



**Auditor of State  
Betty Montgomery**



VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Port Jefferson  
Shelby County  
P.O. Box 189  
100 Spring Street  
Port Jefferson, Ohio 45360

To the Village Council:

We have audited the accompanying financial statements of the Village of Port Jefferson, Shelby County, (the Village), as of and for the years ended December 31, 2003 and 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. 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 and reserves for encumbrances of the Village as of December 31, 2003 and 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 July 1, 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.

Village of Port Jefferson  
Shelby County  
Independent Accountants' Report  
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This report is intended solely for the information and use of the audit committee, management, 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 1, 2004

**VILLAGE OF PORT JEFFERSON  
SHELBY 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>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$7,443			\$7,443
Special Assessments		\$5,237		5,237
Intergovernmental Receipts	22,233	10,134	\$31,280	63,647
Charges for Services	13,716			13,716
Fines, Licenses, and Permits	14,260	597		14,857
Earnings on Investments	112	37		149
Miscellaneous	228	200		428
	<u>57,992</u>	<u>16,205</u>	<u>31,280</u>	<u>105,477</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	26,409	55		26,464
Public Health Services	586			586
Community Environment	128			128
Basic Utility Services	6,586	5,237		11,823
Transportation	1,243	13,938		15,181
General Government	22,509			22,509
Debt Service:				
Principal Payments	7			7
Interest Payments	684			684
Capital Outlay	2,820		31,280	34,100
	<u>60,972</u>	<u>19,230</u>	<u>31,280</u>	<u>111,482</u>
<b>Total Cash Disbursements</b>				
Total Receipts Over/(Under) Disbursements	(2,980)	(3,025)		(6,005)
Fund Cash Balances, January 1	<u>6,934</u>	<u>7,758</u>	<u>382</u>	<u>15,074</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$3,954</u></b>	<b><u>\$4,733</u></b>	<b><u>\$382</u></b>	<b><u>\$9,069</u></b>
Reserves for Encumbrances, December 31	<u>\$641</u>	<u>\$0</u>	<u>\$0</u>	<u>\$641</u>

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

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$71,859		\$71,859
Fines and Fees		\$18,668	18,668
Total Operating Cash Receipts	<u>71,859</u>	<u>18,668</u>	<u>90,527</u>
<b>Operating Cash Disbursements:</b>			
Fringe Benefits	217		217
Contractual Services	17,814		17,814
Supplies and Materials	392		392
Miscellaneous		18,830	18,830
Total Operating Cash Disbursements	<u>18,423</u>	<u>18,830</u>	<u>37,253</u>
Operating Income/(Loss)	<u>53,436</u>	<u>(162)</u>	<u>53,274</u>
<b>Non-Operating Cash Disbursements:</b>			
Debt Service	39,552		39,552
Other Non-Operating Cash Disbursements	2,635		2,635
Total Non-Operating Cash Disbursements	<u>42,187</u>		<u>42,187</u>
Net Receipts Over/(Under) Disbursements	11,249	(162)	11,087
Fund Cash Balances, January 1	<u>39,168</u>	<u>854</u>	<u>40,022</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$50,417</u></b>	<b><u>\$692</u></b>	<b><u>\$51,109</u></b>

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

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
<b>Cash Receipts:</b>					
Property Tax and Other Local Taxes	\$6,681				\$6,681
Special Assessments		\$4,729			4,729
Intergovernmental Receipts	22,419	9,751	\$93,945		126,115
Charges for Services	8,912				8,912
Fines, Licenses, and Permits	1,327	54			1,381
Earnings on Investments	770	168	1,931		2,869
Miscellaneous	83	437			520
	<u>40,192</u>	<u>15,139</u>	<u>95,876</u>		<u>151,207</u>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons and Property	15,352				15,352
Public Health Services	609				609
Leisure Time Activities	375				375
Community Environment	128				128
Basic Utility Services	5,748	4,892			10,640
Transportation	7,510	7,700			15,210
General Government	25,267		8,813	\$118	34,198
Debt Service:					
Principal Payments	4,434				4,434
Interest Payments	255				255
Financing and Other Debt-Service Related			3,653		3,653
Capital Outlay	7,138		84,750		91,888
	<u>66,816</u>	<u>12,592</u>	<u>97,216</u>	<u>118</u>	<u>176,742</u>
Total Receipts Over/(Under) Disbursements	<u>(26,624)</u>	<u>2,547</u>	<u>(1,340)</u>	<u>(118)</u>	<u>(25,535)</u>
<b>Other Financing Receipts and (Disbursements):</b>					
Proceeds of Loan	9,000		1,170		10,170
Other Financing Sources	4,686				4,686
	<u>13,686</u>		<u>1,170</u>		<u>14,856</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(12,938)	2,547	(170)	(118)	(10,679)
Fund Cash Balances, January 1	19,872	5,211	552	118	25,753
<b>Fund Cash Balances, December 31</b>	<b><u>\$6,934</u></b>	<b><u>\$7,758</u></b>	<b><u>\$382</u></b>	<b><u>\$0</u></b>	<b><u>\$15,074</u></b>
Reserves for Encumbrances, December 31	<u>\$749</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$749</u>

