



**VILLAGE OF KIPTON
LORAIN COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002



**Auditor of State
Betty Montgomery**

VILLAGE OF KIPTON
LORAIN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Kipton
Lorain County
P.O. Box 177
299 State Street
Kipton, Ohio 44049

To the Village Council:

We have audited the accompanying financial statements of the Village of Kipton, Lorain County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11 (B) and 115.56 mandate the Auditor of State to audit Ohio governments.

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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2003 and December 31, 2002, 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 June 28, 2004 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

June 28, 2004

**VILLAGE OF KIPTON
LORAIN 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>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$12,767	\$6,140	\$0	\$18,907
Intergovernmental Receipts	26,195	8,163	50,019	84,377
Charges for Services	9,200	0	0	9,200
Fines, Licenses, and Permits	4,356	0	0	4,356
Miscellaneous	511	0	0	511
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	53,029	14,303	50,019	117,351
Cash Disbursements:				
Current:				
Security of Persons and Property	4,838	1,827	0	6,665
Public Health Services	0	367	0	367
Leisure Time Activities	3,889	0	0	3,889
Basic Utility Services	16,994	0	0	16,994
Transportation	4,000	9,554	0	13,554
General Government	21,551	95	0	21,646
Debt Service:				
Principal Payments	1,459	0	0	1,459
Interest Payments	860	0	0	860
Capital Outlay	0	0	50,019	50,019
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	53,591	11,843	50,019	115,453
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(562)	2,460	0	1,898
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(562)	2,460	0	1,898
Fund Cash Balances, January 1, 2003	16,053	5,022	0	21,075
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31, 2003	<u>\$15,491</u>	<u>\$7,482</u>	<u>\$0</u>	<u>\$22,973</u>

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

**VILLAGE OF KIPTON
LORAIN 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>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$13,628	\$6,877	\$0	\$20,505
Intergovernmental Receipts	24,799	8,045	6,197	39,041
Charges for Services	8,303	0	0	8,303
Fines, Licenses, and Permits	5,316	0	0	5,316
Miscellaneous	99	0	0	99
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	52,145	14,922	6,197	73,264
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	8,134	3,081	0	11,215
Public Health Services	0	373	0	373
Leisure Time Activities	3,807	0	0	3,807
Basic Utility Services	16,614	0	0	16,614
Transportation	1,075	14,146	0	15,221
General Government	28,740	131	0	28,871
Debt Service:				
Principal Payments	1,377	0	0	1,377
Interest Payments	941	0	0	941
Capital Outlay	0	0	6,197	6,197
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	60,688	17,731	6,197	84,616
	<hr/>	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(8,543)	(2,809)	0	(11,352)
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(8,543)	(2,809)	0	(11,352)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1, 2002	24,596	7,831		32,427
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31, 2002	<u>\$16,053</u>	<u>\$5,022</u>	<u>\$0</u>	<u>\$21,075</u>

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

**VILLAGE OF KIPTON
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Kipton, Lorain County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including park operation (recreation), street maintenance, and police services. The Village contracts with Camden Township to provide fire protection services. Emergency medical services are provided by the Central Lorain County Joint Ambulance District.

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

The Village maintains a checking account which is reported at book value.

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 Funds:

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

**VILLAGE OF KIPTON
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund (Continued)

Police Protection Fund - This fund receives property tax money to provide police fire protection to Township residents.

Sewer Fund - This fund receives property tax money for maintaining and repairing Village sewers.

3. Capital Project Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Village had the following significant capital project fund:

Capital Improvement Fund – This fund accounts for Issue II grants received from the State of Ohio for Village street improvement projects.

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 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. Encumbrances outstanding at year end are carried over, and need not be reappropriated. There were no outstanding encumbrances at year end for 2003 and for 2002.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**VILLAGE OF KIPTON
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(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.

