



**VILLAGE OF MADISON
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2001



**Auditor of State
Betty Montgomery**

VILLAGE OF MADISON
LAKE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
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	3
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	4
Notes to the Financial Statements	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	15
Schedule of Findings	17
Schedule of Prior Audit Findings	22

This page intentionally left blank.



**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 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 of Madison, Lake County, Ohio, 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.

As described in Note 2, during the year ended December 31, 2001, the Village reclassified two Capital Project Funds to Enterprise Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2004 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of Madison
Lake County
Independent Accountants' Report
Page 2

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

Betty Montgomery
Auditor of State

September 9, 2004

**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, 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	\$66,632	\$6,09	0		\$2,8	\$189
Intergovernmental Receipts	206,731	218,129				2,860
Charges for Services	6,44	1,38				5,760
Fees, Licenses, and Permits	2531					2531
Earnings on Investments	31,75					31,75
Fines and Forfeits	4,381	125				4,66
Contributions	1,125	7,89				919
Miscellaneous	5,234	1563		6,66		755
Total Cash Receipts	1,276,601	3196	0	6,66	12,8	1,61971
Cash Disbursements:						
Current:						
Security of Persons and Property	40					40
Public Health Services	12,000					12,000
Community Development		28,065				28,065
Basic Utility Services	18,280					18,280
Transportation	39	155				21,34
General Government	267,315	6,220				273,55
Capital Outlay	66,64	7,19	12,79			86,634
Fringe Benefits	128,90	1418			2,000	18522
Materials and Supplies	3406	3,811				77,85
Utilities	17,000	5				111,5
Contractual Services	171,070	6,66				177,726
Other Operating Expenses	66,16	32,72				9,98
Total Cash Disbursements	1,231,378	2802	12,79	0	2,000	1,559
Total Receipts Over(nder) Disbursements	423	70,05	(12,79)	6,66	(298)	799
Other Financing Receipts and (Disbursements):						
Transfers-In		13,89			30,000	3,89
Transfers-Out	(3,89)		0	0	0	(3,89)
Total Other Financing Receipts(Disbursements)	(3,89)	13,89	0	0	30,000	0
Excess of Cash Receipts and Other Financing Receipts Over(nder) Cash Disbursements and Other Financing Disbursements	1,333	83,9	(12,79)	6,66	8	799
Fund Cash Balances, January 1, 2001 (Restated)	15	15,387	14180	99	530	41,07
Fund Cash Balances, December 31, 2001	\$146,884	\$235,331	\$1,381	\$101,715	\$5,688	\$490,999
Reserves for Encumbrances, December 31, 2001	26,720	6,810	0	0	0	\$3,90

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, 2001**

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$850,245			\$850,245
Miscellaneous	18,231	\$2,223	\$0	20,454
Total Operating Cash Receipts	<u>868,476</u>	<u>2,223</u>	<u>0</u>	<u>870,699</u>
Operating Cash Disbursements:				
Fringe Benefits	52,759			52,759
Supplies and Materials	45,874			45,874
Utilities	178,784			178,784
Capital Outlay	948,273			948,273
Contractual Services	120,797			120,797
Transportation	926			926
General Government	150,351			150,351
Other Operating Expenses	26,475			26,475
Total Operating Cash Disbursements	<u>1,524,239</u>	<u>0</u>	<u>0</u>	<u>1,524,239</u>
Operating Income/(Loss)	<u>(655,763)</u>	<u>2,223</u>	<u>0</u>	<u>(653,540)</u>
Non-Operating Cash Receipts:				
Intergovernmental Receipts	61,305			61,305
Other Non-Operating Receipts			49,671	49,671
Total Non-Operating Cash Receipts	<u>61,305</u>	<u>0</u>	<u>49,671</u>	<u>110,976</u>
Non-Operating Cash Disbursements:				
Debt Service - Note Principal Payment	1,333,855			1,333,855
Debt Service - Interest and Fiscal Services	116,644			116,644
Other Non-Operating Disbursements			52,556	52,556
Total Non-Operating Cash Disbursements	<u>1,450,499</u>	<u>0</u>	<u>52,556</u>	<u>1,503,055</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(2,044,957)	2,223	(2,885)	(2,045,619)
Other Financing Receipts/Disbursements				
Proceeds of Notes	1,510,000			1,510,000
OPWC Proceeds	150,000			150,000
OWDA Proceeds	303,831			303,831
OPWC Loans	6,353			6,353
Total Other Financing Receipts/Disbursements	<u>1,970,184</u>	<u>0</u>	<u>0</u>	<u>1,970,184</u>
Net Receipts Over/(Under) Disbursements	(74,773)	2,223	(2,885)	(75,435)
Fund Cash Balances, January 1, 2001 (Restated)	157,798	57,958	3,886	219,642
Fund Cash Balances, December 31, 2001	<u>\$83,025</u>	<u>\$60,181</u>	<u>\$1,001</u>	<u>\$144,207</u>
Reserve for Encumbrances, December 31, 2001	<u>\$17,408</u>	<u>\$0</u>	<u>\$0</u>	<u>\$17,408</u>

