



**Auditor of State
Betty Montgomery**

VILLAGE OF GAMBIER
KNOX COUNTY

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Accountants' Report..... | 1 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2002..... | 3 |
| 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, 2002..... | 4 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2001..... | 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, 2001..... | 6 |
| Notes to the Financial Statements | 7 |
| Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 13 |
| Schedule of Findings | 15 |

This page intentionally left blank.



**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, 2002, and December 31, 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 15, 2003, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

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

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

BETTY MONTGOMERY
Auditor of State

July 15, 2003

**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, 2002**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property Tax and Other Local Taxes | \$470,759 | \$0 | \$470,759 |
| Intergovernmental Receipts | 57,606 | 19,388 | 76,994 |
| Charges for Services | 7,427 | 0 | 7,427 |
| Fines, Licenses, and Permits | 53,332 | 0 | 53,332 |
| Miscellaneous | 25,302 | 50 | 25,352 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 614,426 | 19,438 | 633,864 |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 103,140 | 0 | 103,140 |
| Public Health Services | 3,364 | 0 | 3,364 |
| Leisure Time Activities | 3,916 | 0 | 3,916 |
| Community Environment | 4,932 | 0 | 4,932 |
| Basic Utility Services | 37,108 | 0 | 37,108 |
| Transportation | 9,755 | 7,678 | 17,433 |
| General Government | 250,925 | 0 | 250,925 |
| Debt Service: | | | |
| Principal Payments | 50,000 | 0 | 50,000 |
| Capital Outlay | 148,520 | 11,510 | 160,030 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 611,660 | 19,188 | 630,848 |
| Total Receipts Over Disbursements | <hr/> | <hr/> | <hr/> |
| | 2,766 | 250 | 3,016 |
| Other Financing Receipts and (Disbursements): | | | |
| Sale of Fixed Assets | 9,309 | 0 | 9,309 |
| Transfers-Out | (114,000) | 0 | (114,000) |
| | <hr/> | <hr/> | <hr/> |
| Total Other Financing Receipts/(Disbursements) | (104,691) | 0 | (104,691) |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (101,925) | 250 | (101,675) |
| Fund Cash Balances, January 1 | <hr/> | <hr/> | <hr/> |
| | 272,993 | 868 | 273,861 |
| Fund Cash Balances, December 31 | <hr/> \$171,068 <hr/> | <hr/> \$1,118 <hr/> | <hr/> \$172,186 <hr/> |

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, 2002**

| | <u>Proprietary</u> | <u>Fiduciary</u> | <u>Totals</u> |
|--|--------------------------------|-------------------------------------|--------------------------------|
| | <u>Enterprise</u> | <u>Non expendable Trust</u> | <u>(Memorandum Only)</u> |
| Operating Cash Receipts: | | | |
| Charges for Services | \$598,067 | \$0 | \$598,067 |
| Miscellaneous | 0 | 10 | 10 |
| Total Operating Cash Receipts | <u>598,067</u> | <u>10</u> | <u>598,077</u> |
| Operating Cash Disbursements: | | | |
| Personal Services | 71,610 | 0 | 71,610 |
| Contractual Services | 315,977 | 0 | 315,977 |
| Supplies and Materials | 48,344 | 0 | 48,344 |
| Capital Outlay | 13,384 | 0 | 13,384 |
| Total Operating Cash Disbursements | <u>449,315</u> | <u>0</u> | <u>449,315</u> |
| Operating Income | <u>148,752</u> | <u>10</u> | <u>148,762</u> |
| Non-Operating Cash Receipts: | | | |
| Other Non-Operating Receipts | <u>6,384</u> | <u>0</u> | <u>6,384</u> |
| Non-Operating Cash Disbursements: | | | |
| Debt Service | <u>290,453</u> | <u>0</u> | <u>290,453</u> |
| Excess of Receipts (Under) Disbursements Before Interfund Transfers | (135,317) | 10 | (135,307) |
| Transfers-In | 134,000 | 0 | 134,000 |
| Transfers-Out | <u>(20,000)</u> | <u>0</u> | <u>(20,000)</u> |
| Net Receipts Over/(Under) Disbursements | (21,317) | 10 | (21,307) |
| Fund Cash Balances, January 1 | <u>230,945</u> | <u>436</u> | <u>231,381</u> |
| Fund Cash Balances, December 31 | <u><u>\$209,628</u></u> | <u><u>\$446</u></u> | <u><u>\$210,074</u></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 GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

