



Mary Taylor, CPA
Auditor of State

VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY

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Mary Taylor, CPA
Auditor of State

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

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 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 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 16, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

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, 2008 and 2007. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The accompanying financial statements present receipts and disbursements by fund type totals. Ohio Administrative Code, Section 117-2-02(A), requires governments to classify receipt and disbursement transactions

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 Governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2008 and 2007 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2008 and 2007, or its changes in financial position for the years then ended.

Also, in our opinion, except for the omission of receipt and disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lithopolis, Fairfield County, as of December 31, 2008 and 2007, and its combined cash unclassified receipts and unclassified disbursements for the years then ended on the accounting basis Note 1 describes.

As discussed in Note 9 to the financial statements, the Village has deficit fund balances in the amount of \$82,542 and \$215,834 in the General and Sewer Funds, respectively, as of December 31, 2008 and is experiencing financial difficulties. Note 9 describes management's plan regarding these issues.

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 April 16, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

April 16, 2010

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Total Unclassified Cash Receipts	\$ 416,808	\$ 190,688	\$ 607,496
Cash Disbursements:			
Total Unclassified Cash Disbursements	518,142	180,336	698,478
Excess of Unclassified Cash Receipts Over/(Under) Unclassified Cash Disbursements	(101,334)	10,352	(90,982)
Fund Cash Balances, January 1	18,792	138,679	157,471
Fund Cash Balances, December 31	\$ (82,542)	\$ 149,031	\$ 66,489

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**COMBINED STATEMENT OF UNCLASSIFIED CASH RECEIPTS, UNCLASSIFIED 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>Fidicuary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Mayor's Court</u>	
Operating Unclassified Cash Receipts:			
Total Operating Unclassified Cash Receipts	\$ 446,469	\$ -	\$ 446,469
Operating Unclassified Cash Disbursements:			
Total Operating Unclassified Cash Disbursements	385,146	-	385,146
Operating Income/(Loss)	61,323	-	61,323
Non-Operating Unclassified Cash Receipts:			
Total Non-Operating Unclassified Cash Receipts	108,470	34,724	143,194
Non-Operating Cash Disbursements:			
Total Non-Operating Unclassified Cash Disbursements	283,280	32,904	316,184
Excess of Unclassified Cash Receipts Over/(Under) Unclassified Cash Disbursements	(113,487)	1,820	(111,667)
Fund Cash Balances, January 1	114,161	6,040	120,201
Fund Cash Balances, December 31	<u>\$ 674</u>	<u>\$ 7,860</u>	<u>\$ 8,534</u>

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Total Unclassified Cash Receipts	\$ 377,068	\$ 165,280	\$ 542,348
Cash Disbursements:			
Total Unclassified Cash Disbursements	<u>356,208</u>	<u>179,170</u>	<u>535,378</u>
Excess of Unclassified Cash Receipts Over/(Under) Unclassified Cash Disbursements	<u>20,860</u>	<u>(13,890)</u>	<u>6,970</u>
Fund Cash Balances, January 1	<u>(2,068)</u>	<u>152,569</u>	<u>150,501</u>
Fund Cash Balances, December 31	<u>\$ 18,792</u>	<u>\$ 138,679</u>	<u>\$ 157,471</u>

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

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

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Mayor's Court</u>	
Operating Unclassified Cash Receipts:			
Total Operating Unclassified Cash Receipts	\$ 578,361	\$ -	\$ 578,361
Operating Unclassified Cash Disbursements:			
Total Operating Unclassified Cash Disbursements	<u>539,229</u>	<u>0</u>	<u>539,229</u>
Operating Income/(Loss)	<u>39,132</u>	<u>0</u>	<u>39,132</u>
Non-Operating Unclassified Cash Receipts:			
Total Non-Operating Unclassified Cash Receipts	<u>22,000</u>	<u>46,086</u>	<u>68,086</u>
Non-Operating Cash Disbursements:			
Total Non-Operating Unclassified Cash Disbursements	<u>387,071</u>	<u>46,077</u>	<u>433,148</u>
Excess of Unclassified Cash Receipts Over/(Under) Unclassified Cash Disbursements	(325,939)	9	(325,930)
Fund Cash Balances, January 1	<u>440,099</u>	<u>6,031</u>	<u>446,130</u>
Fund Cash Balances, December 31	<u><u>\$ 114,160</u></u>	<u><u>\$ 6,040</u></u>	<u><u>\$ 120,200</u></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, 2008 AND 2007**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Lithopolis, Fairfield County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities and police services. The Village contracts with the 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. 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).