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, 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

C. Cash and Investments

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

Certificates of deposit are valued at cost. 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

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

**VILLAGE OF MADISON
LAKE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Fund (Continued)

Senior Citizens Levy Fund - This fund receives levy and grant monies for the construction of a Senior Citizens Center.

Street Lighting Fund - This fund receives monies 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 are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Cemetery Capital Fund - This fund receives proceeds from the sale of plots and grave openings to maintain and improve cemetery grounds.

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 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:

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).

**VILLAGE OF MADISON
LAKE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

6. Fiduciary Funds (Trust and Agency Funds)

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 level and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

**VILLAGE OF MADISON
LAKE COUNTY**

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

2. RESTATEMENT OF FUND BALANCE

Two Capital Project Funds were reclassified as Enterprise Funds. These amounts were reclassified due to an accounting change that allowed for these funds to be accounted for as Enterprise Funds.

	<u>Capital Projects</u>	<u>Enterprise</u>
Fund Balances December 31, 2000	\$157,972	\$ 94,885
Fund Balance Reclassification	(62,913)	62,913
Adjusted Fund Balance January 1, 2001	\$ 95,059	\$157,798

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2001
Demand deposits	\$244,561
Certificates of deposit	92,506
Total deposits	337,067
 STAR Ohio	 298,139
Total investments	298,139
Total deposits and investments	\$635,206

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

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

**VILLAGE OF MADISON
LAKE COUNTY**

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

4. BUDGETARY ACTIVITY

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

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,305,300	\$1,276,601	(\$28,699)
Special Revenue	301,282	333,246	31,964
Capital Projects	6,000	6,656	656
Expendable Trust	43,727	42,458	(1,269)
Enterprise	2,515,000	2,899,965	384,965
Non-Expendable Trust	4,500	2,223	(2,277)
Total	\$4,175,809	\$4,561,149	\$385,340

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,404,023	\$1,301,988	\$102,035
Special Revenue	293,232	256,112	37,120
Debt Service	12,799	12,799	0
Capital Projects	1,000	0	1,000
Expendable Trust	42,000	42,000	0
Enterprise	2,698,876	2,992,146	(293,270)
Non-Expendable Trust	2,500	0	2,500
Total	\$4,454,430	\$4,605,045	(\$150,615)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in an Enterprise Fund Type, Water Capital Fund, by \$426,457 for the year ended December 31, 2001.

5. 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 payment, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property with 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.