| | <u>Governmental Fund Types</u> | | <u>Totals (Memorandum Only)</u> |
|---|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property Tax and Other Local Taxes | \$462,158 | \$0 | \$462,158 |
| Intergovernmental Receipts | 91,846 | 28,603 | 120,449 |
| Charges for Services | 9,960 | 0 | 9,960 |
| Fines, Licenses, and Permits | 23,871 | 0 | 23,871 |
| Miscellaneous | 25,619 | 143 | 25,762 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 613,454 | 28,746 | 642,200 |
| Cash Disbursements: | | | |
| Current: | | | |
| Security of Persons and Property | 101,359 | 0 | 101,359 |
| Public Health Services | 2,778 | 0 | 2,778 |
| Leisure Time Activities | 4,305 | 0 | 4,305 |
| Community Environment | 2,896 | 0 | 2,896 |
| Basic Utility Services | 36,135 | 0 | 36,135 |
| Transportation | 7,297 | 11,224 | 18,521 |
| General Government | 204,525 | 0 | 204,525 |
| Debt Service: | | | |
| Principal Payments | 50,000 | 0 | 50,000 |
| Capital Outlay | 176,848 | 23,690 | 200,538 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 586,143 | 34,914 | 621,057 |
| | <hr/> | <hr/> | <hr/> |
| Total Receipts Over/(Under) Disbursements | 27,311 | (6,168) | 21,143 |
| Other Financing Receipts and (Disbursements): | | | |
| Sale of Fixed Assets | 4,009 | 0 | 4,009 |
| Transfers-Out | (95,000) | 0 | (95,000) |
| | <hr/> | <hr/> | <hr/> |
| Total Other Financing Receipts/(Disbursements) | (90,991) | 0 | (90,991) |
| | <hr/> | <hr/> | <hr/> |
| Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements | (63,680) | (6,168) | (69,848) |
| | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, January 1 | 336,673 | 7,036 | 343,709 |
| | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, December 31 | \$272,993 | \$868 | \$273,861 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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, 2001**

| | <u>Proprietary</u> | <u>Fiduciary</u> | <u>Totals</u> |
|--|-------------------------|-------------------------------------|------------------------------|
| | <u>Enterprise</u> | <u>Non expendable Trust</u> | <u>(Memorandum Only)</u> |
| Operating Cash Receipts: | | | |
| Charges for Services | \$587,765 | \$0 | \$587,765 |
| Miscellaneous | 0 | 0 | 0 |
| Total Operating Cash Receipts | <u>587,765</u> | <u>0</u> | <u>587,765</u> |
| Operating Cash Disbursements: | | | |
| Personal Services | 64,812 | 0 | 64,812 |
| Contractual Services | 302,087 | 1 | 302,088 |
| Supplies and Materials | 39,368 | 0 | 39,368 |
| Capital Outlay | 16,746 | 0 | 16,746 |
| Total Operating Cash Disbursements | <u>423,013</u> | <u>1</u> | <u>423,014</u> |
| Operating Income/(Loss) | <u>164,752</u> | <u>(1)</u> | <u>164,751</u> |
| Non-Operating Cash Receipts: | | | |
| Other Non-Operating Receipts | <u>8,820</u> | <u>0</u> | <u>8,820</u> |
| Non-Operating Cash Disbursements: | | | |
| Debt Service | <u>291,253</u> | <u>0</u> | <u>291,253</u> |
| Excess of Receipts (Under) Disbursements Before Interfund Transfers | (117,681) | (1) | (117,682) |
| Transfers-In | 115,000 | 0 | 115,000 |
| Transfers-Out | <u>(20,000)</u> | <u>0</u> | <u>(20,000)</u> |
| Net Receipts (Under) Disbursements | (22,681) | (1) | (22,682) |
| Fund Cash Balances, January 1 | <u>253,626</u> | <u>437</u> | <u>254,063</u> |
| Fund Cash Balances, December 31 | <u>\$230,945</u> | <u>\$436</u> | <u>\$231,381</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, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Gambier, Knox County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities and park operations (leisure time activities). 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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

Certificates of deposit are valued 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

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

**VILLAGE OF GAMBIER
KNOX COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. FUND ACCOUNTING (Continued)

3. Enterprise Funds

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

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

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

4. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Fund:

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

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. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

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 2002 and 2001 budgetary activity appears in Note 3.