The Village did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-2-02(A). This Ohio Administrative Code Section requires classifying receipts and disbursements.

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

C. Deposits and Investments

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

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (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.

Solid Waste Utility – This fund receives charges for services payments for trash collections provided by the Village

3. Enterprise Funds

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

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

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

4. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

The Village has no private purpose trust funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for Mayor's Court. This fund receives monies 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 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.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(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

Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2008 and 2007 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 deposit pool all funds use. The Ohio Revised Code prescribes allowable deposits. The carrying amount of deposits at December 31 was as follows:

	<u>2008</u>	<u>2007</u>
Total deposits	<u>75,023</u>	<u>277,671</u>

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

3. Budgetary Activity

Contrary to Ohio law, the Village did not following any budgetary practices as noted above in Note 1E. Contrary to Ohio law, the Village had the following negative fund balances; \$82,542, \$6,018, and \$215,834 in the General, Parks Unrestricted, and Sewer Funds, respectively, in 2008. Furthermore, the Village had negative fund balance at year ended 2007 in the amounts of \$3,972, \$1,935, and \$107,729 in the Parks Unrestricted, Internet, and Sewer Funds respectively.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(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. 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 R.I.T.A and remitted to the Village. Income tax receipts are credited to the Village's General Fund.

6. Debt

Debt outstanding at December 31, 2008 was as follows:

	Principal	Interest Rate
OPWC: Water Distribution Improvement	\$51,902	0.00%
OWDA - 3920: Water System Improvements	\$2,777,668	4.35%
OWDA - 1685/0844: Water System Design	\$337,043	7.11%
OWDA - 2772/0217: Sewer Collection System	\$49,270	2.00%
Total	\$3,215,883	

The Ohio Public Works Commission (OPWC) loan #CQ507 was awarded for the water distribution improvement project on January 1, 1994 in the amount of \$212,312. The loan will be repaid in semiannual payments of \$5,190 until it matures on 01/01/2014.

The Ohio Water Development Authority (OWDA) loan #3920 relates to the water system improvements and was awarded in July of 2003 in the amount, not to exceed, of \$3,000,000 with payments beginning on 01/01/2005. This loan matures 07/01/2034. In July 2007, OWDA and the Village came to an agreement to re-amortize the schedule, the amount outstanding was \$2,777,668 due to the re-amortization.

The Ohio Water Development Authority (OWDA) loan #1685/0844 relates to the water system design, and was awarded in March of 1987 in the amount of \$2,815,456. Payments for this loan began 01/01/1989 and the loan will mature on 07/01/2013.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

6. Debt (Continued)

The Ohio Water Development Authority (OWDA) loan #2772/0217 relates to the sewer collection system, and was awarded in March of 1987 in the amount of \$200,000. Payments for this loan began 01/01/1989 and the loan will mature on 07/01/2013.