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

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$59,422		\$59,422
Fines and Fees		\$1,833	1,833
	<u>59,422</u>	<u>1,833</u>	<u>61,255</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	1,269		1,269
Fringe Benefits	165		165
Contractual Services	9,430		9,430
Miscellaneous		1,671	1,671
Capital Outlay	4,686		4,686
	<u>15,550</u>	<u>1,671</u>	<u>17,221</u>
Operating Income/(Loss)	<u>43,872</u>	<u>162</u>	<u>44,034</u>
<b>Non-Operating Cash Receipts:</b>			
Proceeds from Bonds	906,109		906,109
	<u>906,109</u>		<u>906,109</u>
<b>Non-Operating Cash Disbursements:</b>			
Debt Service	928,264		928,264
Other Non-Operating Cash Disbursements	448		448
	<u>928,712</u>		<u>928,712</u>
Net Receipts Over/(Under) Disbursements	21,269	162	21,431
Fund Cash Balances, January 1	<u>17,899</u>	<u>692</u>	<u>18,591</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$39,168</u></b>	<b><u>\$854</u></b>	<b><u>\$40,022</u></b>

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

**VILLAGE OF PORT JEFFERSON  
SHELBY 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 Port Jefferson, Shelby 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 sewer utility, police, and general governmental services.

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

**B. Basis of Accounting**

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

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

**C. Cash and Investments**

The Village maintains an interest bearing and non-interest bearing checking account which 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 Funds:

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

**Street Light Fund** -This fund receives the proceeds of special assessments assessed to property owners to provide street lighting.

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Capital Project Funds**

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Projects Funds:

**Ohio Water Development Authority (OWDA) Sewer Project Fund** - This fund receives the proceeds of an OWDA Loan and Grant. The proceeds are being used to construct a sewer system. The proceeds are being used to construct a sewer system.

**Community Development Block Grant (CDBG) Fund** - This fund is used to account for the CDBG receipts which are being used to renovate the Community Center.

**Ohio Public Works (OPWC) Fund** - This fund receives proceeds of Issue II grant funding. The proceeds are being used to construct a street project.

**4. 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 Fund:

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

**Sewer Replacement Reserve Fund** - This fund receives a portion of the charges for services from residents to accumulate funds for future maintenance of the sewer system.

**5. 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 funds:

**Flowing Well Fund** - This expendable trust fund receives donations for the maintenance of the flowing well located within the Village and was expended during 2002.

**Mayor's Court Fund** - This agency fund records the financial activity of the Village Mayor's Court.

**E. Budgetary Process**

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

VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 unencumbered 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. The Village did not use the encumbrance method of accounting and did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

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

F. Property, Plant and Equipment

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

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:

	<u>2003</u>	<u>2002</u>
Demand deposits	\$60,178	\$55,096

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

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

**3. BUDGETARY ACTIVITY**

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

**2003 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$49,847	\$57,992	\$8,145
Special Revenue	13,500	16,205	2,705
Capital Projects	38,000	31,280	(6,720)
Enterprise	54,000	71,859	17,859
Total	<u>\$155,347</u>	<u>\$177,336</u>	<u>\$21,989</u>

**2003 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$56,530	\$61,613	(\$5,083)
Special Revenue	19,848	19,230	618
Capital Projects	38,000	31,280	6,720
Enterprise	95,210	60,610	34,600
Total	<u>\$209,588</u>	<u>\$172,733</u>	<u>\$36,855</u>