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:

	2003	2002
Demand deposits	\$22,973	\$21,075
Total Deposits	\$22,973	\$21,075

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and December 31, 2002 follows:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$57,648	\$53,029	(\$4,619)
Special Revenue	13,946	14,303	357
Capital Projects	0	50,019	50,019
Total	\$71,594	\$117,351	\$45,757

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$73,701	\$53,591	\$20,110
Special Revenue	18,968	11,843	7,125
Capital Projects	0	50,019	(50,019)
Total	\$92,669	\$115,453	(\$22,784)

**VILLAGE OF KIPTON
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$62,277	\$52,145	(\$10,132)
Special Revenue	20,438	14,922	(5,516)
Capital Projects	0	6,197	6,197
Total	\$82,715	\$73,264	(\$9,451)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$85,736	\$60,688	\$25,048
Special Revenue	21,470	17,731	3,739
Capital Projects	0	6,197	(6,197)
Total	\$107,206	\$84,616	\$22,590

Contrary to Ohio Revised Code Section 5705.09(F), the Village did not establish a fund nor did it account for Issue II Program Grants in either year under audit. Additionally, the Village did not budget for these revenues or appropriate for the expenditures paid on behalf of the Village which is contrary to Ohio Revised Code Sections 5705.39 and 5705.41(B) respectively.

4. PROPERTY TAX

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

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 with 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.

**VILLAGE OF KIPTON
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)**

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds	\$14,128	5.76%

The General Obligation Bonds are real estate acquisition bonds for the purchase of a village hall and are collateralized by the Village's taxing authority.

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

2004	2,319
2005	2,319
2006	2,319
2007	2,319
2008	2,319
2009 - 2011	<u>5,952</u>
Total	<u><u>\$17,547</u></u>

6. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS 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 2003 and 2002, OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2003. Employees contributing to Social Security contribute 6.2 percent of their gross salaries with the Village contributing an equal share. The Village has paid all contributions required through December 31, 2003.

All members of the Village Council participate in the Federal Income Contributions Act (Social Security) and must contribute to social security. The Village's liability is 6.2 percent of wages paid.

VILLAGE OF KIPTON
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(CONTINUED)

7. RISK MANAGEMENT

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Pool provides a program of property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

Casualty excess-of-loss contracts at December 31, 2002 and 2001 generally protect against individual losses exceeding \$150,000 for policies issued prior to April 1, 2000; \$100,000 for policies issued between April 1, 2000 and March 31, 2002; and \$125,000 for policies issued April 1, 2002 or later.

Property coverage contracts protect against losses, subject to a deductible of \$50,000, limited to an annual aggregate loss of the greater of \$300,000 or 1% of total coverage.

The Pool cedes reinsurance to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2002 and 2001 (the latest information available):

	<u>2002</u>	<u>2001</u>
Assets	\$1,852,060	\$3,354,251
Liabilities	<u>(3,627,321)</u>	<u>(4,851,866)</u>
Retained deficit	<u>(\$1,775,261)</u>	<u>(\$1,497,615)</u>



Auditor of State Betty Montgomery

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

Village of Kipton
Lorain County
P.O. Box 177
299 State Street
Kipton, Ohio 44049

We have audited the accompanying financial statements of the Village of Kipton, Lorain County, Ohio, (the Village) as of and for the years ended December 31, 2003, and December 31, 2002, and have issued our report thereon dated June 28, 2004, wherein we noted that the Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as item 2003-001. We also noted immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 28, 2004.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated June 28, 2004.

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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.

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

Betty Montgomery
Auditor of State

June 28, 2004

VILLAGE OF KIPTON
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Noncompliance Citation

Issue II Project Accounting

Ohio Revised Code Section 5709.09, states that each subdivision is required to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Ohio Revised Code Section 5705.36 allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them.

During 2003 and 2002, the Ohio Public Works Commission expended \$50,019 and \$6,197 respectively, for an Issue II grant project on behalf of the Village. The grant activity was not included on the Village's records or annual financial report for both years. In accordance with Auditor of State Bulletins 2000-008 and 2002-004, both the revenue and expenditure activity of the grant should have been included. In addition, contrary to Ohio Revised Code, the Village failed to establish the necessary Capital Project fund, certify available resources to the County budget commission, and appropriate the funds spent on their behalf as required by Auditor of State Bulletins 2000-008 and 2002-004. This resulted in the understatement of budgetary revenue and expenditure activity for the Issue II project. The accompanying financial statements have been adjusted to reflect the grant activity for both years.

When the Village receives notice that they have been approved for funding by a State or Federal agency, they should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, create the required fund(s), certify the available resources to the County budget commission, appropriate the grant funds, and when notified that funds have been expended on their behalf make memo entries to post the revenues and expenditures to the Village's books.

VILLAGE OF KIPTON
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> ; Explain
2001-30847-001	Budgetary Compliance ORC § 5705.09 (F)	No	Not corrected. See Finding 2003-001



**Auditor of State
Betty Montgomery**

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VILLAGE OF KIPTON

LORAIN 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
JULY 27, 2004**