
Leisure Time Activities	4,407	0	0	4,407
Community Environment	4,813	0	0	4,813
Basic Utility Services	40,000	0	0	40,000
Transportation	13,856	8,644	0	22,500
General Government	290,278	0	0	290,278
Debt Service:				
Principal Payments	40,000	0	7,922	47,922
Capital Outlay	60,490	11,461	210,003	281,954
	<u>575,757</u>	<u>20,105</u>	<u>217,925</u>	<u>813,787</u>
Total Receipts Over/(Under) Disbursements	<u>40,122</u>	<u>3,341</u>	<u>(167,925)</u>	<u>(124,462)</u>
Other Financing Receipts and (Disbursements):				
Loan Proceeds	0	0	50,000	50,000
Local Contributions	0	0	98,073	98,073
Transfers-In	0	0	45,450	45,450
Transfers-Out	(105,450)	0	0	(105,450)
	<u>(105,450)</u>	<u>0</u>	<u>193,523</u>	<u>88,073</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(65,328)	3,341	25,598	(36,389)
Fund Cash Balances, January 1, 2004	92,207	1,200	0	93,407
Fund Cash Balances, December 31, 2004	<u>\$26,879</u>	<u>\$4,541</u>	<u>\$25,598</u>	<u>\$57,018</u>

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

**VILLAGE OF GAMBIER
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Types	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	
Operating Cash Receipts:			
Charges for Services	\$729,212	\$0	\$729,212
Miscellaneous	0	3	3
Total Operating Cash Receipts	729,212	3	729,215
Operating Cash Disbursements:			
Personal Services	54,777	0	54,777
Contractual Services	309,738	0	309,738
Supplies and Materials	66,049	0	66,049
Capital Outlay	40,447	0	40,447
Total Operating Cash Disbursements	471,011	0	471,011
Operating Income	258,201	3	258,204
Non-Operating Cash Receipts:			
Other Non-Operating Receipts	7,331	0	7,331
Total Non-Operating Cash Receipts	7,331	0	7,331
Non-Operating Cash Disbursements:			
Debt Service	304,553	0	304,553
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(39,021)	3	(39,018)
Transfers-In	60,000	0	60,000
Net Receipts Over Disbursements	20,979	3	20,982
Fund Cash Balances, January 1, 2004	218,750	450	219,200
Fund Cash Balances, December 31, 2004	\$239,729	\$453	\$240,182

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

**VILLAGE OF GAMBIER
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$469,758	\$0	\$0	\$469,758
Intergovernmental Receipts	73,521	20,413	0	93,934
Charges for Services	6,584	0	0	6,584
Fines, Licenses, and Permits	28,395	0	0	28,395
Miscellaneous	15,400	13	0	15,413
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	593,658	20,426	0	614,084
Cash Disbursements:				
Current:				
Security of Persons and Property	113,342	0	0	113,342
Public Health Services	2,628	0	0	2,628
Leisure Time Activities	3,955	0	0	3,955
Community Environment	4,772	0	0	4,772
Basic Utility Services	37,183	0	0	37,183
Transportation	17,148	8,747	0	25,895
General Government	246,617	0	0	246,617
Debt Service:				
Principal Payments	50,000	0	0	50,000
Capital Outlay	100,990	11,597	515,074	627,661
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	576,635	20,344	515,074	1,112,053
Total Receipts Over (Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	17,023	82	(515,074)	(497,969)
Other Financing Receipts and (Disbursements):				
Loan Proceeds	0	0	108,440	108,440
Local Contributions	0	0	369,750	369,750
Transfers-In	0	0	36,884	36,884
Transfers-Out	(95,884)	0	0	(95,884)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(95,884)	0	515,074	419,190
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(78,861)	82	0	(78,779)
Fund Cash Balances, January 1, 2003	<hr/>	<hr/>	<hr/>	<hr/>
	171,068	1,118	0	172,186
Fund Cash Balances, December 31, 2003	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$92,207	\$1,200	\$0	\$93,407

