



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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VILLAGE OF MADISON
LAKE COUNTY

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**Auditor of State
Betty Montgomery**

Village of Madison
Lake County
126 West Main Street
Madison, Ohio 44057

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

December 12, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Madison
Lake County
126 West Main Street
Madison, Ohio 44057

To the Village Council:

We have audited the accompanying financial statements of the Village of Madison, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2005 and December 31, 2004. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 11 to the accompanying financial statements, the Village restated the fund balance for the Cemetery Operating and Cemetery Capital funds as of December 31, 2004.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, 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 Madison, Lake County, Ohio, as of December 31, 2005 and December 31, 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2005 and December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2006, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

December 12, 2006

**VILLAGE OF MADISON
LAKE 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, 2005**

	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	\$118,988	\$2,000	\$24,673	\$0	\$18,867	\$164,528
Municipal Income Tax	953,598	0	0	0	0	953,598
Special Assessments	0	83,480	0	0	0	83,480
Intergovernmental Receipts	178,094	245,002	0	187,000	0	610,096
Charges for Services	4,642	28,720	0	9,535	0	42,897
Fines, Licenses, and Permits	189,608	10,773	0	0	0	200,381
Earnings on Investments	7,743	488	0	0	0	8,231
Miscellaneous	81,461	5,903	0	0	0	87,364
Total Cash Receipts	1,534,134	376,366	24,673	196,535	18,867	2,150,575
Cash Disbursements:						
Current:						
Security of Persons and Property	726,170	17,980	0	0	17,895	762,045
Public Health Services	0	16,558	0	0	0	16,558
Leisure Time Activities	7,946	83,091	0	0	0	91,037
Basic Utility Services	0	70,820	0	0	0	70,820
Transportation	0	143,992	0	0	0	143,992
General Government	611,203	2,502	2,069	0	0	615,774
Debt Service:						
Principal Payments	0	0	130,000	0	0	130,000
Interest Payments	0	0	1,594	0	0	1,594
Capital Outlay	58,275	13,000	0	280,002	0	351,277
Total Cash Disbursements	1,403,594	347,943	133,663	280,002	17,895	2,183,097
Total Receipts Over/(Under) Disbursements	130,540	28,423	(108,990)	(83,467)	972	(32,522)
Other Financing Receipts and (Disbursements):						
Sale of Bonds or Notes	0	0	100,000	0	0	100,000
Transfers-In	0	12,557	0	126	0	12,683
Transfers-Out	(12,683)	0	0	0	0	(12,683)
Total Other Financing Receipts/(Disbursements)	(12,683)	12,557	100,000	126	0	100,000
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	117,857	40,980	(8,990)	(83,341)	972	67,478
Fund Cash Balances, January 1, 2005	(48,336)	105,932	18,327	202,209	3,992	282,124
Fund Cash Balances, December 31, 2005	\$69,521	\$146,912	\$9,337	\$118,868	\$4,964	\$349,602
Reserves for Encumbrances, December 31, 2005	\$26,874	\$8,253	\$0	\$0	\$0	\$35,127

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

**VILLAGE OF MADISON
LAKE 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, 2005**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$960,022	\$30	\$0	\$960,052
Fines, Licenses and Permits	1,950	0	0	1,950
Miscellaneous	925	0	0	925
Total Operating Cash Receipts	962,897	30	0	962,927
Operating Cash Disbursements:				
Personal Services	192,670	0	0	192,670
Fringe Benefits	61,268	0	0	61,268
Contractual Services	461,181	0	0	461,181
Supplies and Materials	43,831	0	0	43,831
Other	6,316	0	0	6,316
Total Operating Cash Disbursements	765,266	0	0	765,266
Operating Income/(Loss)	197,631	30	0	197,661
Non-Operating Cash Receipts:				
Property Tax and Other Local Taxes	45,439	0	0	45,439
Proceeds from Notes and Bonds	1,515,000	0	0	1,515,000
Other Non-Operating Cash Receipts	0	0	183,097	183,097
Total Non-Operating Cash Receipts	1,560,439	0	183,097	1,743,536
Non-Operating Cash Disbursements:				
Debt Service	1,774,377	0	0	1,774,377
Other Non-Operating Cash Disbursements	41,775	0	176,149	217,924
Total Non-Operating Cash Disbursements	1,816,152	0	176,149	1,992,301
Excess of Receipts Over/(Under) Disbursements	(58,082)	30	6,948	(51,104)
Fund Cash Balances, January 1, 2005	82,371	65,574	11,895	159,840
Fund Cash Balances, December 31, 2005	\$24,289	\$65,604	\$18,843	\$108,736
Reserve for Encumbrances, December 31, 2005	\$33,147	\$0	\$0	\$33,147

