



**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

VILLAGE OF LOUDONVILLE
ASHLAND COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Loudonville
Ashland County
P.O. Box 150
Loudonville, Ohio 44842

To the Village Council:

We have audited the accompanying financial statements of the Village of Loudonville, Ashland County, Ohio, (the Village) as of and for the year ended December 31, 2001. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our 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, 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 May 17, 2002 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.

We performed our audit to form an opinion on the financial statements of the Village taken as a whole. The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements and, in our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of 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, appearing to read "Jim Petro". The signature is stylized with a large loop at the end of the last name.

Jim Petro
Auditor of State

May 17, 2002

VILLAGE OF LOUDONVILLE
ASHLAND COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Property Tax and Other Local Taxes	\$159,741	\$215,329		\$276,683	\$1,104,486	\$1,756,239
Intergovernmental	144,081	111,000				255,081
Charges for Services	22,181	77,547			6,060	105,788
Fines, Licenses, and Permits	18,203	2,849				21,052
Earnings on Investments	34,702	328				35,030
Contributions and Donations	32,570	4,582		10,943		48,095
Miscellaneous	2,346	3,978			23	6,347
Total Cash Receipts	413,824	415,613		287,626	1,110,569	2,227,632
Cash Disbursements:						
Current:						
Security of Persons and Property	70,924	547,840				618,764
Public Health Services	5,430					5,430
Leisure Time Activities	48,744					48,744
Community Environment	7,835					7,835
Transportation		214,871				214,871
General Government	518,857				35,267	554,124
Debt Service:						
Principal Payments	23,977	193,949	\$365,944			583,870
Interest Payments	28,618	13,777	30,280			72,675
Capital Outlay	23,913	312,565		1,061,827	1,242	1,399,547
Total Cash Disbursements	728,298	1,283,002	396,224	1,061,827	36,509	3,505,860
Total Cash Receipts Over/(Under) Cash Disbursements	(314,474)	(867,389)	(396,224)	(774,201)	1,074,060	(1,278,228)
Other Financing Receipts/(Disbursements):						
Proceeds of Notes and Loans		100,000	232,402	714,000		1,046,402
Transfers-In	336,838	525,142	163,822	36,250		1,062,052
Advances-In	13,739			21,500		35,239
Transfers-Out	(28,749)			(987)	(1,066,156)	(1,095,892)
Advances-Out	(21,500)			(13,739)		(35,239)
Other Receipts	19,356				1,260	20,616
Other Disbursements	(15)	(1,171)			(11,198)	(12,384)
Total Other Financing Receipts/(Disbursements)	319,669	623,971	396,224	757,024	(1,076,094)	1,020,794
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	5,195	(243,418)	0	(17,177)	(2,034)	(257,434)
Fund Cash Balances, January 1	174,329	424,700	22,254	55,079	63,669	740,031
Fund Cash Balances, December 31	\$179,524	\$181,282	\$22,254	\$37,902	\$61,635	\$482,597
Reserves for Encumbrances, December 31	\$25,965	\$15,250	\$0	\$31,841	\$1,491	\$74,547

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

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$854,789	\$2,619		\$857,408
Earnings on Investments		245		245
Contributions and Donations		5,000		5,000
Miscellaneous	2,243			2,243
Total Operating Cash Receipts	857,032	7,864		864,896
Operating Cash Disbursements:				
Personal Services	277,384			277,384
Contractual Services	263,648			263,648
Supplies and Materials	153,264			153,264
Capital Outlay	78,567			78,567
Total Operating Cash Disbursements	772,863			772,863
Operating Income	84,169	7,864		92,033
Non-Operating Cash Receipts:				
Village of Perrysville Taxes			\$161,502	161,502
Proceeds from Notes	100,000			100,000
Other Non-Operating Receipts	5,659			5,659
Total Non-Operating Cash Receipts	105,659		161,502	267,161
Non-Operating Cash Disbursements:				
Debt Service:				
Principal Payments	140,715			140,715
Interest Payments	17,551			17,551
Distribution of Village of Perrysville Taxes			161,502	161,502
Other Non-Operating Cash Disbursements	42			42
Total Non-Operating Cash Disbursements	158,308		161,502	319,810
Excess of Receipts Over Disbursements Before Interfund Transfers	31,520	7,864		39,384
Transfers-In	76,438	3,768		80,206
Transfers-Out	(46,366)			(46,366)
Net Receipts Over Disbursements	61,592	11,632		73,224
Fund Cash Balances, January 1	611,194	95,599		706,793
Fund Cash Balances, December 31	\$672,786	\$107,231	\$0	\$780,017
Reserves for Encumbrances, December 31	\$0	\$0	\$0	\$0