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

Year ending December 31:	OWDA 1685/0844	OWDA 2772/0217	OWDA 3920	OPWC
2009	\$82,449	\$10,452	\$90,678	\$10,380
2010	82,449	10,452	181,357	10,380
2011	82,449	10,452	181,357	10,380
2012	82,449	10,452	181,357	10,380
2013	82,448	10,452	181,357	10,380
2014-2018	0	0	906,783	0
2019-2023	0	0	906,783	0
2024-2028	0	0	906,783	0
2029-2033	0	0	906,783	0
2034	0	0	181,357	0
Total	<u>\$412,243</u>	<u>\$52,262</u>	<u>\$4,624,592</u>	<u>\$51,902</u>

7. Retirement Systems

The Village's certified Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2008 and 2007, OP&F participants contributed 10% of their wages. For 2008 and 2007, the Village contributed to OP&F an amount equal to 24% of full-time police members' wages. For 2008 and 2007, OPERS members contributed 10 and 9.5%, respectively, of their gross salaries and the Village contributed an amount equaling 14 and 13.85%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

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, 2008 AND 2007
(Continued)**

9. Management Plan

For calendar year 2008, the Village had deficit fund balances in the amount of \$82,542 and \$215,834 in the General and Sewer Funds, respectively. In fiscal year 2009, the Village Council, with the assistance of Ohio Rural Water, completed a Rate Analysis of the Water and Sewer Funds. It was determined that a combination of reducing operating expenses and instituting a Water Availability Charge would allow both utilities to operate without a rate increase. The Village Council determined to fill two part-time positions and further reduce operating costs. In addition, the Village received an estate tax settlement in the amount of \$459,046. The Village Council voted to advance the Sewer Fund \$236,297; the remaining amount is properly accounted for in General Fund. As of April 14, 2010 the Villages General and Sewer Funds had a fund balance (deficit) of (\$78,310) and \$29,872, respectively.

Management plans to continue efforts to monitor the operating expenses in both funds. Furthermore, the Village will repay a significant portion of the \$100,000 advance made to the Water Fund in 2008 to the General Fund in 2010.

10. Subsequent Events

The Village issued \$250,000 in notes from the Vinton County Bank on July 1, 2009 with an interest rate of 6.5% for the new Village administration and utilities office.



Mary Taylor, CPA

Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Lithopolis, Fairfield County, Ohio (the Village) as of and for the year ended December 31, 2008 and 2007, and have issued our report thereon dated April 16, 2010, wherein we noted the opinion was qualified since the Village did not classify receipts and disbursements in its financial statements. In addition, the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

We consider findings 2008-001 through 2008-008 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe findings number 2008-001 through 2008-008 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated April 16, 2010.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 and 2008-004 through 2008-011.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated April 16, 2010.

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



Mary Taylor, CPA
Auditor of State

April 16, 2010

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-001

Not Properly Maintaining Records – Material Noncompliance/Significant Deficiency/Material Weakness

Ohio Admin. Code Sections 117-2-02(D) and (E) states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records **should** include the following:

1. Cash Journal that contains the following information: the amount, the 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.

While the Village maintained receipt and expenditure ledgers, they did not include all the necessary information described above and were not maintained by the Fiscal Officer during 2008 and 2007 in an easily traceable format due to the Village not using—a computer system that was developed for governmental fund accounting:

- No budgetary activity such as appropriation and estimated resources were maintained or compared to actual data
- The Village maintained an expenditure ledger and a check register by fund; however the check register did not include electronic payments such as bank fees, refunds, etc. which resulted in an adjustment to the financial statements (Finding 2008-003). In addition, the expenditure ledger did not reference the purchase order number or maintain a running unencumbered balance.
- The Village maintained a spread sheet for their receipts; however, this was maintained on a quarterly basis and did not include such items as the receipt number, and date of transaction. This resulted in numerous adjustments to the financial statements (Finding 2008-003)

We recommend that the Village investigate computerizing the Village operations with the ability to maintain the proper records required by the Ohio Administration Code. This will enable the Village to more accurately monitor its financial condition on a daily basis. In addition, Village Council should periodically review these records to help ensure they are accurate and complete.