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

**VILLAGE OF MADISON
LAKE 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, 2004**

	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	\$80,277	\$0	\$28,318	\$0	\$13,411	\$122,006
Municipal Income Tax	800,010	0	0	0	0	800,010
Special Assessments	0	82,489	0	0	0	82,489
Intergovernmental Receipts	170,198	217,929	0	43,000	0	431,127
Charges for Services	3,553	13,185	0	6,861	0	23,599
Fines, Licenses, and Permits	179,612	1,271	0	0	0	180,883
Earnings on Investments	4,112	161	0	0	0	4,273
Miscellaneous	53,824	4,274	0	0	0	58,098
Total Cash Receipts	1,291,586	319,309	28,318	49,861	13,411	1,702,485
Cash Disbursements:						
Current:						
Security of Persons and Property	739,650	24,765	0	0	14,433	778,848
Public Health Services	0	19,768	0	0	0	19,768
Leisure Time Activities	0	65,722	0	0	0	65,722
Basic Utility Services	0	67,835	0	0	0	67,835
Transportation	0	149,660	0	0	0	149,660
General Government	574,848	2,424	4,200	0	0	581,472
Debt Service:						
Principal Payments	0	0	130,000	0	0	130,000
Interest Payments	0	0	2,197	0	0	2,197
Financing and Other Debt-Service Related	0	0	4,975	0	0	4,975
Capital Outlay	54,305	14,211	0	135,555	0	204,071
Total Cash Disbursements	1,368,803	344,385	141,372	135,555	14,433	2,004,548
Total Receipts Over/(Under) Disbursements	(77,217)	(25,076)	(113,054)	(85,694)	(1,022)	(302,063)
Other Financing Receipts and (Disbursements):						
Sale of Bonds or Notes	0	0	130,000	0	0	130,000
Transfers-In	0	4,427	0	0	0	4,427
Transfers-Out	(4,427)	0	0	0	0	(4,427)
Total Other Financing Receipts/(Disbursements)	(4,427)	4,427	130,000	0	0	130,000
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(81,644)	(20,649)	16,946	(85,694)	(1,022)	(172,063)
Fund Cash Balances, January 1, 2004	33,308	126,581	1,381	287,903	5,014	454,187
Fund Cash Balances, December 31, 2004	(\$48,336)	\$105,932	\$18,327	\$202,209	\$3,992	\$282,124
Reserves for Encumbrances, December 31, 2004	\$40,607	\$20,987	\$0	\$20,577	\$0	\$82,171

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

**VILLAGE OF MADISON
LAKE 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, 2004**

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$914,705	\$1,129	\$0	\$915,834
Fines, Licenses and Permits	3,450	0	0	3,450
Miscellaneous	6,209	0	0	6,209
Total Operating Cash Receipts	924,364	1,129	0	925,493
Operating Cash Disbursements:				
Personal Services	170,205	0	0	170,205
Fringe Benefits	48,928	0	0	48,928
Contractual Services	391,123	0	0	391,123
Supplies and Materials	62,955	0	0	62,955
Other	11,372	0	0	11,372
Capital Outlay	166,880	0	0	166,880
Total Operating Cash Disbursements	851,463	0	0	851,463
Operating Income/(Loss)	72,901	1,129	0	74,030
Non-Operating Cash Receipts:				
Property Tax and Other Local Taxes	45,434	0	0	45,434
Special Assessments	64,841	0	0	64,841
Proceeds from Notes and Bonds	1,525,000	0	0	1,525,000
Interest and Other Fiscal Charges	0	0	155,750	155,750
Total Non-Operating Cash Receipts	1,635,275	0	155,750	1,791,025
Non-Operating Cash Disbursements:				
Debt Service	1,791,997	0	0	1,791,997
Other Non-Operating Cash Disbursements	0	0	154,120	154,120
Total Non-Operating Cash Disbursements	1,791,997	0	154,120	1,946,117
Net Receipts Over/(Under) Disbursements	(83,821)	1,129	1,630	(81,062)
Fund Cash Balances, January 1, 2004	166,192	64,445	10,265	240,902
Fund Cash Balances, December 31, 2004	\$82,371	\$65,574	\$11,895	\$159,840
Reserve for Encumbrances, December 31, 2004	\$39,690	\$0	\$0	\$39,690

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

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Madison, Lake County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general governmental services, including water and sewer utilities, rubbish collections, building, zoning and police protection.