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

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Loudonville, Ashland County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, street maintenance and repair, fire and police protection, emergency medical services, planning and zoning, and park operations (leisure time activities).

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

Certificates of deposit are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 has 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 levy monies for the purchase of equipment to aid in the operation of the Village Volunteer Fire Department.

Police Levy Fund - This fund receives levy monies for operating and maintaining the Village Police Department.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Debt Service Funds

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has the following significant Debt Service Funds:

Industrial Park Fund - This fund received proceeds from notes in anticipation of the issuance of bonds for the purpose of paying for improvements to the Village's industrial park.

Washington Street Building Fund - This fund is used to retire debt related to purchasing the Village's Washington Street Building.

4. Capital Projects 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 has the following significant Capital Projects Fund:

Storm Sewer Grant Fund - This fund received proceeds of an interim loan from the Ohio Water Development Authority in advance of a loan from the United States Department of Agriculture. This fund also receives grant funds from the United States Department of Agriculture. The proceeds and grant funds are being used to construct a storm sewer system.

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 has the following significant Enterprise Funds:

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

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

6. 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:

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

Village Income Tax Fund (Expendable Trust Fund) - This fund receives monies from collections of the Village's 1.75% imposed income tax. Funds collected are used in both general operations of the Village and for capital expenditures and maintenance and repairs as required.

Perrysville Income Tax Fund (Agency Fund) - This fund receives monies from collections of income taxes on behalf of the Village of Perrysville. Monies received are remitted directly to the Village of Perrysville. The Village contracts with the Village of Perrysville to perform these services.

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 the appropriation measure and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered 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. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Unpaid Vacation Leave

Employees are entitled to cash payments for unused vacation leave in certain circumstances, such as upon leaving employment. Unpaid vacation leave is not reflected as a liability under the cash basis of accounting used by the Village.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

2. EQUITY IN POOLED CASH

The Village maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31, 2001 was as follows:

Demand deposits	\$821,360
Certificates of deposit	<u>441,254</u>
 Total deposits	 <u><u>\$1,262,614</u></u>

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

3. BUDGETARY ACTIVITY

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

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$711,146	\$770,018	\$58,872
Special Revenue	952,296	1,040,755	88,459
Debt Service	396,242	396,224	(18)
Capital Projects	1,269,987	1,037,876	(232,111)
Enterprise	1,027,861	1,039,129	11,268
Fiduciary	1,289,200	1,284,963	(4,237)
Total	<u><u>\$5,646,732</u></u>	<u><u>\$5,568,965</u></u>	<u><u>(\$77,767)</u></u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$859,053	\$783,027	\$76,026
Special Revenue	1,243,155	1,299,423	(56,268)
Debt Service	396,224	396,224	0
Capital Projects	1,324,866	1,094,655	230,211
Enterprise	1,219,374	977,537	241,837
Fiduciary	1,291,062	1,276,856	14,206
Total	<u><u>\$6,333,734</u></u>	<u><u>\$5,827,722</u></u>	<u><u>\$506,012</u></u>

Contrary to Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations in the Fire Levy Fund at December 31, 2001.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

