



**Auditor of State
Betty Montgomery**

VILLAGE OF QUAKER CITY
GUERNSEY COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Quaker City
Guernsey County
230 Main Street, Box 43
Quaker City, Ohio 43773

To the Village Council:

We have audited the accompanying financial statements of the Village of Quaker City, Guernsey County, Ohio (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 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 of Quaker City, Guernsey County, 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 October 14, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

October 14, 2003

**VILLAGE OF QUAKER CITY
GUERNSEY 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>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$7,428	\$5,581	\$6,100	\$19,109
Intergovernmental Receipts	16,897	16,573	15,314	48,784
Charges for Services	1,000	17,543		18,543
Earnings on Investments	1,885	954		2,839
Miscellaneous	297	53,745		54,042
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	27,507	94,396	21,414	143,317
Cash Disbursements:				
Current:				
Security of Persons and Property	5,220	34,450		39,670
Public Health Services	4,637			4,637
Leisure Time Activities	13,271			13,271
Transportation		14,173		14,173
General Government	27,435			27,435
Debt Service:				
Principal Payments			19,356	19,356
Interest Payments			1,943	1,943
Capital Outlay		30,000		30,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	50,563	78,623	21,299	150,485
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(23,056)	15,773	115	(7,168)
Other Financing Receipts/(Disbursements):				
Sale of Fixed Assets		279		279
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	0	279	0	279
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(23,056)	16,052	115	(6,889)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	38,299	24,041	18	62,358
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$15,243	\$40,093	\$133	\$55,469
Reserves for Encumbrances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$515</u>	<u>\$430</u>	<u>\$0</u>	<u>\$945</u>

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

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$140,764
Miscellaneous	255
	141,019
Operating Cash Disbursements:	
Personal Services	40,177
Fringe Benefits	6,685
Contractual Services	62,567
Supplies and Materials	32,015
Capital Outlay	12,995
	154,439
Operating Income/(Loss)	(13,420)
Non-Operating Cash Receipts:	
Property Tax and Other Local Taxes	4,125
Intergovernmental Receipts	14,692
Proceeds from Notes and Bonds	20,000
Other Non-Operating Receipts	4,382
	43,199
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	2,755
Total Non-Operating Cash Disbursements	2,755
Net Receipts Over/(Under) Disbursements	27,024
Fund Cash Balances, January 1	17,649
Fund Cash Balances, December 31	\$44,673
Reserve for Encumbrances, December 31	\$1,892

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

**VILLAGE OF QUAKER CITY
GUERSNEY 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**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property Tax and Other Local Taxes	\$7,310	\$5,272	\$6,123	\$	\$18,705
Intergovernmental Receipts	37,987	30,993		5,485	74,465
Charges for Services	225	17,943			18,168
Earnings on Investments	4,028	1,070			5,098
Miscellaneous	113	3,214			3,327
Total Cash Receipts	49,663	58,492	6,123	5,485	119,763
Cash Disbursements:					
Current:					
Security of Persons and Property	6,116	30,715			36,831
Public Health Services	3,596				3,596
Leisure Time Activities	7,895				7,895
Basic Utility Services	6,300				6,300
Transportation		17,751			17,751
General Government	29,232				29,232
Debt Service:					
Principal Payments			5,000		5,000
Interest Payments			1,633		1,633
Capital Outlay	40,270	7,859		5,485	53,614
Total Cash Disbursements	93,409	56,325	6,633	5,485	161,852
Total Cash Receipts Over/(Under) Cash Disbursements	(43,746)	2,167	(510)	0	(42,089)
Other Financing Receipts/(Disbursements):					
Sale of Bonds or Notes	40,270				40,270
Total Other Financing Receipts/(Disbursements)	40,270	0	0	0	40,270
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(3,476)	2,167	(510)	0	(1,819)
Fund Cash Balances, January 1	41,775	21,874	528	0	64,177
Fund Cash Balances, December 31	\$38,299	\$24,041	\$18	\$0	\$62,358
Reserves for Encumbrances, December 31	\$0	\$575	\$0	\$0	\$575

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

**VILLAGE OF QUAKER CITY
GUERSNEY COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$112,770
Miscellaneous	300
	113,070
Operating Cash Disbursements:	
Personal Services	46,338
Fringe Benefits	6,768
Contractual Services	23,668
Supplies and Materials	25,955
	102,729
Operating Income/(Loss)	10,341
Non-Operating Cash Receipts:	
Property Tax and Other Local Taxes	2,813
Intergovernmental Receipts	462
	3,275
Non-Operating Cash Disbursements:	
Debt Service	10,000
	10,000
Net Receipts Over/(Under) Disbursements	3,616
Fund Cash Balances, January 1	14,033
Fund Cash Balances, December 31	\$17,649
Reserve for Encumbrances, December 31	\$0

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

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Quaker City, Guernsey 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 water and sewer utilities, park operations, street maintenance, fire protection services and ambulance 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. 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.