**VILLAGE OF GAMBIER
KNOX COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2002 | 2001 |
|-------------------------|-----------|-----------|
| Demand deposits | \$132,260 | \$255,242 |
| Certificates of deposit | 250,000 | 250,000 |
| Total deposits | \$382,260 | \$505,242 |

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

3. BUDGETARY ACTIVITY

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

| 2002 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$523,283 | \$623,735 | \$100,452 |
| Special Revenue | 20,650 | 19,438 | (1,212) |
| Enterprise | 691,500 | 738,451 | 46,951 |
| Total | \$1,235,433 | \$1,381,624 | \$146,191 |

**VILLAGE OF GAMBIER
KNOX COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

| 2002 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$794,700 | \$725,660 | \$69,040 |
| Special Revenue | 20,800 | 19,188 | 1,612 |
| Enterprise | 718,900 | 759,768 | (40,868) |
| Total | \$1,534,400 | \$1,504,616 | \$29,784 |

| 2001 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$523,207 | \$617,463 | \$94,256 |
| Special Revenue | 28,656 | 28,746 | 90 |
| Enterprise | 692,100 | 711,585 | 19,485 |
| Total | \$1,243,963 | \$1,357,794 | \$113,831 |

| 2001 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$842,250 | \$681,143 | \$161,107 |
| Special Revenue | 35,400 | 34,914 | 486 |
| Enterprise | 742,400 | 734,266 | 8,134 |
| Total | \$1,620,050 | \$1,450,323 | \$169,727 |

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water Fund for the year ended 2002, by \$64,469, and for the year ended December 31, 2001, by \$32,053. In addition, the water fund had negative fund balances throughout both years, contrary to Ohio law.

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.

**VILLAGE OF GAMBIER
KNOX COUNTY**

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

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|-------------------------------------|--------------------|----------------------|
| Mortgage Revenue Bonds | \$650,000 | 5% |
| Ohio Public Works Commission Loan 1 | 139,523 | 0% |
| Ohio Public Works Commission Loan 2 | 95,370 | 0% |
| Ohio Water Development Authority | 2,441,964 | 4.18% |
| Total | <u>\$3,326,857</u> | |

The Mortgage Revenue Bonds were for Water Plant Construction.

The Ohio Public Works Commission Loans (OPWC) relates to the northeast collection line replacement and will be repaid in semiannual installments of \$5,167, interest free, over 20 years for monies received in 1995 (OPWC 1), and semiannual installments of \$2,980, interest free, over 20 years for monies received in 1998 (OPWC 2).

The Ohio Water Development Authority (OWDA) has loaned the Village money to construct a wastewater treatment plant. This loan will be repaid in semiannual installments of \$126,404. The loan has an interest rate of 4.18% and has a life of 14 years.

In past years, Council approved monies to be expended from the General Fund to aid the Sewer Fund for payment of projects and debt service. To date, \$140,000 and \$200,000 has been approved by the Council as loan monies from the General Fund to the Sewer Fund in separate legislation. The \$140,000 is interest free and is scheduled to be paid back over 20 years in the amount of \$7,000 per year. Repayments were made in Fiscal year 1998 and 1999 in the amount of \$7,000 each year, leaving a balance to be repaid of \$126,000. The \$200,000 loan's interest is 3.2%, and is to be paid back as funds are available. During fiscal year 2000, the Wastewater Construction Fund repaid the General Fund \$30,990 leaving a balance of \$169,010 to be repaid. No repayments were made during Fiscal year 2001 or 2002.

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

| | <u>OWDA Loan</u> | <u>OPWC 1 Loan</u> | <u>OPWC 2 Loan</u> | <u>Mortgage Revenue Bonds</u> |
|--------------------------|--------------------|------------------------|------------------------|---------------------------------------|
| Year ending December 31: | | | | |
| 2003 | \$252,808 | \$10,335 | \$5,961 | \$72,450 |
| 2004 | 252,808 | 10,335 | 5,961 | 72,450 |
| 2005 | 252,808 | 10,335 | 5,961 | 72,350 |
| 2006 | 252,808 | 10,335 | 5,961 | 72,150 |
| 2007 | 252,808 | 10,335 | 5,961 | 72,850 |
| Subsequent | 2,022,464 | 87,848 | 65,565 | 520,100 |
| Total | <u>\$3,286,504</u> | <u>\$139,523</u> | <u>\$95,370</u> | <u>\$882,350</u> |

**VILLAGE OF GAMBIER
KNOX COUNTY**

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

6. RETIREMENT SYSTEM

The Village officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, hourly employee members of PERS contributed 2.5% of their gross salaries. The Mayor, Clerk/Treasurer and the Village Administrator contributed 8.5% of their gross salaries. The Village contributed an amount equal to 19.55% and 13.55% respectively of the participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

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 also provides health insurance to full-time employees through a private carrier.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
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 accompanying financial statements of the Village of Gambier, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2002, and December 31, 2001, and have issued our report thereon dated July 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-01 – 2002-03. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Village in a separate letter dated July 15, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be 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 the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-04.

