



**Auditor of State
Betty Montgomery**

VILLAGE OF CONTINENTAL
PUTNAM COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Continental
Putnam County
100 N. Main Street, P.O. Box 447
Continental, Ohio 45831-0477

To the Village Council:

We have audited the accompanying financial statements of the Village of Continental, Putnam County, (the Village) as of and for the years ended December 31, 2002 and 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 audits 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 audits 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 audits provide 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.

As discussed in Note 2, during 2001 the Village changed the fund type classification of a certain special revenue fund.

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, 2002 and 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 22, 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 audits.

Village of Continental
Putnam 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 22, 2003

**VILLAGE OF CONTINENTAL
PUTNAM 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>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$59,454	\$65,715			\$125,169
Intergovernmental Receipts	77,735	48,818	\$43,705		170,258
Charges for Services	37,402	1,200			38,602
Fines, Licenses, and Permits	2,476	50			2,526
Earnings on Investments	11,257				11,257
Miscellaneous	667	1,086			1,753
	<u>188,991</u>	<u>116,869</u>	<u>43,705</u>		<u>349,565</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	20,619	85,479			106,098
Basic Utility Services	7,367				7,367
Transportation	25,048	49,292			74,340
General Government	106,938	2,001			108,939
Debt Service:					
Principal Payments			36,191		36,191
Interest Payments			1,572		1,572
Capital Outlay		33,426		\$12,295	45,721
	<u>159,972</u>	<u>170,198</u>	<u>37,763</u>	<u>12,295</u>	<u>380,228</u>
Total Receipts Over/(Under) Disbursements	<u>29,019</u>	<u>(53,329)</u>	<u>5,942</u>	<u>(12,295)</u>	<u>(30,663)</u>
Other Financing Receipts and (Disbursements):					
Sale of Fixed Assets	1,567				1,567
Transfers-In		1,285			1,285
Advances-In	13,600	30,331		15,000	58,931
Transfers-Out	(2,338)				(2,338)
Advances-Out	(136,993)				(136,993)
	<u>(124,164)</u>	<u>31,616</u>		<u>15,000</u>	<u>(77,548)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(95,145)	(21,713)	5,942	2,705	(108,211)
Fund Cash Balances, January 1	<u>454,281</u>	<u>52,180</u>	<u>33,707</u>		<u>540,168</u>
Fund Cash Balances, December 31	<u>\$359,136</u>	<u>\$30,467</u>	<u>\$39,649</u>	<u>\$2,705</u>	<u>\$431,957</u>
Reserves for Encumbrances, December 31	<u>\$48,264</u>	<u>\$31,295</u>		<u>\$76,383</u>	<u>\$155,942</u>

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

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$266,152
Miscellaneous	3,055
	269,207
Operating Cash Disbursements:	
Personal Services	64,877
Fringe Benefits	17,075
Contractual Services	42,609
Supplies and Materials	59,283
Other	3,225
Capital Outlay	157,404
	344,473
Total Operating Cash Disbursements	344,473
Operating Loss	(75,266)
Non-Operating Cash Receipts:	
Property Tax and Other Local Taxes	16,727
Intergovernmental Receipts	35,000
Earnings on Investments	47
	51,774
Total Non-Operating Cash Receipts	51,774
Non-Operating Cash Disbursements:	
Redemption of Principal	52,250
Interest and Fiscal Charges	9,065
	61,315
Total Non-Operating Cash Disbursements	61,315
Excess of Disbursements Over Receipts Before Interfund Transfers and Advances	(84,807)
Transfers-In	1,053
Advances-In	91,662
Advances-Out	(13,600)
	(5,692)
Net Disbursements Over Receipts	(5,692)
Fund Cash Balances, January 1	74,864
Fund Cash Balances, December 31	\$69,172
Reserve for Encumbrances, December 31	\$70,335