Fire Levy Fund -This fund receives tax monies assessed and levied on general assessed valuation of real and personal property. These taxes are used for the volunteer fire department and emergency squad.

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

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 Funds:

Bond Retirement Fund – This fund receives tax levy monies to retire the fire truck general obligation bonds.

Note Retirement Fund - This fund receives gasoline tax and motor vehicle tax money to retire general obligation equipment notes.

Debt Retirement Fund – This fund receives local government distribution tax money to retire an obligation to GMAC Financing.

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:

Street Capital Projects Fund - This fund receives money from the Guernsey County Engineer for the improvement or construction of Village roads.

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 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 QUAKER CITY
GUERNSEY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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. The Village did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include items that should have been encumbered.

A summary of 2002 and 2001 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.

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$83,573	\$47,610
Certificates of deposit	16,569	32,397
Total deposits	\$100,142	\$80,007

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

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

3. 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	\$30,402	\$27,507	(\$2,895)
Special Revenue	90,891	94,675	3,784
Debt Service	19,890	21,414	1,524
Capital Projects	5,485	0	(5,485)
Enterprise	161,154	184,218	23,064
Total	\$307,822	\$327,814	\$19,992

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$69,060	\$51,078	\$17,982
Special Revenue	64,566	79,053	(14,487)
Debt Service	20,418	21,299	(881)
Capital Projects	5,485	0	5,485
Enterprise	140,327	159,086	(18,759)
Total	\$299,856	\$310,516	(\$10,660)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,884	\$89,933	\$47,049
Special Revenue	59,119	58,492	(627)
Debt Service	6,633	6,123	(510)
Capital Projects	6,349	5,485	(864)
Enterprise	107,472	116,345	8,873
Total	\$222,457	\$276,378	\$53,921

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$84,137	\$93,409	(\$9,272)
Special Revenue	69,271	56,900	12,371
Debt Service	7,161	6,633	528
Capital Projects	6,349	5,485	864
Enterprise	121,504	112,729	8,775
Total	\$288,422	\$275,156	\$13,266

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Fire Levy Fund, Debt Service Fund, Water Fund, Other Enterprise Fund, and Enterprise Improvement Fund by \$34,843, \$881, \$12,975, \$2,751 and \$18,873, respectively, for the year ended December 31, 2002. For the year ended December 31, 2001, expenditures exceeded appropriations in the General Fund and Fire Levy Fund by \$9,272 and \$4,622, respectively. Also contrary to Ohio law, during 2001 and 2002, supplemental appropriations were posted to the Village's accounting records without being approved by the County Budget Commission.

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 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, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds	\$23,300	4.875%
Village Capital Improvement Fund	50,000	2.20%
General Obligation Notes	9,267	3.95%
Promissary Note	16,847	0.00%
Total	<u>\$99,414</u>	

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

5. DEBT (Continued)

The Village issued \$51,000 in General Obligation Bonds through the United States Department of Agriculture (USDA) on September 11, 1996 to purchase a fire truck and related equipment. The bonds are being repaid annually, in varying amounts, over ten years at an interest rate of 4.875%. The general revenues of the Village have been pledged as the source of repayment.

A promissory note was issued on November 15, 2001 to finance the purchase of a new truck to be used for Village road maintenance. This note was issued through General Motors Acceptance Corporation (GMAC) Financing and the terms were 0% financing for 36 months. The note is collateralized by the truck that was purchased by the Village with the note proceeds.

The Village issued \$13,900 in General Obligation Road Equipment Notes on December 10, 2001 for the purchase of a backhoe. The notes are being repaid in annual installments of \$4,633 plus interest at the rate of 3.95% over three years. The general revenues of the Village have been pledged as the source of repayment.