Officials' Response: The Village is now operating on the UAN system provided by the Auditor of State. The Village began the conversion process in 2009 and began real-time entry of revenue and expenses in January 2010. Utilizing UAN will allow us to reach compliance on accounting and bookkeeping issues.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-002

Bank Reconciliations /Monitoring Practices – Significant Deficiency/Material Weakness

Strong monitoring practices of Village financial activities are the responsibility of management and Village Council and are essential to ensure proper financial reporting. Management and Village Council should review the bank to book reconciliation and monthly financial reports of financial activity of the Village including budgeted versus actual receipts and expenditures and fund balance reports. Evidence of these reviews should be documented in the minutes. Minutes of the prior meeting should be reviewed at the following meeting and approved (signed) by Council as to correctness and completeness. Additionally, Village Council should review and approve all grants, loans, and transfers requested by the Village.

The Village Council receives financial packets at Council meetings; however, there is no documentation in the minutes of the review and approval of these packets by Council. Additionally, there is no evidence that the monthly bank reconciliations were reviewed by Council. Moreover, the Village Council does not document approval for all loans and transfers in the minutes. During our audit period a Special Audit determined the former Clerk/Treasurer misspent approximately \$36,644 which resulted in a finding for recovery issued as part of that Special Audit report.

Furthermore, the Village did not perform bank to book reconciliations throughout the fiscal years nor at fiscal year end, which has resulted in adjustments to the fund balances as noted in the finding 2008-003. As a result, inaccurate financial reports are being provided to Council to aid in management decisions, which could lead to errors or irregularities occurring which could go undetected by management. A bank to book reconciliation should be performed monthly and include all bank accounts and book balances. The reconciling items should be identified and adjusted at the time the reconciling item or error is discovered. All unreconciled balances should be researched in order to find the known source of the error. All reconciling items and errors should be corrected on the Village's ledgers following the completion of the reconciliation.

We recommend the Village Council ensure that strong monitoring practices of Village financial activities are implemented and operating effectively. This includes, but is not limited to, management and Council reviewing monthly financial reports (including bank to book reconciliations) and ensuring that they accurately represent underlying budgeted and actual financial activities and cash balances. Council should also review the Village's prior meeting minutes and approve them to ensure they are correct and complete. All fee schedules, loans, grants, and transfers should also be approved by Council and documented in the minutes. Also, proper documentation for the mentioned items should be maintained by the Village. While evidence of Council's reviews should be documented in the minutes, evidence of management's reviews should also be documented by having the managers sign and date the reports that they reviewed.

Officials' Response: The Village is now operating on the UAN system provided by the Auditor of State. The Village began the conversion process in 2009 and began real-time entry of revenue and expenses in January 2010. Utilizing UAN will allow us to reach compliance on accounting and bookkeeping issues.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-003

Financial Reporting - Significant Deficiency/Material Weakness

Sound financial reporting is the responsibility of the Village Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The following audit adjustments were made to the financial statements:

2008

- Fund Balances are understated by \$32,795
- Receipts are understated by \$61,946
- Expenditures are understated by \$10,459

2007

- Fund Balances are overstated by \$18,693
- Receipts are understated by \$46,755
- Expenditures are understated by \$58,769

Lack or failure of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the Village develop policies and procedures to enhance its controls over recording of financial transactions and financial reporting to help ensure the information accurately reflects the activity of the Village and thereby increasing the reliability of the financial data throughout the year.

Officials' Response: The Village is now operating on the UAN system provided by the Auditor of State. The Village began the conversion process in 2009 and began real-time entry of revenue and expenses in January 2010. Utilizing UAN will allow us to reach compliance on accounting and bookkeeping issues.

FINDING NUMBER 2008-004

Budgetary- Noncompliance/Significant Deficiency/Material Weakness

Ohio Rev. Code Section 5705.10(H) states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit fund balance indicates money from another fund or funds was used to pay obligations of funds that carry the deficit fund balance.

The Village had the following negative fund balances; \$82,088, \$6,018, and \$215,834 in the General, Parks Unrestricted, and Sewer Funds, respectively, in 2008. Furthermore, the Village had negative fund balance at year ended 2007 in the amounts of \$3,972, \$1,935, and \$107,729 in the Parks Unrestricted, Internet, and Sewer Funds respectively.