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

**VILLAGE OF CONTINENTAL
PUTNAM 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>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$48,214	\$62,609		\$110,823
Intergovernmental Receipts	392,351	50,032	\$53,577	495,960
Charges for Services	51,662			51,662
Fines, Licenses, and Permits	3,042	288		3,330
Earnings on Investments	8,530	1,751		10,281
Miscellaneous	13,950	2,317		16,267
	<u>517,749</u>	<u>116,997</u>	<u>53,577</u>	<u>688,323</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	26,913	63,919		90,832
Basic Utility Services	8,914			8,914
Transportation	24,576	48,776		73,352
General Government	101,560	1,932		103,492
Debt Service:				
Principal Payments			32,176	32,176
Interest Payments			5,586	5,586
Capital Outlay	18,810	2,370		21,180
	<u>180,773</u>	<u>116,997</u>	<u>37,762</u>	<u>335,532</u>
Total Cash Disbursements	<u>180,773</u>	<u>116,997</u>	<u>37,762</u>	<u>335,532</u>
Total Receipts Over Disbursements	<u>336,976</u>		<u>15,815</u>	<u>352,791</u>
Other Financing Receipts:				
Sale of Fixed Assets	17,500			17,500
Advances-In	9,000			9,000
	<u>26,500</u>			<u>26,500</u>
Total Other Financing Receipts	<u>26,500</u>			<u>26,500</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	363,476		15,815	379,291
Fund Cash Balances, January 1	90,805	52,180	17,892	160,877
Fund Cash Balances, December 31	<u>\$454,281</u>	<u>\$52,180</u>	<u>\$33,707</u>	<u>\$540,168</u>
Reserves for Encumbrances, December 31	<u>\$6,744</u>	<u>\$40</u>		<u>\$6,784</u>

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

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$239,772
Miscellaneous	6,002
	245,774
Total Operating Cash Receipts	245,774
Operating Cash Disbursements:	
Personal Services	54,163
Fringe Benefits	14,209
Contractual Services	64,398
Supplies and Materials	64,441
Other	2,800
Capital Outlay	11,089
	111,089
Total Operating Cash Disbursements	111,089
Operating Income	134,674
Non-Operating Cash Receipts:	
Property Tax and Other Local Taxes	17,523
Earnings on Investments	430
	17,953
Total Non-Operating Cash Receipts	17,953
Non-Operating Cash Disbursements:	
Redemption of Principal	50,250
Interest and Fiscal Charges	11,471
	61,721
Total Non-Operating Cash Disbursements	61,721
Excess of Disbursements Over Receipts Before Advances	(27,047)
Advances-Out	(9,000)
Net Disbursements Over Receipts	(36,047)
Fund Cash Balances, January 1	128,905
Fund Cash Balances, December 31	\$92,858
Reserve for Encumbrances, December 31	\$2,260

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

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Continental, Putnam 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, fire protection, and police 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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. STAR Ohio is recorded at share values reported by the State Treasurer.

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:

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

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

Police Fund - This fund receives tax monies to fund police services.

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service fund:

Fire Truck Note Retirement – This fund receives contributions from Monroe and Perry Townships to repay a loan taken out by the Village for the purchase of a new truck.

4. 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 project fund:

Issue II Sewer Project Fund - This fund receives Issue II proceeds in the form of a grant and a loan from the Ohio Public Works Commission. 2002 proceeds came from an advance from the General Fund for the purchase of stone.

5. 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 cost of providing this utility.

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

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. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2002 and 2001 budgetary activity appears in Note 4.

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. FUND RECLASSIFICATION

During 2001, the Village determined that certain funds had been inappropriately classified as special revenue funds. For 2001 these funds have been appropriately classified within the General Fund.