A \$50,000 Village Capital Improvement Fund (VCIF) loan was issued to the Village under the Ohio Water Development Authority on June 25, 2002 and relates to the Barnesville water line expansion project. The loan will be repaid beginning January 1, 2005 in ten annual principal payments of \$5,000 and beginning January 1, 2008 interest will accrue at a rate of 2.2%. Interest on the loan will not begin until the fourth annual payment becomes due. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

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

	OWDA/VCIF Loan	USDA General Obligation Fire Truck and Related Equipment Bonds	General Obligation Road Equipment Notes	GMAC Promissory Note
Year ending December 31:				
2003	\$0	\$6,536	\$4,999	\$8,790
2004	0	6,573	4,816	8,057
2005	5,000	6,495		
2006	5,000	6,607		
2007	5,000			
2008 – 2013	32,970			
2014 - 2019	5,110			
Total	<u>\$53,080</u>	<u>\$26,211</u>	<u>\$9,815</u>	<u>\$16,847</u>

6. RETIREMENT SYSTEM AND SOCIAL SECURITY BENEFIT PROGRAM

The Village's employees and certain elected officials 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.

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

6. RETIREMENT SYSTEM AND SOCIAL SECURITY BENEFIT PROGRAM (Continued)

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

The elected officials who are not a member of PERS contribute to Social Security. The contribution rate of these officials is 6.2% of their gross salary. As required, the Village matches the 6.2% contribution to Social Security. The Village has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Errors and omissions
- Inland Marine;
- Flood Insurance;
- Bonding; and
- Public Officials Liability.

8. VILLAGE OF SALESVILLE

Commencing in 2002, the Village has entered into an agreement with the Village of Salesville to collect an additional \$4 per month from each Village of Salesville water customer on behalf of the Village of Salesville. The extra \$4 fee collected by the Village of Quaker City is remitted to the Village of Salesville on a semiannual basis. The Village of Salesville uses these funds to make payments on debt that was incurred to connect to the Village of Quaker City's water line. This procedure was implemented during 2002 and will continue for a total of twenty years. This activity is reflected in the accompanying financial statements within the enterprise fund type as other non-operating receipts and other non-operating disbursements.

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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 Quaker City
Guernsey County
230 Main Street, Box 43
Quaker City, Ohio 43773

To the Village Council:

We have audited the accompanying financial statements of the Village of Quaker City, Guernsey County, Ohio (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated October 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-006. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 2002-005 through 2002-010.

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 the reportable conditions that are disclosed above as findings 2002-005, 2002-008 and 2002-009 are material weaknesses. 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 October 14, 2003.

This report is intended solely for the information and use of management and the 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

October 14, 2003

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002**

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

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code § 731.14 provides that contracts made by the legislative authority of a village shall be executed in the name of the village and signed on its behalf by the mayor and clerk. When any expenditure for material, labor, and equipment exceeds \$15,000 (which was increased to \$25,000 as of September 26, 2003) it is subject to competitive bidding procedures.

Competitive bidding procedures require that a contract be entered into in writing with the lowest and best bidder after advertisement of the proposal for bids for not less than two nor more than four consecutive weeks in a newspaper of general circulation within the municipality.

The competitive bidding requirement can be bypassed for contracts for the purchase of used equipment or supplies at public auction, the purchase of supplies and materials if a real and present emergency exists, or if the purchase is made from another political subdivision or agency.

During 2002, the Village purchased a 1986 Ford C-8000 Pumper Truck for \$30,200, without following any competitive bidding procedures and this purchase did not meet any of the exceptions noted above.

We recommend that whenever the Village enters into a contract of \$15,000 or more, competitive bidding requirements be followed.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Rev. Code § 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received.

During 2001, the first half homestead and rollback reimbursement was not posted in accordance with the County Auditor property tax settlement sheets. As a result of the foregoing fact, an adjustment decreasing the Debt Service Fund receipts by \$510 and increasing the Fire Fund receipts by \$510 was necessary.

During 2002, two permissive motor vehicle license tax receipts were incorrectly posted to the Street Construction, Maintenance and Repair and the State Highway Improvement Funds. As a result of the foregoing facts, an adjustment decreasing the receipts in the Street Construction, Maintenance and Repair Fund by \$121 and the State Highway Fund by \$139, and increasing the receipts in the Permissive Motor Vehicle License Tax Fund by \$260 was necessary.

These adjustments, with which management agrees, have been posted to the Village's books and are reflected in the accompanying financial statements.