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. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.75 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. In addition, the Village collects and remits a municipal income tax for the Village of Perrysville, Ashland County.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loans	\$1,171,765	6.25% - 7.77%
General Obligation Bonds	73,177	5.25% - 6.25%
Bond Anticipation Notes	432,402	5.25% - 6.50%
United States Department of Agriculture Loan	90,578	4.875%
Lease Purchase Agreements	<u>30,445</u>	5.75% - 6.50%
Total	<u><u>\$1,798,367</u></u>	

The 1971 Ohio Water Development Authority (OWDA) loan, due in semi-annual installments of \$7,345 through January 1, 2002, relates to a sanitary sewer expansion project in the Village and bears interest of 6.50%. The loan had a balance of \$7,015 at December 31, 2001.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

6. DEBT (Continued)

The 1990 Ohio Water Development Authority (OWDA) loan, due in semi-annual installments of \$17,770 through January 1, 2005, relates to a waterworks system expansion project in the Village and bears interest of 7.51%. The loan had a balance of \$105,704 at December 31, 2001.

The 1992 Ohio Water Development Authority (OWDA) loan, due in semi-annual installments of \$2,394 through January 1, 2007, relates to a waterworks system expansion project in the Village and bears interest of 7.54%. The loan had a balance of \$20,901 at December 31, 2001.

The 1992 Ohio Water Development Authority (OWDA) loan, due in semi-annual installments of \$23,903 through January 1, 2011, relates to a reservoir project in the Village and bears interest of 7.77%. The loan had a balance of \$324,145 at December 31, 2001.

The 2001 Ohio Water Development Authority (OWDA) loan, due in a single installment with principal of \$714,000 and accrued interest due on May 31, 2004, relates to a storm sewer project in the Village and bears interest of 3.96%. This loan was redeemed entirely in February, 2002.

The OWDA loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The 1993 Wetlands Restoration Improvement Bonds, due in varying amounts through November 15, 2003, relate to the construction of wetlands improvements in the Village and bear interest of 5.25%. The bonds had a balance of \$60,000 at December 31, 2001.

The 1997 Dump Truck Bonds, due in quarterly payments of varying amounts through October 24, 2002, relate to the acquisition of a dump truck for the Village and bear interest of 6.25%. The bonds had a balance of \$13,177 at December 31, 2001.

The above Bonds are collateralized by the Village's taxing authority.

The 2001 Storm Sewer Improvement Bond Anticipation Note, due in one annual payment on January 1, 2002, relates to a storm sewer project in the Village and bears interest of 6.50%. The note had a balance of \$100,000 at December 31, 2001.

The 2001 Street Improvement Bond Anticipation Note, due in one annual payment on June 14, 2002, relates to street improvement projects within the Village's industrial park and bears interest of 5.25%. The note had a balance of \$142,697 at December 31, 2001.

The 2001 Building Acquisition Bond Anticipation Note, due in one annual payment on September 22, 2002, relates to the purchase of a municipal building and bears interest of 4.50%. The note had a balance of \$89,705 at December 31, 2001.

The 2001 Fire Station Improvement Bond Anticipation Note, due in one annual payment on December 28, 2002, relates to a fire station construction project in the Village and bears interest of 4.75%. The note had a balance of \$100,000 at December 31, 2001.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

6. DEBT (Continued)

The United States Department of Agriculture 1996 Rural, Economic and Community Development Services (RECDS) loan, due in varying annual installments through April 1, 2021, relates to a sanitary sewer replacement project in the Village and bears interest of 4.875%. The loan had a balance of \$90,578 at December 31, 2001. As required by the USDA loan covenant, the Village has established and funded a debt service reserve fund, included as a debt service fund. The balance in the fund at December 31, 2001 was \$22,254.

A lease purchase agreement was entered into in 1999 for the purpose of obtaining a boom mower. This lease will be paid in annual installments of \$3,697 through December 10, 2004, and bears interest of 6.00%. The lease's present value at December 31, 2001 was \$9,925.