This change had the following affect on fund balances previous reported by the Village:

	General Fund	Special Revenue
Fund balances as previously reported at December 31, 2000	\$83,294	\$59,691
Adjustment for Fund Reclassification	7,511	(7,511)
Adjusted balances January 1, 2001	\$90,805	\$52,180

These changes had the following affect on the excess of revenues over expenditures as previous reported by the Village:

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

	General Fund	Special Revenue
Excess as previously reported at December 31, 2000	\$15,028	\$12,273
Adjustment for Fund Reclassification	90	(90)
Adjusted excess at December 31, 2000	\$15,118	\$12,183

3. 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	\$130,260	\$251,229
Certificates of deposit	52,341	50,932
Total deposits	182,601	302,161
STAR Ohio	318,528	312,871
Total investments	318,528	312,871
Total deposits and investments	\$501,129	\$615,032

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

4. BUDGETARY ACTIVITY

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

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$283,339	\$190,558	(\$92,781)
Special Revenue	137,625	118,154	(19,471)
Debt Service	30,000	43,705	13,705
Enterprise	341,254	322,034	(19,220)
Total	\$792,218	\$674,451	(\$117,767)

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$364,028	\$210,574	\$153,454
Special Revenue	165,590	201,493	(35,903)
Debt Service	39,000	37,763	1,237
Capital Projects		88,678	(88,678)
Enterprise	323,514	476,123	(152,609)
Total	<u>\$892,132</u>	<u>\$1,014,631</u>	<u>(\$122,499)</u>

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$214,013	\$535,249	\$321,236
Special Revenue	201,638	116,997	(84,641)
Debt Service	75,000	53,577	(21,423)
Enterprise	547,082	263,727	(283,355)
Total	<u>\$1,037,733</u>	<u>\$969,550</u>	<u>(\$68,183)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$273,899	\$187,517	\$86,382
Special Revenue	180,307	117,037	63,270
Debt Service	40,000	37,762	2,238
Enterprise	314,471	275,081	39,390
Total	<u>\$808,677</u>	<u>\$617,397</u>	<u>\$191,280</u>

5. COMPLIANCE

There were 10 instances for which actual expenditures exceeded approved appropriations at the fund, function object level of control at December 31, 2001. In addition, the following funds had expenditures in excess of appropriations at year end:

	Appropriated	Expended	Variance
December 31, 2002			
Street Construction	\$50,456	\$107,179	(\$56,723)
Police	83,634	91,701	(8,067)
Issue II		88,678	(88,678)
Water Operating	150,658	208,511	(57,853)
Sewer Operating	99,332	204,898	(105,566)
December 31, 2001			
Sewer Debt Service	23,424	38,295	(14,871)

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

Some of the Village transactions did not include prior certification or a then and now certification from the Clerk as required by Ohio Revised Code 5705.41(D). In addition, the Village had \$114,258 in outstanding purchase commitments as of December 31, 2002 that were not certified until 2003.

6. 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 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.

7. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Special Assessment Bonds	\$80,000	5.00%
Fire Truck Loan	16,012	5.75%
Sanitary Sewer Loan	44,250	5.75%
Ohio Public Works Commission - Sewer	72,995	
Ohio Public Works Commission - Water	29,220	
Total	<u>\$242,477</u>	

The Special Assessment Bonds were issued in 1981 to fund the cost of improving the municipal waterworks system. Special assessments were levied to pay the property owners portion of the cost. The bonds are paid in annual installments with the final payment to be made in the year 2007.

The Fire Truck Loan was obtained in 1998 to fund the purchase of a new fire truck. The loan is being repaid using General Fund revenues and contributions from Monroe and Perry Townships. The loan is for a five year period with the final payment to be made in year 2003.

The Ohio Public Works Commission (OPWC) sewer loan relates to the construction and installation of new sanitary sewers and storm sewers, while utilizing the old combined system. The loan is being repaid in semiannual principal installments of \$2,212 over 20 years beginning in 1999.

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

The Ohio Public Works Commission (OPWC) water treatment loan was obtained for the construction of a new well and the upgrade of water lines on Third and Fourth Streets. The loan is being repaid in semiannual principal installments of \$913 over 20 years beginning in 1999.