Ohio Rev. Code Section 5705.36(A)(1) provides in part that on or about the first day of each fiscal year, the Fiscal Officer of each subdivision and other taxing unit shall certify to the County Auditor the total amount from all sources available for expenditure from each fund set up in the tax budget. This certified amount shall include any unencumbered balances that existed at the end of the preceding year.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-004 (Continued)

Budgetary- Noncompliance/Significant Deficiency/Material Weakness (Continued)

The Village did not certify their fund balances for 2007 and 2008. By not certifying year-end balances to the County Auditor, and subsequently obtaining an amended Certificate of Estimated Resources from the County, the Village could base appropriations on outdated estimates of available resources which could result in negative fund balances.

Ohio Rev. Code 5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

The Village had several funds whereby the estimated receipts exceeded actual revenue received during 2007 and 2008.

Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

The Village did not pass appropriation measure during fiscal years 2008 and 2007. When passing appropriations the Village should refer to Ohio Rev. Code Section 5705.38(C) for guidance on level of control for amounts appropriated.

Ohio Rev. Code 5705.40 states that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation and that no appropriation for any purpose shall be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations certified from or against the appropriation.

The Village does not submit appropriation modifications to the County Budget Commission.

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated.

Due to the fact that the Village did not pass an appropriation measure all funds would have expenditures exceeding appropriations.

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity (the Village) 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.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-004 (Continued)

Budgetary- Noncompliance/Significant Deficiency/Material Weakness (Continued)

Failure to monitor budgetary activity can result in overspending and negative fund balances. We recommend the Fiscal Officer deny any payments until the legislative authority has passed the necessary changes to the appropriation measure. The management of the Village should monitor the Village's budgetary receipts and expenditures by having the Fiscal Officer provide budgetary reports at least quarterly to be reviewed and approved by Council. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which effect the overall cash position of the Village. We recommend the Village refer to Ohio Rev. Section 5705.39, which limits appropriations to the total estimated revenue available for expenditures, when establishing their appropriation measures. The Village should refer to the Ohio Compliance Supplement and Village Officer's Handbook for guidance on the legal budgetary process.

Officials' Response: The Village is now operating on the UAN system provided by the Auditor of State. The Village began the conversion process in 2009 and began real-time entry of revenue and expenses in January 2010. Utilizing UAN will allow us to reach compliance on accounting and bookkeeping issues.

FINDING NUMBER 2008-005

Revenue Posting Errors – Noncompliance/Significant Deficiency/Material Weakness

Ohio Rev. Code Section 5705.10 (C) states that all revenue that is derived from a special levy is to be credited to a special fund for the purpose for which the levy is made. Additionally, section (D) states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. The following posting errors were noted:

Posting Errors from Proof of Cash Receipts 2008 and testing 2007:	2008	2007
Net Street Construction, Maintenance, & Repair receipts incorrectly posted to the General Fund	\$14,630	\$2,990
Net State Highway receipts incorrectly posted to the General Fund	\$1,181	\$242
Net Police Levy receipts incorrectly posted to the General Fund	\$93	\$0

The Fiscal Officer should be diligent in assuring funds are properly posted to the correct fund in accordance with the Village Handbook's coding system and the Ohio Revised Code.

The adjustments have been posted to the accompanying financial statements and accounting records; see finding 2008-003.

Officials' Response: The Village is now operating on the UAN system provided by the Auditor of State. The Village began the conversion process in 2009 and began real-time entry of revenue and expenses in January 2010. Utilizing UAN will allow us to reach compliance on accounting and bookkeeping issues.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-006

Mayor's Court – Incorrect fund distributions- Material Noncompliance/Significant Deficiency/Material Weakness

Ohio Rev. Code Section 1905.21 requires a mayor's court to maintain a docket, and the mayor or mayor's court magistrate must account for and dispose of all such fines, fees, and costs collected.

The Village operates a Mayor's Court through which the Village assesses fines primarily related to traffic violations. The Village employs a Clerk who accounts for the court's receipts and disbursements in a bank account which is separate from the Village treasury.