A lease purchase agreement was entered into in 2000 for the purpose of obtaining a police cruiser. This lease will be paid in annual installments of \$7,186 through July 13, 2002, and bears interest of 5.75%. The lease's present value at December 31, 2001 was \$6,796.

A lease purchase agreement was entered into in 2001 for the purpose of obtaining a police cruiser. This lease will be paid in annual installments of \$7,398 through June 26, 2003, and bears interest of 5.35%. The lease's present value at December 31, 2001 was \$13,724.

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

	OWDA Loans	General Obligation Bonds	Bond Anticipatio n Notes	USDA (RECDS) Loan	Lease Purchase Agreements
Year ending December 31:					
2002	\$837,754	\$46,847	\$455,181	\$8,416	\$18,281
2003	88,135	31,575		8,421	11,095
2004	88,135			8,416	3,696
2005	70,365			8,401	
2006	52,596			8,477	
Thereafter	241,433			89,425	
Total	<u>\$1,378,418</u>	<u>\$78,422</u>	<u>\$455,181</u>	<u>\$131,556</u>	<u>\$33,072</u>

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

7. 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 Public Employees Retirement System (PERS) of Ohio. OP&F and PERS 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 2001 OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of their wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2001. The Village has paid all contributions required through December 31, 2001.

8. RISK MANAGEMENT

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

Pursuant to Section 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 coverages, modified for each member's needs. The Plan pays judgments, settlements, and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages 100%, rather than using a risk pool of member funds to pay individual and collective losses. Therefore the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.

The Village also provides health insurance, life insurance, and dental and vision coverage to full-time employees through various private carriers.

9. CONTINGENT LIABILITIES

The Village is a defendant in a lawsuit. Although the outcome of this suit is not presently determinable, management believes that the resolution of this matter will not materially adversely affect the Village's financial condition.

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.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

10. SUBSEQUENT EVENTS

On January 23, 2001, the Village entered into a Water/Waste System Grant Agreement through the United States Department of Agriculture, Rural Utility Services, for the improvement of storm sewers within the Village. The Department of Agriculture will provide the Village a loan of \$714,000 and a grant of not more than \$475,000 or 75% of the development costs (whichever is less) subject to terms and conditions established by the Department of Agriculture to finance the cost of the project. The Village will repay the loan through the collection of user charges. As part of this project the Village has received interim loans from the Ohio Water Development Authority in the amount of \$714,000. These loans were repaid when the Department of Agriculture loan was received on February 1, 2002. In addition, the Village has received \$281,191 of the grant amount to date. The project is expected to be completed by the end of 2002.

On April 29, 2002, the Village entered into a Water/Waste System Grant Agreement through the United States Department of Agriculture, Rural Utility Services, for the improvement of water systems within the Village. The estimated cost of the project is \$269,500. The Department of Agriculture will provide the Village a loan of \$162,000 and a grant of not more than \$107,500 or 45% of the development costs (whichever is less) subject to terms and conditions established by the Department of Agriculture to finance the cost of the project. The Village will repay the loan through the collection of user charges. The Village has received \$3,043 of the loan amount to date. The project is expected to be completed by the end of 2002.

On October 26, 2001, the Village received notice from one of its largest employers of its plans to permanently close its Loudonville plant during 2002. The closing is expected to be complete by August 2002 and will result in a significant reduction in Village income tax revenues in 2002 and subsequent years. In response, the Village has reduced its work force through layoffs and attrition and has also reduced capital expenditures.

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VILLAGE OF LOUDONVILLE
ASHLAND COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2001

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$976,944	\$1,006,276

The accompanying notes are an integral part of this schedule.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2001**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes activity of the Village's federal programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FEDERAL LOAN

The Village's funding for the Water and Waste Disposal Systems for Rural Communities programs included a loan of \$714,000.