**2002 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$41,433	\$53,878	\$12,445
Special Revenue	13,737	15,139	1,402
Capital Projects	23,137	97,046	73,909
Enterprise	0	965,531	965,531
Total	<u>\$78,307</u>	<u>\$1,131,594</u>	<u>\$1,053,287</u>

**2002 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$65,870	\$67,565	(\$1,695)
Special Revenue	17,475	12,592	4,883
Capital Projects	20,111	97,216	(77,105)
Expendable Trust	118	118	0
Enterprise	0	944,262	(944,262)
Total	<u>\$103,574</u>	<u>\$1,121,753</u>	<u>(\$1,018,179)</u>

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$5,083, the Street Maintenance and Repair Fund by \$174, the State Highway Fund by \$41, and the Street Light Assessment Fund by \$437 for the year ended December 31, 2003. Budgetary expenditures also exceeded appropriation authority in the General Fund by \$1,695, the Street Light Assessment Fund by \$92, the Ohio Water Development Authority Grant fund by \$31,290, the Ohio Public Works Commission Fund by \$33,182, the Community Block Development Grant Fund by \$16,689, and the Sewer Fund by \$939,576 for the year ended December 31, 2002. In addition, instances were noted where expenditures exceeded appropriations at the legal level of control throughout the year.

Appropriations exceeded estimated resources in the General Fund by \$4,435 and the Community Development Block Grant by \$1,660 for the year ended December 31, 2002, also contrary to Ohio law.

**4. PROPERTY TAX**

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

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

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

**5. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Planning Loan	\$36,861	6.39%
Sanitary Sewer System Mortgage Revenue Bonds	854,000	4.75%
General Purpose Loan	8,993	6.50%
Total	<u>\$899,854</u>	

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

**5. DEBT (Continued)**

The Ohio Water Development Authority (OWDA) loan relates to sewer planning project planning. The loan will be repaid in semiannual installments of \$2,273, including interest, over 20 years. The loan is collateralized by water and sewer receipts.

The Sanitary Sewer System Mortgage Revenue Bonds relates to the construction of the sanitary sewer construction. The loans will be repaid in approximate annual installments of \$49,000, including interest, over 40 years. The bonds are collateralized by sewer receipts.

The General Purpose Loan was issued December 15, 2003, for \$8,993 to pay for village improvements. The loan is to be repaid in one semi-annual interest payment of \$296 and in one principal payment plus interest of \$9,235 due December 15, 2004.

The Village has not established the system improvement mortgage revenue bond fund and the operation and maintenance fund as required by the mortgage revenue bond covenant.

As required by the mortgage revenue bond covenant, the Village has established and funded a debt service reserve fund, included as an enterprise fund. The balance in the fund at December 31, 2003 is \$11,682.

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

	<b>OWDA Planning Loan</b>	<b>Mortgage Revenue Bonds</b>	<b>General Purpose Loan</b>
Year ending December 31:			
2004	\$3,529	\$40,565	\$9,577
2005	3,529	48,965	
2006	3,529	48,966	
2007	3,529	48,948	
2008	3,529	48,911	
2009 - 2013	17,647	248,835	
2014 - 2018	17,647	248,819	
2019 - 2023	10,588	248,818	
2024 – 2028		244,737	
2029 – 2033		244,829	
2034 – 2038		244,817	
2039 – 2042		183,818	
<b>Total</b>	<b>\$63,527</b>	<b>\$1,901,028</b>	<b>\$9,577</b>

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

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

**6. RETIREMENT SYSTEMS**

The Village's 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 2003 and 2002, PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

**7. RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and Omissions

**8. CONTINGENT LIABILITIES**

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

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**Auditor of State  
Betty Montgomery**

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

Village of Port Jefferson  
Shelby County  
P.O. Box 189  
100 Spring Street  
Port Jefferson, Ohio 45360

To the Village Council:

We have audited the accompanying financial statements of the Village of Port Jefferson, Shelby County, (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated July 1, 2004. 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 2003-001 through 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 1, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-005 through 2003-007.

**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 the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 2003-007 of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated July 1, 2004.

This report is intended solely for the information and use of the audit committee, 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 1, 2004

VILLAGE OF PORT JEFFERSON  
SHELBY 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:**

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

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$1,000 (\$3,000, effective April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 (an amount established by resolution or ordinance adopted by the legislative authority, effective September 26, 2003) against any specific line item account over a period not exceeding three months (three month limitation was eliminated effective September 26, 2003) or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for 100% expenditures tested for 2003 and 2002 and there was no evidence that the Village followed the aforementioned exceptions.

The failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

**FINDING NUMBER 2003-001  
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Village's Fiscal Officer certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2003-002**

**Noncompliance Citation:**

Village of Port Jefferson Ordinance #04-2002 states, the clerk-treasurer of the Village is directed to create the following funds into which the bond proceeds and the revenues and income from the System shall be deposited, the funds shall be established and maintained as long as any bond remains unpaid.

- A.** Sewer System Revenue Fund. The gross income and revenues from the system shall be set aside into a separate fund and monies so deposited therein shall be expended and used only in the manner and order as follows:
- (1) Operation and Maintenance Fund. There shall be transferred each month from the sewer system revenue fund a sufficient portion of the income and revenues to the operation and maintenance fund, to pay the reasonable and necessary current expenses of operation and maintaining the system for the ensuing month.
  - (2) System Improvement Mortgage Revenue Bond Fund. After the transfer required in (1) above, there shall be transferred each month from the sewer system revenue fund before any other expenditures or transfers therefrom, a sum equal to at least one-twelfth (1/12) (or such larger amount as is necessary) of the sum of the amount of interest due on the next ensuing interest payment date plus the amount necessary to provide for payment of the next ensuing principal maturity. If for any reason there is a failure to make such monthly deposit, then an amount equal to the deficiency shall be set aside and out of the net revenues of the system in the ensuing month or months, which amount shall be in addition to the regular monthly deposit required during such succeeding month or months.
  - (3) Reserve Fund. Out of the balance of income and revenue of the system after the transfers required in (1) and (2) above, have been made there shall be set aside and deposited in the reserve fund, the sum of \$409 each month, commencing May 1, 2002, until there is accumulated in such fund the sum of \$49,055 (the minimum reserve) after which no further deposits need to be made into such fund except to replace withdrawals.

The Village is currently running all sewer system transactions through the sewer revenue fund and did not establish the Operation and Maintenance Fund and the System Improvement Mortgage Revenue Bond fund as required by Ordinance #04-2002. The Village should either follow the ordinance as approved, or amend the ordinance to the current practices being followed.

**FINDING NUMBER 2003-003**

**Noncompliance Citation:**

**Ohio Rev. Code Section 5705.41(B)**, prohibits expenditures unless the funds have been properly appropriated. This prohibits expenditures from exceeding appropriations. Contrary to this requirement, expenditures for several funds exceeded appropriations in December 31, 2003 and 2002 as follows:

<u>Year/Fund</u>	<u>FYTD Expendable (Appropriations plus prior year encumbrances)</u>	<u>Expenditures</u>	<u>Current Encumbrances</u>	<u>Variance</u>
<b>FY2003</b>				
General Fund	\$56,530	\$60,972	\$641	(\$5,083)
Street Maintenance and Repair Fund	12,299	12,473	0	(174)
State Highway Construction and Improvement Fund	1,424	1,465	0	(41)
Street Lighting Assessment Fund	4,800	5,237	0	(437)
<b>FY2002</b>				
General Fund	65,870	66,816	749	(1,695)
Street Lighting Assessment Fund	4,800	4,800	0	(92)
Ohio Water Development Authority Grant Fund	18,451	50,371	0	(31,920)
Ohio Public Works Commission Fund	0	33,182	0	(33,182)
Community Development Block Grant Fund	1,660	18,349	0	(16,689)
Sewer Fund	0	944,262	0	(944,262)

Also, our procedures indicated that in many instances, expenditures exceeded appropriations at the legal level of control during 2003 and 2002. The legal level of control for the Village is fund, function, and object, since that is the level at which Council approved appropriations.

The Village should monitor the budgetary financial reports throughout the year to prevent budgetary expenditures from exceeding appropriations at the legal level of control. In instances where it appears appropriations are insufficient to meet projected needs, the Council should pass a resolution to amend appropriations. This analysis should also encompass a review of available resources.