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

**VILLAGE OF GAMBIER
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Nonexpendable Trust</u>	
Operating Cash Receipts:			
Charges for Services	\$609,404	\$0	\$609,404
Miscellaneous	0	4	4
	<u>609,404</u>	<u>4</u>	<u>609,408</u>
Total Operating Cash Receipts			
Operating Cash Disbursements:			
Personal Services	68,417	0	68,417
Contractual Services	264,517	0	264,517
Supplies and Materials	30,048	0	30,048
Capital Outlay	10,941	0	10,941
	<u>373,923</u>	<u>0</u>	<u>373,923</u>
Total Operating Cash Disbursements			
Operating Income	<u>235,481</u>	<u>4</u>	<u>235,485</u>
Non-Operating Cash Receipts:			
Proceeds from Loan	0	0	0
Other Non-Operating Receipts	4,244	0	4,244
	<u>4,244</u>	<u>0</u>	<u>4,244</u>
Total Non-Operating Cash Receipts			
Non-Operating Cash Disbursements:			
Debt Service	<u>289,603</u>		<u>289,603</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(49,878)	4	(49,874)
Transfers-In	<u>59,000</u>	<u>0</u>	<u>59,000</u>
Net Receipts Over Disbursements	9,122	4	9,126
Fund Cash Balances, January 1, 2003	<u>209,628</u>	<u>446</u>	<u>210,074</u>
Fund Cash Balances, December 31, 2003	<u>\$218,750</u>	<u>\$450</u>	<u>\$219,200</u>

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

**VILLAGE OF GAMBIER
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

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 Gambier, Knox County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, street maintenance, and park operations. The Village contracts with the Knox County Sheriff's department to provide security of persons and property.

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

The Village values certificates of deposit at cost

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF GAMBIER
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(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.

3. Capital Projects Funds

These funds account 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:

Storm Water Construction Fund - This fund receives Ohio Public Works Commission loans and grants and donations from Kenyon College for the construction costs of storm water projects.

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.

4. Fiduciary Funds (Trust Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. Other trust funds are classified as expendable. The Village had the following significant Fiduciary Fund:

Lepley-Metcalf Nonexpendable Trust Fund – This fund received a one time donation for cemetery improvements.

**VILLAGE OF GAMIBER
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund 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. Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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.

A summary of 2004 and 2003 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 CASH AND INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$47,200	\$62,607
Certificates of deposit	250,000	250,000
Total deposits	<u>\$297,200</u>	<u>\$312,607</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village.

**VILLAGE OF GAMIBER
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and December 31, 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$600,503	\$615,879	\$15,376
Special Revenue	20,650	23,446	2,796
Capital Projects	236,000	243,523	7,523
Enterprise	798,500	796,543	(1,957)
Total	\$1,655,653	\$1,679,391	\$23,738

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$691,900	\$681,207	\$10,693
Special Revenue	20,650	20,105	545
Capital Projects	246,451	217,925	28,526
Enterprise	782,900	775,564	7,336
Total	\$1,741,901	\$1,694,801	\$47,100

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$558,817	\$593,658	\$34,841
Special Revenue	20,650	20,426	(224)
Capital Projects	478,749	515,074	36,325
Enterprise	719,500	672,648	(46,852)
Total	\$1,777,716	\$1,801,806	\$24,090

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$728,700	\$672,519	\$56,181
Special Revenue	20,750	20,344	406
Capital Projects	513,749	515,074	(1,325)
Enterprise	708,900	663,526	45,374
Total	\$1,972,099	\$1,871,463	\$100,636

Contrary to Ohio law, various Village funds maintained negative fund balances throughout the year.

**VILLAGE OF GAMIBER
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5 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.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Mortgage Revenue Bonds	\$567,000	5%
Ohio Public Works Commission #1	118,853	0%
Ohio Public Works Commission #2	83,449	0%
Ohio Public Works Commission #3	103,018	0%
Ohio Public Works Commission #4	47,500	0%
Ohio Water Development Authority	2,130,913	4.18%
Total	<u>\$3,050,733</u>	

The Mortgage Revenue Bonds were issued in 1977 for the purchase of the waterworks system from Kenyon College and subsequent upgrades. The mortgage revenue bond provisions require the Village to establish and fund a debt service reserve fund. The balance in the debt service reserve fund at December 31, 2004 was \$74,379.

An additional revenue bond provision requires that the Village to fix and revise water rates to collect enough funds to pay for the operations, and debt obligations. Additional provisions do allow the Village to use general resources to cover outstanding debt obligations. During 2003 and 2004 the Village paid the scheduled revenue bond payments from the Water Fund. However, in both years the Village needed to transfer monies from the General Fund to the Water Fund to cover annual operating expenditures.

The Ohio Public Works Commission Loans #1 & #2 (OPWC) relates to the northeast collection line replacement. OPWC Loan #1 will be paid back in semiannual installments of \$5,167.50 over a period of 20 years interest free for money received in 1995. OPWC loan #2 will be repaid in semiannual installments of \$2,980.30, interest free for a period of 20 years. In 2003 and 2004 OPWC provided money for a storm sewer replacement on Duff and Meadow Lanes, OPWC Loan #3 and OPWC Loan #4. OPWC Loan #3 will be repaid in semiannual installments of \$2,711.01, interest free for 20 years. OPWC Loan #4 will be repaid in semiannual installments of \$2,500, interest free for 10 years.