We noted at December 31, 2008 and 2007 the Mayor's Court bank account had a balance of \$7,860 and \$6,040, respectively; ideally, this account's balance would consist solely of undisbursed fines and outstanding checks, and the account would have a \$0 reconciled balance.

The Village installed a computer system to maintain the Mayor's Court in 2008, prior to that the Mayor's Court activity was maintained on a manual accounting system. In 2008, the Village received \$3,787 in fines for tickets issued prior to implementing the new system. The Village accounted for these fines as miscellaneous revenue in the system, resulting in the entire \$3,787 being posted to the General Fund. The Village should determine the proper amounts to be disbursed to the State and other special revenue funds.

We recommend that the Village review the fines related to the remaining fund balances and determine the amounts that should be disbursed to the State and the Village funds. The account records and financial statements were adjusted (see finding 2008-003) to move the \$3,787 back to the agency fund until the proper disbursements can be determined.

Officials' Response:

We will research the issue of the pre-2008 tickets and make the appropriate disbursements.

FINDING NUMBER 2008-007

Payroll Allocation – Noncompliance/Significant Deficiency/Material Weakness

Ohio Rev. Code Section 5705.10(H) states that money paid into any fund shall be used only for the purposes for which such fund is established.

As the Village Fiscal Officer's duties are administrative in nature, her salary should be paid from the Village's General Fund. During 2007, the Village paid \$23,856 of the Village Fiscal Officer's salary from the Water and Sewer Funds. During 2008, the Village paid \$12,942 of the Village Fiscal Officer's salary from the Water and Sewer Funds.

The accompanying financial statements and accounting records were adjusted to post the Village Fiscal Officer's salary to the General Fund; see finding 2008-003.

We recommend the Village pay the Village Fiscal Officer future salaries from the Village's General Fund.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-007

Payroll Allocation – Noncompliance/Significant Deficiency/Material Weakness

Officials’ Response:

As of 2010, we have made the recommended changes to the line items that the Fiscal Officer’s salary is taken from.

FINDING NUMBER 2008-008

Financial Presentation - Noncompliance/Significant Deficiency/Material Weakness

Ohio Administrative Code, Section 117-2-02(A) states all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions.

As a result of these errors, the Village did not maintain complete and accurate books which resulted in compiling their financial records from the bank and payroll statements, therefore, the financial statements are presented on an unclassified basis. Furthermore, unclassified receipts for certain funds were incorrectly reported on the Annual Report; see findings 2008-005 and 006.

Failure to accurately maintain the Village’s account records 1) reduces the accountability over Village funds, 2) reduces the Council’s ability to monitor financial activity, 3) increases the likelihood that monies will be misappropriated and not detected, and 4) increases the likelihood that the Village’s financial statements will be misstated.

We recommend the Village Clerk accurately maintain the Village’s accounting records using the Village Officers Handbook as guidance.

Officials’ Response: The Village is now operating on the UAN system provided by the Auditor of State. The Village began the conversion process in 2009 and began real-time entry of revenue and expenses in January 2010. Utilizing UAN will allow us to reach compliance on accounting and bookkeeping issues.

FINDING NUMBER 2008-009

Bonding – Noncompliance

Ohio Rev. Code Section 705.27 states that the treasurer, auditor, and such other officers or employees of the municipal corporation as the legislative authority directs, shall give a bond to the municipal corporation for the faithful performance of their duties, in such sum as the legislative authority fixes by ordinance or resolution. In addition, ORC 733.69 states each officer of a municipal corporation required by law or ordinance to give bond shall do so before entering upon the duties of the office, except as otherwise provided in Title VII [7] of the Revised Code Premiums on official bonds may be paid by the municipal corporation.