**FINDING NUMBER 2003-004**

**Noncompliance Citation:**

**Ohio Rev. Code Section 5705.39** states that the total appropriations from each fund should not exceed the total estimated resources as certified by the County Budget Commission. As of December 31, 2002, appropriations exceeded total estimated resources for the following funds:

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Estimated Resources</u>	<u>Variance</u>
General Fund	\$65,870	\$61,435	(\$4,435)
Community Development Block Grant	1,660	0	(1,660)

The District should implement policies and procedures to prevent appropriations from exceeding the amounts certified as available.

#### **FINDING NUMBER 2003-005**

##### **Reportable Condition:**

##### **Recording of Federal Receipts and Expenditures**

The Village's appropriation ledgers and annual reports for 2003 and 2002 commingled separate federal and state grant activities. In the appropriation ledger, the Ohio Public Works Commission (OPWC) Issue II expenditures for 2003 were posted as Community Development Block Grant (CDBG). In 2002, there were three capital project funds in operation, the Ohio Water Development Authority (OWDA) fund, CDBG fund, and OPWC fund. The annual financial report filed with the Auditor of State, indicated only the sewage and Issue II capital project funds. The Clerk commingled the OWDA expenditures of \$50,371, and the CDBG expenditures of \$16,689, as sewage fund expenditures in the annual report filed for 2002.

All grant transactions should be properly posted to the individual grant funds which have been established by the Village. The failure to maintain grant funds separately could result the Village's inability to report properly to the grantor agencies and result in the possible loss of future grant funds. The accompanying financial statements for 2003 and 2002 have been restated to properly reflect grant transactions.

To improve the accuracy and completeness of the Village's records for annual financial reporting and reporting to state and federal grantor agencies the Village should establish and maintain separate funds for each grant.

#### **FINDING NUMBER 2003-006**

##### **Reportable Condition:**

##### **Fines, Penalties, and Sales Tax Payments**

There were forty-eight instances during 2003 and 2002 where invoices were not paid in a timely manner, causing late charges, fees, and penalties to be incurred by the Village. Late payment penalties were paid on thirty-seven expenditures for gas utility, phone service, cell phone service, and a loan payment. There were eleven instances where penalties and interest were assessed by the Ohio Department of Jobs and Family Services, the Internal Revenue Service, and Public Employee Retirement System. In addition, there were also six instances where sales tax was improperly paid by the Village on payments for furnace oil and law enforcement supplies. The total amount of these unnecessary expenditures for the audit period was \$844.

The untimely payment of invoices incurring late payment fines, penalties and interest, and sales tax is an improper expenditure of funds which wastes resources that could otherwise be spent for the benefit of the Village.

The Village should implement procedures for the timely payment of bills to eliminate the unnecessary charges that are being incurred. The Village should utilize their tax exempt privilege and notify all vendors of their sales tax status, and withhold payment when sales taxes are assessed.

**FINDING NUMBER 2003-007**

**Material Weakness:**

**Sewer Receipts from the City Of Sidney**

The Village has delegated sewer system billing and collection, which is a significant accounting function of the sewer enterprise fund, to the City of Sidney. Although the Village receives reports from the City of Sidney documenting the residents billed and the amounts collected, the failure of the City of Sidney to obtain a report on the effectiveness of their sewer billing and collection processing internal control policies and procedures limits the Village's ability to reasonably determine that sewer system billings and collections have been completely and accurately processed in accordance with the rates in effect.

We recommend the Village implement procedures to reasonably assure the completeness and accuracy of the Village residents sewer billing and collection services performed by the City of Sidney. Statement of Auditing Standards (SAS) No. 70 as amended by SAS No. 88, prescribes standards for reporting on the processing of transactions by service organizations. An unqualified "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" in accordance with SAS No. 70, should provide the Village with an appropriate level of assurance that sewer system billings and collections are being processed in conformance with the rates in effect.

**VILLAGE OF PORT JEFFERSON  
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2001-001	Ohio Rev. Code 5705.41 (B) Failure to appropriate for expenditures	No	Not corrected – see finding no. 2003-003
2001-002	Ohio Rev. Code 5705.41(D) failure to certify availability of funds	No	Not corrected – see finding no. 2003-001
2001-003	Failure to obtain SAS 70 report	No	Not corrected – see finding no. 2003 - 007
2001-004	Inaccurate reporting of federal receipts and expenditures	No	Not corrected – see finding no. 2003 - 005



**Auditor of State  
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**VILLAGE OF PORT JEFFERSON**

**SHELBY 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  
AUGUST 5, 2004**