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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Senior Citizens Operating Fund - This fund receives intergovernmental monies for the operation of the Senior Citizens Center.

Street Lighting Fund - This fund receives special assessments for the installation and operation of street lighting in the Village.

3. Debt Service Fund

The debt service fund is used to accumulate resources for the payment of bonds and loan indebtedness.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Senior Citizens Capital Fund - This fund receives intergovernmental monies for maintenance and improvements of a Senior Citizens Center.

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 Capital Fund - This fund receives proceeds from water charges which are used to improve the Village's water treatment plant.

Sewer Capital Fund - This fund receives proceeds from sewer charges which are used to improve the Village's sewer system.

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

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classified the fund 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 MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

6. Fiduciary Funds (Trust and Agency Funds) (Continued)

Police Disability and Pension Fund - This fund is used to account for the police pension prior to paying the funds to the retirement system (Expendable Trust).

Cemetery Endowment Fund - This fund is for future maintenance of the cemetery (Nonexpendable Trust).

Mayor's Court Fund - This fund is used to account for the collection and distribution of Mayor's Court fines, fees, and bonds (Agency Fund).

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, department, object level of control, and appropriations may not exceed estimated resources. Village 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.

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. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2005	2004
Demand deposits	\$169,100	\$160,905
Certificates of deposit	101,764	98,919
Total deposits	270,864	259,824
 STAR Ohio	 187,474	 182,140
Total investments	187,474	182,140
Total deposits and investments	\$458,338	\$441,964

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,482,208	\$1,534,134	\$51,926
Special Revenue	304,941	388,923	83,982
Debt Service	131,569	124,673	(6,896)
Capital Projects	23,000	196,661	173,661
Expendable Trust	18,630	18,867	237
Enterprise	2,493,500	2,523,336	29,836
Non-Expendable Trust	2,000	30	(1,970)
Total	\$4,455,848	\$4,786,624	\$330,776

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,367,692	\$1,443,151	(\$75,459)
Special Revenue	418,035	356,196	61,839
Debt Service	137,000	133,663	3,337
Capital Projects	296,697	280,002	16,695
Expendable Trust	18,000	17,895	105
Enterprise	2,648,933	2,614,565	34,368
Total	<u>\$4,886,357</u>	<u>\$4,845,472</u>	<u>\$40,885</u>

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,350,500	\$1,291,586	(\$58,914)
Special Revenue	560,675	323,736	(236,939)
Debt Service	161,000	158,318	(2,682)
Capital Projects	19,000	49,861	30,861
Expendable Trust	18,000	13,411	(4,589)
Enterprise	2,575,000	2,559,639	(15,361)
Non-Expendable Trust	2,000	1,129	(871)
Total	<u>\$4,686,175</u>	<u>\$4,397,680</u>	<u>(\$288,495)</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,367,629	\$1,413,837	(\$46,208)
Special Revenue	403,339	365,372	37,967
Debt Service	158,845	141,372	17,473
Capital Projects	385,000	156,132	228,868
Expendable Trust	16,000	14,433	1,567
Enterprise	2,722,648	2,683,150	39,498
Total	<u>\$5,053,461</u>	<u>\$4,774,296</u>	<u>\$279,165</u>

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

4. LEGAL COMPLIANCE AND OTHER MATTERS

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the following funds for the year ending December 31, 2005:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
General	\$1,367,692	\$1,443,151	(\$75,459)
Special Revenue			
State Highway Fund	\$15,000	\$16,000	(\$1,000)
Enterprise			
Sewer Operating	\$310,770	\$359,504	(\$48,734)
Garbage	\$98,000	\$102,466	(\$4,466)

The following fund had expenditures that exceeded appropriations for the year ending December 31, 2004:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
General	\$1,367,629	\$1,413,837	(\$46,208)
Special Revenue			
State Highway	\$12,000	\$13,847	(\$1,847)
Permissive Vehicle Tax	\$5,500	\$10,505	(\$5,005)
Enterprise			
Sewer Capital	\$1,027,000	\$1,036,481	(\$9,481)
Water/Sewer Deposit	\$2,000	\$2,875	(\$875)

Contrary to Ohio law, the Village was not properly encumbering expenditure before the purchase was made.