The Village Interim Fiscal Officer during the audit period (current fiscal officer) was not bonded throughout the 2008 fiscal year. Additionally, the Village Council has not authorized the bond amount to be set. The Village does have public official’s liability insurance; however, fraud, dishonesty, malicious acts, and claims arising out of any activity which the Village is serving in a fiduciary capacity are excluded from coverage.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-009 (Continued)

Bonding – Noncompliance (Continued)

Failure to secure an appropriate bond for the Fiscal Officer may result in the Village being exposed to liabilities of theft or error in the event of a loss from the occurrence of such an event.

We recommend the Village execute a bond for the Fiscal Officer in an amount approved by Village Council commensurate with the Finance Director's job duties.

Officials' Response:

The Village retains, as part of our general insurance policy, a blanket dishonesty rider that covers the gap in the official's liability insurance. The Village decided to secure this coverage after we were dropped for making a claim against the Bond that our previous Fiscal Officer held and were then unable to secure another Bond at a reasonable cost with a reputable company. In addition the rider covers all village employees, not solely the Fiscal Officer.

FINDING NUMBER 2008-010

Cash Collection Points - Noncompliance

Ohio Rev. Code Section 9.38 states that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

The Village received cash at the administrative building for utilities services. During testing over 2007 utility receipts, we noted 23 percent of deposits were not made in accordance to the above requirement. This increases the risk that cash could be stolen or lost without being detected in a timely manner by management.

We recommend the Village follow the Ohio Rev. Code and make all deposits to the bank or with the fiscal officer by the business day following receipt.

Officials' Response:

We intend to comply with finding 2008-009 and establish fixed policy on the timelines involved in depositing money.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2008-011

Annual Financial Reports - Noncompliance

Ohio Revised Code 117.38 requires cash-basis entities to file annual reports with the Auditor of State within 60 days of the fiscal year end. Additionally, at the time the report is filed with the Auditor of State, the chief fiscal officer shall publish notice in a newspaper published in the political subdivision or taxing district. The notice shall state that the financial report has been completed by the public office and is available for public inspection at the office of the chief fiscal officer.

The Village did not file annual reports with the Auditor of State for fiscal year 2007 or 2008.

We recommend the Village file annual financial reports with the Auditor of State and publish notice stating their financial report is available for public inspection at the office of the Fiscal Officer once the Village has filed their annual report with the Auditor of State.

Officials' Response:

With the commencement of the UAN system in 2010 we will be able to submit the Annual Financial Reports to the State in a timely manner.

**VILLAGE OF LITHOPOLIS
FAIRFIELD COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-001	Bank statements and fund balances were not reconciled monthly and records were not in auditable format	No	Reissued: 2008-002
2006-002	Lack of control and direction regarding the accounting system and overall fiscal management	No	Reissued: 2008-001
2006-003	Recorded property and income tax proceeds at net and did not record related deductions as expenditures.	No	Reissued: 2008-003
2006-004	Proper records not maintained	No	Reissued: 2008-001
2006-005	Timely recording receipts		Reissued as a Management Letter Citation
2006-006	ORC 5705.41(B) - expend monies that have not been appropriated	No	Reissued: 2008-004
2006-007	ORC 5705.41(D) – Encumbering funds	No	Reissued: 2008-004
2006-008	ORC 5705.39 – appropriate more monies than estimated resources	No	Reissued: 2008-004
2006-009	ORC 5705.36 – tax budget	No	Reissued: 2008-004
2006-010	ORC 5705.40 – did not modify appropriations	No	Reissued: 2008-004
2006-011	OC 5705.38 – filing permanent appropriation measurers	No	Reissued: 2008-004
2006-012	ORC 117.38 - file annual reports within 60 days of year-end	No	Reissued: 2008-011
2006-013	ORC 5705.36 – increase or reduce amended certificates of estimated resources	No	Reissued: 2008-004
2006-014	ORC 5705.36(A)(4) – Appropriations exceeding actual resources	No	Reissued: 2008-004
2006-015	ORC 5705.10 – Negative fund balances	No	Reissued: 2008-004



Mary Taylor, CPA
Auditor of State

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
MAY 11, 2010**