NOTE C - INTERIM FINANCING

The Village received interim financing of a \$714,000 loan for Water and Waste Disposal Systems for Rural Communities Program from the Ohio Water Development Authority. This loan will be replaced by a USDA loan at the projects completion providing permanent financing. All expenditures of the loan funds are considered expenditures of Federal assistance.



STATE OF OHIO
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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Loudonville
Ashland County
P.O. Box 150
Loudonville, Ohio 44842

To the Village Council:

We have audited the accompanying financial statements of the Village of Loudonville, Ashland County, Ohio, (the Village) as of and for the year ended December 31, 2001, and have issued our report thereon dated May 17, 2002. 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 2001-30503-001 through 2001-30503-003.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated May 17, 2002.

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 2001-30503-004 and 2001-30503-005.

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 consider items 2001-30503-004 and 2001-30503-005 to be 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 May 17, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

May 17, 2002



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Village of Loudonville
Ashland County
P.O. Box 150
Loudonville, Ohio 44842

To the Village Council:

Compliance

We have audited the compliance of the Village of Loudonville, Ashland County, Ohio, (the Village) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2001. The Village's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2001.

Internal Control Over Compliance

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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



Jim Petro
Auditor of State

May 17, 2002

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2001**

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Water and Waste Disposal Systems for Rural Communities, CFDA # 10.760
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

Noncompliance Citations

FINDING NUMBER 2001-30503-001

Ohio Rev. Code Section 135.21 states in part that all investment earnings, except as otherwise expressly provided by law, shall be credited to the General Fund of the Village.

The Village posted interest revenue to the Water and Sanitary Sewer Enterprise Funds. As a result, revenues were overstated in the Water and Sanitary Sewer Enterprise Funds and understated in the General Fund.

The Village should transfer interest earnings from the General Fund, by resolution, to these Enterprise Funds, if the Village determines that a portion of the interest earnings should be recorded in these Enterprise Funds.

To correct the misposting of interest during the year, the following adjustment was made to the accompanying financial statements:

General Fund	\$8,279
Water Fund	(132)
Sanitary Sewer Fund	<u>(8,147)</u>
 Total	 <u><u>\$ 0</u></u>

These adjustments are reflected in the accompanying financial statements, and the Village has recorded them in their books and records.

We also reported a similar matter in the management letter of our December 31, 2000, audit of the financial statements.

FINDING NUMBER 2001-30503-002

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

At December 31, 2001, expenditures exceeded appropriations within the following fund:

	Fund Appropriation	Budgetary Expenditures	Variance
Special Revenue Funds:			
Fire Levy Fund	\$368,523	\$458,899	(\$90,376)

The Village should frequently compare actual expenditures plus outstanding encumbrances to appropriations at the legal level of budgetary control to avoid overspending.

**Noncompliance Citations
(Continued)**

FINDING NUMBER 2001-30503-003

Ohio Rev. Code Section 117.38 requires cash basis entities to file an annual report with the Auditor of State within 60 days of fiscal year end. In addition, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The Village did not file its 2000 cash basis annual report with the Auditor of State nor publish the annual report in a local newspaper until July of 2001. In addition, to date the Village has not filed their report for 2001 with the Auditor of State. The Village should prepare an annual report in the format utilized for their financial statement presentation and submit the report to the Auditor of State within 60 days of year end. In addition, the annual report should be publicized in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

Material Weaknesses

FINDING NUMBER 2001-30503-004

Bank Reconciliations

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records. This process involves reconciling the bank balance to the cash and investment balance. Throughout the audit period, monthly reconciliations were not performed in a timely manner for both the general and payroll clearing bank accounts. Some reconciliations were up to three months late. Numerous reconciling items were carried throughout the year and not corrected prior to year end.

Without complete and accurate monthly bank reconciliations, the Village's internal control is weakened, which could hinder the detection of errors or irregularities by the Village's management in a timely manner. In addition, the lack of legislative monitoring may lead to errors, irregularities or misappropriation of Village assets.