We recommend the Village Clerk-Treasurer post all homestead and rollback reimbursements in accordance with the distribution provided on the County Auditor property tax settlements and post all permissive motor vehicle license tax receipts to the Permissive Motor Vehicle License Tax Fund.

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

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

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Rev. Code § 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

During 2002, the Village had actual revenues in the Debt Service Fund and Water Fund which exceeded budgeted revenues by \$1,524 and \$18,754 respectively. During 2001, the Village had actual revenues in the General Fund, Water Fund, and Sewer Fund which exceeded budgeted revenues by \$47,049, \$6,181, and \$2,692 respectively. The Village did not get increased amended certificates, but did expend a significant portion of these excess revenues. There were no negative fund balances.

We recommend the Village monitor budgeted versus actual receipts more carefully. When the Village anticipates appropriating and expending additional revenue, an amended certificate of estimated resources should be obtained.

FINDING NUMBER 2002-004

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) states that no subdivision or taxing authority is to expend money unless it has been appropriated.

The following schedules compare approved appropriations to actual expenditures for 2002 and 2001.

December 31, 2002:

	Approved Appropriations	Expenditures	Variance
Fire Levy Fund	\$30,006	\$64,849	(\$34,843)
Debt Service Fund	\$20,418	\$21,299	(\$881)
Water Fund	\$83,413	\$95,077	(\$12,975)
Other Enterprise Fund	\$0	\$2,751	(\$2,751)
Enterprise Improvement Fund	\$0	\$18,873	(\$18,873)

December 31, 2001:

	Approved Appropriations	Expenditures	Variance
General Fund	\$84,137	\$93,409	(\$9,272)
Fire Levy Fund	\$34,321	\$38,943	(\$4,622)

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

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

**FINDING NUMBER 2002-004
(Continued)**

Noncompliance Citation - Ohio Rev. Code § 5705.41(B) (Continued)

We recommend Village Council and the Clerk-Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations. Once Council has adopted additional appropriations, the County Budget Commission (County Auditor) should certify that appropriations do not exceed estimated resources. The Clerk-Treasurer should not make any expenditure unless appropriations are available.

FINDING NUMBER 2002-005

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.40 provides that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

The appropriations as approved by the Village Council and County Budget Commission did not agree to the appropriations entered into the appropriations ledger. The following schedules compare approved appropriations to those posted as appropriations during 2002 and 2001.

December 31, 2002:

	Appropriations Posted to the UAN system	Approved Appropriations	Variance
Fire Levy Fund	\$65,592	\$30,006	(\$35,586)
Debt Service Fund	\$21,337	\$20,418	(\$919)
Water Fund	\$117,413	\$83,413	(\$34,000)
Sewer Fund	\$53,414	\$56,914	\$3,500
Other Enterprise Fund	\$4,476	\$0	(\$4,476)
Enterprise Improvement Fund	\$50,000	\$0	(\$50,000)

December 31, 2001:

	Appropriations Posted to the UAN system	Approved Appropriations	Variance
General Fund	\$98,037	\$84,137	(\$13,900)
Fire Levy Fund	\$49,842	\$34,321	(\$15,521)
Street Fund	\$31,465	\$31,421	(\$44)

VILLAGE OF QUAKER CITY
GUERNSEY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)

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

FINDING NUMBER 2002-005
(Continued)

Noncompliance Citation and Material Weakness - Ohio Rev. Code § 5705.40 (Continued)

Appropriations reported in Note 3 to the financial statements have been adjusted to reflect only those appropriations adopted by the Village Council and approved by the County Budget Commission. This also resulted in noncompliance with Ohio Rev. Code § 5705.41(B) as discussed in finding 2002-004.

We recommend Village Council approve all appropriation amendments and note the approval in Council's minutes. We also recommend the Clerk-Treasurer file all appropriation amendments with the County Auditor in order to receive certification from the County Auditor that appropriations do not exceed estimated resources. Appropriation amendments should be posted to the accounting system only after both Village Council and the County Auditor have approved and certified the amendments.

FINDING NUMBER 2002-006

Noncompliance Citation and Reportable Condition

Ohio Rev. Code § 5705.41(D) states that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision (Village Clerk-Treasurer) that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that, both at the time the contract or order was made and at the time he is completing his certification, a sufficient sum was appropriated and free of any previous encumbrances, the taxing authority (Village Council) may authorize the issuance of a warrant 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 other wise valid.
- B. If the amount involved is less than one thousand dollars (which was increased to \$3,000 on April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the taxing authority, upon completion of the then and now certificate, provided the expenditure is otherwise lawful.