**VILLAGE OF GAMIBER
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT (Continued)

The Ohio Water Development Authority (OWDA) has loaned the Village money to build a wastewater treatment plant. The loan will be repaid in semiannual installments of \$126,404 with an interest rate of 4.18% over 14 years. The OWDA Loan provisions require that the Village shall pay outstanding debt from wastewater charges. However it does allow the Village to pay for the debt payments from municipal income tax receipts when needed. During 2003 and 2004, the Village paid a portion of the schedule payments out of the General Fund.

In past years, Council approved loans from the General Fund to aid the Sewer Fund for the payment of projects and debt service. The balance of these loans, \$295,010, was forgiven on August 11, 2003 by Village Council.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	OPWC #1	OPWC #2	OPWC #3	OPWC #4	Mortgage Revenue Bonds
2005	\$252,808	\$10,335	\$5,961	\$5,422	\$5,000	\$72,350
2006	252,808	10,335	5,961	5,422	5,000	72,150
2007	252,808	10,335	5,961	5,422	5,000	72,850
2008	252,808	10,335	5,961	5,422	5,000	72,400
2009	252,808	10,335	5,961	5,422	5,000	72,850
Subsequent	1,390,444	67,178	53,644	75,908	22,500	374,850
Total	<u>\$2,654,484</u>	<u>\$118,853</u>	<u>\$83,449</u>	<u>\$103,018</u>	<u>\$47,500</u>	<u>\$737,450</u>

6. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, hourly OPERS members contributed 2.5 percent of their wages, while the mayor and clerk contributed 8.5 percent of their wages. The Village contributed an amount equal to 19.55 percent and 13.55 percent of participants' gross salaries respectively. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village provides health insurance to full time employees through a private carrier.

**VILLAGE OF GAMIBER
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

8. ENTERPRISE FUND OPERATIONS

From 1999 through 2004 the Village has consistently maintained negative fund balances in the Water and Sewer Operating Funds throughout the year and then relied on the General Fund to transfer or loan funds to cover the deficit balances. Since 1999, Council has transferred \$341,116 from the General fund to the Enterprise Funds.

As a result of the transfers, there has been a significant decrease in the General Fund's year end fund balance between 1999 and 2004; from \$485,502 to \$26,879, respectively. For fiscal years 2003 and 2004, the Enterprise Funds had a combined deficiency of receipts under disbursements before interfund transfers of (\$88,899) and at December 31, 2004 the operating balance in the Water Operating Fund was only \$1,343 and in the Sewer Operating Fund was only \$6,006.

Management has determined that the majority of the Enterprise Fund losses can be contributed to leaks in the water system and outdated water meters. Management has initiated a five year plan to help alleviate these problems. Water and sewer rate were increased in 2003 and 2004 and will continue to increase each year by 3% for water and 2% for sewer. The Village has hired a firm to assist in locating major water leaks. In 2005, the Village still continues to experience significant water line leakage.

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**Auditor of State
Betty Montgomery**

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

Village of Gambier
Knox County
115 Meadow Lane
P.O. Box 191
Gambier, Ohio 43022

To the Village Council:

We have audited the financial statements of the Village of Gambier, Knox County, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated August 11, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the Village's management dated August 11, 2005, we reported an other matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

August 11, 2005

**VILLAGE OF GAMBIER
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

NONCOMPLIANCE CITATION

Ohio Rev. Code Section 5705.10 requires that monies paid into any fund be used only for the purposes for which such fund is established. The existence of a deficit balance indicates that money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance.

The following funds had negative fund balances at various points throughout 2004 and 2003.

	Range of Negative Fund Balances throughout 2004
Water Fund (10 months of the year)	(\$3,524) - (\$122,765)
Sewer Fund (2 months of the year)	(\$8,435)- (\$18,536)
Street Maintenance Fund (2 months of the year)	(\$240)-(\$765)

	Range of Negative Fund Balances throughout 2003
Water Fund (10 months of the year)	(\$10,525)-(\$100,952)
Sewer Fund (2 months of the year)	(\$2,413)-(\$4,910)
Street Maintenance Fund (3 months of the year)	(\$961)-(\$3,796)
State Highway Fund (2 months of the year)	(\$127)-(\$261)
Motor Vehicle License Tax Fund (3 months of the year)	(\$161)-(\$411)

Currently, Council is not given month end financial reports generated from the Village's computerized accounting system (revenue report, fund balance report, and budget verses actual reports, etc).

We recommend the Clerk-Treasurer provide Council with monthly financial reports generated by the Village's computerized accounting system. Council should review and investigate deficit balances and the reasons for the deficit situation in a timely manner. Any necessary and allowable transfers and/or advances should be completed as outlined in the Ohio Revised Code.