The Clerk-Treasurer should perform and complete monthly bank reconciliations in a timely manner. In addition, a copy of each monthly bank reconciliation along with a complete listing of reconciling items (outstanding checks, posting errors, bank coding errors, etc.) should be filed in the bank activity folder along with the bank statements and supporting documents for the applicable month. The bank reconciliation should be included as part of the monthly financial package presented to the Village Council for review and approval. This review should also include determining that deposits and investments are allowable per the Ohio Revised Code. Furthermore, Village Council members should sign and date the bank reconciliations indicating they have been reviewed.

**Material Weaknesses
(Continued)**

FINDING NUMBER 2001-30503-005

Payroll Clearing Account

The Village maintains a zero balance payroll bank account which is not properly reconciled monthly.

Numerous errors and uncorrected reconciling items were noted as follows:

- Amounts in excess of the biweekly payroll amounts were transferred from the general account to the payroll account from 1997 to 2000. \$19,282 was still due to be transferred back to the general account as of December 31, 2001. The Clerk-Treasurer should return the remaining excess funds to the general bank account. In addition, the Clerk-Treasurer should ensure that only the exact amount necessary to cover future bi-weekly payrolls is transferred from the general account to the payroll account every two weeks.
- An overpayment of \$168.32 was made to FICA in December, 1999. This amount was refunded to the Village in March, 2000. However, this amount was being carried as a reconciling item as of December 31, 2001. The refunded amount was deposited in the general account and should be transferred to the payroll account from where it was overpaid.
- Various bank posting errors occurred between January, 1999 through December, 2001 totaling \$531.64. All of these errors were carried as reconciling items at December 31, 2001. The Clerk-Treasurer should contact the bank to remedy these errors. Any future errors should be corrected in the subsequent month.
- Due to duplicate payments and other errors, \$11,166 was overpaid to the Public Employees Retirement System (PERS) as employee contributions between September, 1997 through December, 2001. These overpayments were from the excess transfers between the general and payroll accounts noted above. Therefore, these are excess Village funds that were overpaid and are not incorrect withholdings from employees. This amount is due to the Village from PERS and not due to the employees as of December 31, 2001. These PERS errors have been carried as reconciling items since 1997. In addition to the \$11,166 overpayment from the payroll account, there was an additional overpayment of \$17,800 from the general account for the employer portion during this period of time. In June, 1998, the Local Government Services division of the Auditor of State documented employee overpayments to PERS of \$8,622 and employer overpayments of \$13,745 from October, 1997 through January, 1998. As of December 31, 2001, no action has been taken by the Village to correct these errors. The Clerk-Treasurer has contacted PERS to request forms to correct the total overpayments of \$28,966. The Clerk-Treasurer should correct these errors as soon as possible and ensure that correct amounts are paid to PERS in the future.

The Village's payroll zero balance bank account should be maintained in the prescribed manner; that is to say with a zero book balance. In addition, the account should be reconciled on a monthly basis and any errors detected should be corrected in a timely manner.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-30503-001	Ohio Rev, Code Section 5705.131, failure to credit interest to an endowment fund.	Yes	Finding No Longer Valid
2000-30503-002	Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations.	No	Partially corrected. See finding 2001-30503-002
2000-30503-003	Ohio Rev. Code Section 5705.42, failure to appropriate for Issue II grant funds.	Yes	Finding No Longer Valid
2000-30503-004	Ohio Rev. Code Section 5705.41(D), failure to certify expenditures.	No	Partially corrected. Reported in management letter.
2000-30503-005	Ohio Rev. Code Section 117.38, failure to file annual report timely.	No	Not corrected. See finding 2001-30503-003
2000-30503-006	Bank Reconciliations not timely and accurate.	No	Not corrected. See finding 2001-30503-004
2000-30503-007	Payroll Clearing Account not properly reconciled.	No	Not corrected. See finding 2001-30503-005



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VILLAGE OF LOUDONVILLE

ASHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 9, 2002**