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated July 15, 2003.

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



BETTY MONTGOMERY
Auditor of State

July 15, 2003

VILLAGE OF GAMBIER
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001

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

FINDING NUMBER 2002-01

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 in any fund indicates that the money from another fund or funds has been used to pay the obligations of the fund carrying the deficit balance.

The Village's Water Fund had negative cash balances throughout the audit period as noted below:

| FUND | Range of Negative Fund Balances |
|-------------------|--|
| 2002 - Water Fund | (\$722) - (\$92,649) |
| 2001 - Water Fund | (\$5,408) - (\$38,060) |

Village Council should review Water Fund activity and rates to prevent expenditures in excess of available resources.

FINDING NUMBER 2002-02

Village Ordinance No 93-008 authorized a loan of \$200,000 from the General Fund to the Sewer Revenue Fund to repay short term loans. These funds were to be reimbursed to the General Fund as funds became available. The General Fund was to be repaid all principal plus interest at the rate of 3.2% per annum.

In Fiscal Year 2000, the Village Sewer Revenue Fund repaid the General Fund \$30,990, leaving \$169,010 outstanding. No repayments were made in relation to this loan in Fiscal Year 2001 or 2002.

In addition, a motion was passed in June of 1997, by Village Council to approve a \$140,000 loan from the General Fund to the Sewer Revenue Fund for sewer line replacement, to be paid back over 20 years at the amount of \$7,000 per year with no interest.

In Fiscal Years 1998 and 1999, the Village repaid a total of \$14,000 of this loan, leaving \$126,000 outstanding. No repayments were made in relation to this loan in Fiscal Year 2001 or 2002.

Village Council should review the loan resolutions to the Sewer Revenue Fund. Action should be taken to either follow the loan resolution terms, enact new loan terms, or make the loans permanent by declaring them permanent transfers by resolution.

**VILLAGE OF GAMBIER
KNOX COUNTY**

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

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

FINDING NUMBER 2002-03

Expenditures in Excess of Appropriations

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2002, and December 31, 2001, object level expenditures exceeded appropriations within the following fund:

| | Appropriations | Actual Expenditures | Variance |
|-------------------|-----------------------|----------------------------|-----------------|
| 2002 – Water Fund | \$347,500 | \$411,969 | (\$64,469) |
| 2001 – Water Fund | \$352,000 | \$384,053 | (\$32,053) |

In addition, appropriations posted to the Village's Appropriation Reports did not always agree to the Village's actual Annual Appropriation Measure. The Clerk/Treasurer should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the object level to avoid potential overspending. The Clerk/Treasurer should periodically review the Village's Appropriation Reports to ensure appropriation amounts are posted accurately and timely.

FINDING NUMBER 2002-04

Review of Operations

Though the Village prepares monthly financial reports (revenue report, fund balance report, report comparing budgeted receipts and expenditures to actual amounts) there is no evidence that these reports are routinely requested and reviewed and approved by Council. Failure to regularly obtain and review information regarding financial results limits Council's ability to effectively monitor financial reporting as well as operational aspects of the Village.

During 2002 and 2001 the Village approved transfers of funds from the General Fund to the Water Fund to cover operating deficits in the amounts of \$114,000 and \$95,000 respectively.

During 2000, a transfer, in amount of \$50,000 was also made from the General Fund to the Water Fund, which in addition to the above transfers, reduced the General Fund's remaining cash balance. The depletion of the General Fund balance could affect the operational efficiency and effectiveness of the Village.

In addition, during the period 1999 to 2002, the Sewer Fund has been operating at a loss after factoring in annual debt service payments of \$50,000 made from the General Fund for sewer improvement related debt.

Finally, the Village has become aware that its water system is leaking, which has resulted in increased water purchase costs that are not being offset by comparable metered water sales.

**VILLAGE OF GAMBIER
KNOX COUNTY**

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

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

FINDING NUMBER 2002-04 (Continued)

Review of Operations (Continued)

We recommend that Council routinely request monthly financial reports. Council should review and approve the reports. This process should include following up on amounts that are unusual or unexpected. Further, we recommend the Village perform a utility rate study and consider whether utility rates are sufficient to maintain the level of services currently being provided.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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 9, 2003**