Contrary to Ohio law, the following funds had negative fund balances for the year ending December 31, 2004:

<u>Fund</u>	<u>Negative Fund Balance</u>
General	(\$48,366)
Special Revenue	
Senior Citizen	(\$27,049)

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. PROPERTY TAX (Continued)

Public utilities are also taxed on personal and real property located within the Village.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

6. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 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.

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.

7. DEBT

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Waterworks System Improvement Note	\$1,515,000	2.25%
OWDA Loan - Water Tower	130,923	7.96%
OWDA Loan - Sewer Expansion	184,629	7.96%
OWDA Loan - Belt Filter Press	140,308	4.56%
OWDA Loan - Waterline Replacement	825,773	4.12%
OWDA Loan - #531SRF	252,568	3.50%
OPWC - N. Lake St. Waterline	45,600	0.00%
OPWC - Eagle Street	25,000	0.00%
OPWC - River E. Main Waterline	40,000	0.00%
OPWC - West Main Waterline	30,000	0.00%
Total	<u>\$3,189,801</u>	

The Waterworks System Improvement Note and the Ohio Water Development Authority (OWDA) loans relate to upgrading the water and sewer plants and lines. The Ohio Public Works Commission loan was to upgrade water lines. These debts will be repaid from the water and sewer funds.

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

7. DEBT (Continued)

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

	Improvement Notes	OWDA Water Tower	OWDA Sewer Expansion	OWDA Belt Filter Press
Year ending December 31:				
2006	\$1,549,088	\$30,357	\$37,518	\$17,628
2007	0	30,357	37,518	17,628
2008	0	30,357	37,518	17,628
2009	0	30,357	37,518	17,628
2010	0	45,536	37,518	17,628
2011-2015	0	0	56,279	88,143
2016-2020	0	0	0	0
Total	<u>\$1,549,088</u>	<u>\$166,964</u>	<u>\$243,869</u>	<u>\$176,283</u>

	OWDA Water Replacement	OWDA #531SRF	OPWC N. Lakeline Waterline	OPWC Eagle Street
Year ending December 31:				
2006	\$87,910	\$21,251	\$3,800	\$5,000
2007	87,910	21,251	3,800	5,000
2008	87,910	21,251	3,800	5,000
2009	87,910	21,251	3,800	5,000
2010	87,910	21,251	3,800	5,000
2011-2015	439,550	106,255	19,000	0
2016-2020	175,824	116,883	7,600	0
Total	<u>\$1,054,924</u>	<u>\$329,393</u>	<u>\$45,600</u>	<u>\$25,000</u>

	OPWC River E. Main Waterline	OPWC West Main Waterline	TOTALS
Year ending December 31:			
2006	\$2,500	\$5,000	\$1,760,052
2007	2,500	5,000	210,964
2008	2,500	5,000	210,964
2009	2,500	5,000	210,964
2010	2,500	5,000	226,143
2011-2015	12,500	5,000	726,727
2016-2020	12,500	0	312,807
2021	2,500	0	2,500
Total	<u>\$40,000</u>	<u>\$30,000</u>	<u>\$3,661,121</u>

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

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. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members 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, 2005.

9. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

10. NORTHEAST OHIO PUBLIC ENERGY COUNCIL

The Village is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 104 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The Village did not contribute to NOPEC during 2004 and 2005. Financial information can be obtained by contacting NOPEC, 1615 Clarke Ave., Cleveland, Ohio 44109.

11. CORRECTION OF A PRIOR YEAR FUND BALANCES

In 2004, the Village reclassified the beginning fund balance of \$30,332 from the Cemetery Capital Fund, a Capital Project Fund, to the Cemetery Operating Fund, a Special Revenue Fund to correct posting errors that occurred in the prior year.