FINDING NUMBER 2004-002

REPORTABLE CONDITION

From 1999 through 2004 the Village has consistently maintained negative fund balances in the Enterprise Funds throughout the year. As a result, expenditure obligations of the Enterprise Funds have been met by transfers from the General Fund or from expenditures that were paid directly from the General Fund for utility related operations. The effect of these transactions on the General Fund's operating cash balance has been significant. Since 1999, the Village has transferred \$341,116 from the General Fund to the Enterprise Funds. The operating balance in the General Fund has decreased from \$485,502 as of December 31, 1999 to \$26,879 as of December 31, 2004, a \$458,623 decrease. As of December 31, 2004, the operating balance of the Water Operating Fund was only \$1,343 and in the Sewer Operating Fund was only \$6,006.

**VILLAGE OF GAMBIER
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2004-002 (Continued)

REPORTABLE CONDITION (Continued)

The following are Enterprise Fund obligations that have been paid for by the General Fund between 1999 and 2004 and/or reasons for the Enterprise Fund deficits.

1. The Village purchases water from the City of Mount Vernon. Since 1999, the Village has consistently maintained a high water loss percentage of over 50%. Water loss occurs when the amount spent to purchase water exceeds the total receipts from water charges for services collected from customers. This loss can be contributed to multiple leaks in water lines and instances in which water usage has not been properly metered.
2. In 1977, the Village issued \$1,426,000 in Water Mortgage Revenue Bonds. The bond agreement states that Village is to charge the appropriate rates needed to cover the operation of the water system, debt payments and future construction costs. However, when otherwise lawful the Village can use general resources to cover this debt obligation. Although annual debt payments have been made out the Water Fund, the General Fund has had to consistently transfer money to the Water Fund to cover other operational costs.
3. In 1994, the Village entered into a Water Pollution Control Loan Fund Agreement with the Ohio Water Development Authority (OWDA). Semiannual payments of \$126,404 are made on this loan. Each year from 1999 through 2004 the Village paid \$40,000 to \$50,000 of these payments from the General Fund rather than from the Wastewater operating fund. Section 4.3(a) of this loan agreement states that the Village is to charge the appropriate rates needed to cover the operations of the Wastewater System, debt payments and capital improvements. However, the agreement also states that municipal income taxes can be utilized for debt repayment when available.
4. In 2003 and 2004, the Village accounted for the construction of the Duff Street Storm Water Project as an Enterprise Fund Type. This project was funded through Ohio Public Works Commission (OPWC) Loans, an OPWC grant, contributions from Kenyon College, and Village General Fund monies transferred to an enterprise fund utilized to account for the storm water project. The first payment on the loan portion of the 2003 project was paid from a transfer from the General Fund. Since the Village has only incurred construction costs for the infrastructure and currently the Village is not assessing a charge for storm water, the Village should not record this activity in an Enterprise Fund.

Although Village Council and administration have taken an active role throughout 2003 and 2004 to research and implement changes in the utility system such as increasing water and sewer rates, detecting large water leaks, and improving the billing of water and wastewater services, the Village is still maintaining a high percentage of water loss and anticipates that the General Fund will need to transfer funds to cover the Water Fund's operating losses at the end of 2005. The Village administration needs to continue to find ways to decrease water loss.

**VILLAGE OF GAMBIER
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2004-002 (Continued)

REPORTABLE CONDITION (Continued)

If this trend continues and the General Fund starts to experience large deficits as a result of subsidizing Enterprise fund operations, the Village's operational efficiency could be significantly diminished or the Village could possibly be placed in fiscal watch. Ohio Revised Code Section 118 defines the criteria in which a fiscal watch can be declared by the Auditor of State's Office.

Also, it is recommended that the Village record activity related to storm water projects in a capital projects fund rather than an enterprise fund.

The financial statements were adjusted to reflect the storm water project in the Capital Projects Fund Type and the Village's accounting system reflects the change.

**VILLAGE OF GAMBIER
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-01	Ohio Rev. Code Section 5705.10—Negative Fund Balance in Water Fund throughout the year.	No	Reissued as Finding 2004-001
2002-02	Village Ordinance No 93-008	Yes	N/A
2002-03	Ohio Rev. Code Section 5705.41(B)—Expenditures exceeding appropriations.	No	Reissued as a Management Letter Comment
2002-04	Review of Enterprise Operations	No	Combined with Finding 2004-001



**Auditor of State
Betty Montgomery**

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VILLAGE OF GAMBIER

KNOX 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
SEPTEMBER 27, 2005**