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

Year ending December 31:	Special Assessment Bond	Fire Truck Loan	Sanitary Sewer Loan	OPWC - Sewer Loan	OPWC- Water Treatment Loan
2003	\$20,000	\$16,472	\$34,535	\$4,424	\$1,826
2004	19,200		12,935	4,424	1,826
2005	18,400			4,424	1,826
2006	17,600			4,424	1,826
2007	16,800			4,424	1,826
2008 through 2012				22,120	9,130
2013 through 2017				22,120	9,130
Subsequent				6,635	1,826
Total	<u>\$92,000</u>	<u>\$16,472</u>	<u>\$47,470</u>	<u>\$72,995</u>	<u>\$29,216</u>

8. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide 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, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. Members of OPERS contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

9. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

**VILLAGE OF CONTINENTAL
PUTNAM COUNTY**

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

The Plan uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5 percent of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5 percent of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55 percent and 65 percent of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65 percent is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.



**Auditor of State
Betty Montgomery**

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

Village of Continental
Putnam County
100 N. Main Street, P.O. Box 447
Continental, Ohio 45831-0477

To the Village Council:

We have audited the accompanying financial statements of the Village of Continental, Putnam County, (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated July 22, 2003. We conducted our audits 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 audits 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 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 22, 2003.

Internal Control over Financial Reporting

In planning and performing our audits, 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 July 22, 2003.

Village of Continental
Putnam County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

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.

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 22, 2003

VILLAGE OF CONTINENTAL
PUTNAM 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 2002-001

Noncompliance Citation

Ohio Revised Code § 5705.40 allows appropriations to be amended or supplemented as long as the amendments are approved in the same manner as the original appropriations. The Clerk amended appropriations without obtaining Council approval, this caused expenditures to exceed approved appropriations as listed below, which is contrary to Ohio Revised Code § 5705.41(B) which states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated as provided in such chapter.

There were 10 instances for which actual expenditures exceeded approved appropriations at the fund, function object level of control at December 31, 2001. In addition, the following funds had expenditures in excess of appropriations at year end:

	Appropriated	Expended	Variance
December 31, 2002			
Street Construction	\$50,456	\$107,179	(\$56,723)
Police	83,634	91,701	(8,067)
Issue II		88,678	(88,678)
Water Operating	150,658	208,511	(57,853)
Sewer Operating	99,332	204,898	(105,566)
December 31, 2001			
Sewer Debt Service	23,424	38,295	(14,871)

Expenditures should only be made for which there are sufficient appropriations. Approved budgeted amounts (appropriations and estimated receipts) should always agree to budgeted amounts approved by Council and properly filed with the County Auditor. Appropriations should be increased as needed, and if necessary amend the corresponding estimated resources.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification should be considered null and void.

This section also provides two exceptions to the above requirements:

FINDING NUMBER 2002-002
(Continued)

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the purchase order or contract and at the time of the certificate, appropriated and free of any previous encumbrance, Council may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1000 (\$3000 effective April 2003), the fiscal officer may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

Sixteen percent of the transactions tested did not include prior certification or a then and now certification of the Clerk. In addition, the Village had \$114,258 in outstanding purchase commitments as of December 31, 2002 that were not certified until 2003. The accompanying financial statements were adjusted to reflect the \$76,383 as an outstanding encumbrance in the Capital Projects Fund and \$37,875 was added as an outstanding encumbrance in the General Fund as of December 31, 2002.

Certification is not only required by Ohio law but is also a key control in the disbursement process to help assure that purchase commitments receive prior approval and to help reduce the possibility of Village funds being over expended. To improve controls over disbursements we recommend all Village disbursements receive prior certification of the Clerk and the Village Council periodically review the expenditures made to ensure they are certified by the Clerk and recorded against appropriations.



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VILLAGE OF CONTINENTAL

PUTNAM 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 19, 2003**