12. SUBSEQUENT EVENTS

In August 2006, the Village issued a one year note in the amount of \$1,490,696.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Madison
Lake County
126 West Main Street
Madison, Ohio 44057

To the Village Council:

We have audited the financial statements of the Village of Madison, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2005 and December 31, 2004, and have issued our report thereon dated December 12, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Also we noted the Village restated the fund balance for the Cemetery Operating and Cemetery Capital funds. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated December 12, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003. In a separate letter to the Village's management dated December 12, 2006, we reported other matters related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

We intend this report solely for the information and use of management, the Mayor and the Village Council. It is not intended for 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

December 12, 2006

**VILLAGE OF MADISON
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 and 2004**

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

Noncompliance Citations

FINDING NUMBER	2005-001
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The Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure of money unless it has been properly appropriated. The following fund had expenditures that exceeded appropriations for the year ending December 31, 2005:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
Enterprise			
Sewer Operating	\$310,770	\$359,504	(\$48,734)

The following funds had expenditures that exceeded appropriations for the year ending December 31, 2004:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
Special Revenue			
State Highway	\$12,000	\$13,847	(\$1,847)
Permissive Vehicle Tax	\$5,500	\$10,505	(\$5,005)

The Village should monitor the expenditures in comparison to appropriations.

Official's Response:

The Village has implemented procedures to correct this problem.

Finding Number	2005-002
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Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

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

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

VILLAGE OF MADISON
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)

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

Noncompliance Citations (Continued)

Finding Number	2005-002 (Continued)
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2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

In violation of section 5705.41(D), 25 percent of the 2005 transactions tested and 19 percent of the 2004 transactions tested were not certified by the Clerk-Treasurer at the time the commitment was incurred and there was no evidence the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

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

Official’s Response:

The Village has implemented procedures to correct this problem.

**VILLAGE OF MADISON
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

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

Noncompliance Citations (Continued)

FINDING NUMBER	2005-003
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Ohio Revised Code § 5705.10 requires, in part, that money paid into any fund shall be used only for the purposes for which such fund is established.

The General Fund and the Special Revenue Fund, Senior Citizen, had cash deficit fund balances of \$48,336 and \$27,049, respectively, for the year ending December 31, 2004.

The Village should review cash fund balances on a monthly basis to determine if any negative balances exist.

Official's Response:

The Village has implemented procedures to correct this problem.

**VILLAGE OF MADISON
LAKE COUNTY
DECEMBER 31, 2005 AND 2004**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	<u>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</u>
2003-001	Finding for Recovery based on Ohio Revised Code Section 117.28	Yes	Repaid in 2005.
2003-002	The Ohio Revised Code Section 5705.41(B) requires that no subdivision or taxing unit shall make any expenditure of money unless it has been properly appropriated.	No	Reissued as 2005-001
2003-003	The Ohio Rev. Code Sections 9.10 and 9.11, authorizes the reproduction of any authorized signature by a copper plate or by a photographic, photostatic, or mechanical device, but does not authorize the use of a rubber stamp signature by any elected or appointed public official of any political subdivision on the face of any instrument.	Yes	
2003-004	Ohio Rev. Code Section 5705.41(D) states, in part, that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract 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 encumbrances.	No	Reissued as 2005-002
2003-005	Ohio Rev. Code Section 5705.38 states, an annual appropriation measure is to be passed on or about the first day of the fiscal year.	Yes	
2003-006	Ohio Rev. Code Section 5705.39 provides that total appropriations from each fund shall not exceed the certificate of estimated resources.	Partially	Moved to the Management Letter
2003-007	Ohio Rev. Code Section 117.38 states the Village must file their financial statements within 60 days of fiscal year end.	Yes	
2003-008	The Village was using note proceeds for expenditures that were not permitted by the debt covenants.	Yes	
2003-009	Ohio Rev. Code Section 5705.14 states Council must approve transfers.	Yes	
2003-010	The Village did not reconcile their ledgers to the bank	Yes	
2003-011	The Village did not properly post their revenues and expenditures to their ledgers	Yes	
2003-012	The Mayor's Court did not maintain a cashbook.	Partially	Moved to the Management Letter



**Auditor of State
Betty Montgomery**

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VILLAGE OF MADISON

LAKE 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
JANUARY 16, 2007**