The Village includes certification language as part of its purchase order. However, the Clerk-Treasurer's prior certification was not obtained for 17% of the expenditures tested and the aforementioned exceptions were not followed.

We recommend Village personnel obtain proper certification from the Clerk-Treasurer prior to incurring any obligations on behalf of the Village.

VILLAGE OF QUAKER CITY
GUERNSEY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002
(Continued)

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

FINDING NUMBER 2002-007

Reportable Condition

Interest earnings of \$767 were not posted to the Village's records during 2001 and \$522 of unrecorded interest reported during the last audit period remained not posted to the Village's records. As a result of the foregoing facts, an adjustment was necessary to increase the General Fund beginning balance by \$522 and increase the General Fund's receipts by \$767.

As of the date of this report, Village management was in agreement with the aforementioned adjustment. The adjustment has been posted to the Village's records and is reflected in the accompanying financial statements.

We recommend the Clerk-Treasurer record interest receipts as interest is earned and available to the Village.

FINDING NUMBER 2002-008

Material Weakness

The Village received an annual interest payment from a private trust held outside the Village. The terms of the trust agreement specify that this interest shall be used for maintenance, improvement and repairs of Village streets. This interest was posted to the General Fund.

As a result of the foregoing facts, adjustments were necessary decreasing the General Fund receipts and increasing the Street Construction, Maintenance and Repair Fund receipts by \$2,190 in 2001 and by \$2,120 in 2002. This adjustment, with which management agrees, has been posted to the Village's books and is reflected in the accompanying financial statements.

We recommend the Village record interest payments from this trust fund in the Street Construction, Maintenance and Repaid Fund.

FINDING NUMBER 2002-009

Material Weakness

During 2002, the Village Clerk-Treasurer did not properly post the budgeted receipts to the accounting system. Variances existed between the amounts on the certificates of estimated resources and the amounts posted to the accounting system as follows:

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

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

**FINDING NUMBER 2002-009
(Continued)**

Material Weakness (Continued)

December 31, 2002:

Fund	Budgeted Receipts per the UAN system	Budgeted Receipts per the Final Certificate of Estimated Resources	Variance
Fire Fund	\$26,700	\$74,364	\$47,644
Debt Service Fund	\$20,418	\$19,890	(\$528)
Local Public Works Fund	\$0	\$5,485	\$5,485
Water Fund	\$74,400	\$88,400	\$14,000
Other Enterprise Fund	\$3,216	\$4,476	\$1,260
Enterprise Improvement Fund	\$50,000	\$20,000	(\$30,000)

Because the information entered into the accounting system was inaccurate, the Village management was unable to effectively monitor budget versus actual activity during the year 2002. It was necessary to make audit adjustments to the 2002 budgetary activity as reported in the notes to the financial statements in order to present the certified amount of estimated receipts.

We recommend the Clerk-Treasurer record estimated receipts directly from the certificate of estimated resources and any amendments thereto. This would ensure useful comparisons of estimated to actual receipts would be made throughout the year and help indicate when an increased or decreased amended certificate should be obtained.

FINDING NUMBER 2002-010

Reportable Condition

Testing of Village expenditures revealed that neither Village Council nor the Village Board of Public Affairs routinely signed vouchers approving disbursement transactions. The Clerk-Treasurer was solely responsible for preparing vouchers, purchase orders and checks for the disbursement of funds.

Without a routine review and approval of these Village documents by Village Council and/or the Board of Public Affairs, errors or irregularities could occur and remain undetected by management.

We recommend Village Council and the Board of Public Affairs review and approve (sign) all voucher packets, which should include original invoices, purchase orders and duplicate check documentation. Village Council and the Board of Public Affairs may consider setting a maximum amount for which purchase orders can be issued without the prior approval of Council and/or the Board.

**VILLAGE OF QUAKER CITY
GUERNSEY COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-31030-001	Ohio Rev. Code § 5705.41(B) expenditures exceeded appropriations	No	Not corrected; reissued as finding 2002-004
2000-31030-002	Ohio Rev. Code § 5705.41(D), failure to properly certify availability of funds	No	Not corrected; reissued as finding 2002-006
2000-31030-003	Not paying debt out of a debt service fund according to debt covenants.	Yes	Corrected



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VILLAGE OF QUAKER CITY

GUERNSEY 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
NOVEMBER 13, 2003**