**VILLAGE OF MADISON
LAKE COUNTY**

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

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, 2001 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Bates Road Improvement Note	\$250,000	2.95%
Waterworks System Improvement Note	1,010,000	3.00%
OWDA Loan - Water Tower	197,011	7.96%
OWDA Loan - Sewer Expansion	260,285	7.96%
OWDA Loan - Belt Filter Press	180,950	4.56%
OWDA Loan - Waterline Replacement	1,022,643	4.12%
OWDA Loan - #531SRF	298,521	3.50%
OPWC - N. Lake St. Waterline	60,800	3.50%
OPWC - Eagle Street	47,500	0.00%
OPWC - River E. Main Waterline	50,000	0.00%
OPWC - West Main Waterline	50,000	0.00%
Total	<u>\$3,427,710</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.

The bond anticipation notes are for road repaving.

**VILLAGE OF MADISON
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(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:				
2002	\$1,297,675	\$30,357	\$37,518	\$17,628
2003		30,357	37,518	17,628
2004		30,357	37,518	17,628
2005		30,357	37,518	17,628
2006		30,357	37,518	17,628
2007 - 2011		136,607	187,591	88,141
2012 - 2016			18,761	70,514
2017 - 2021				
Total	<u>\$1,297,675</u>	<u>\$288,392</u>	<u>\$393,942</u>	<u>\$246,795</u>

	OWDA Water Replacement	OWDA #531SRF	OPWC N. Lakeline Waterline	OPWC Eagle Street
Year ending December 31:				
2002	\$87,910	\$21,251	\$3,800	\$5,000
2003	87,910	21,251	3,800	5,000
2004	87,910	21,251	3,800	5,000
2005	87,910	21,251	3,800	5,000
2006	87,910	21,251	3,800	5,000
2007 - 2011	439,551	106,256	19,000	22,500
2012 - 2016	439,551	106,256	19,000	
2017 - 2021	87,912	95,630	3,800	
Total	<u>\$1,406,564</u>	<u>\$414,397</u>	<u>\$60,800</u>	<u>\$47,500</u>

	OPWC River E. Main Waterline	OPWC West Main Waterline	TOTALS
Year ending December 31:			
2002	\$2,500	\$5,000	\$1,508,639
2003	2,500	5,000	210,964
2004	2,500	5,000	210,964
2005	2,500	5,000	210,964
2006	2,500	5,000	210,964
2007 - 2011	12,500	25,000	1,037,146
2012 - 2016	12,500		666,582
2017 - 2021	12,500		199,842
Total	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$4,256,065</u>

**VILLAGE OF MADISON
LAKE COUNTY**

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

8. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police & Fire Pension Fund (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post-retirement health care, 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 police participation wages. OPERS members contributed 8.5% of their gross salaries. 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.

9. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles, emergency medical services, law enforcement liability; and
- Commercial catastrophe liability, and errors and omissions.

The Village also provides health insurance to full-time employees through a private carrier.

10. CONTINGENT LIABILITIES

The Village is defendant in one 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.

11. 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 2001. Financial information can be obtained by contacting Dan DiLiberto, Treasurer, 35150 Lakeshore Boulevard, Eastlake, Ohio 44095.

VILLAGE OF MADISON
LAKE COUNTY

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

12. SUBSEQUENT EVENTS

Since December 31, 2001, the Village has issued the following debt:

Date	Type of Debt	Amount	Interest Rate	Maturity Date
5/06/2002	Issuance and Sale of Notes	\$150,000	7%	5/06/2003
5/20/2002	Issuance and Sale of Notes	1,190,000	7%	5/20/2003
4/07/2003	Issuance and Sale of Notes	130,000	6%	4/07/2004
4/07/2003	Issuance and Sale of Notes	1,100,000	6%	4/07/2004
7/28/2003	Issuance and Sale of Notes	450,000	6%	7/28/2004
5/03/2004	Issuance and Sale of Notes	130,000	6%	5/03/2005
<hr/>				
Ohio Public Works (OPWC)				
7/19/2002	Assistance from OPW	\$238,500		

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL 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 year ended December 31, 2001, and have issued our report thereon dated September 9, 2004, wherein we reported, the Village reclassified two Capital Project Funds to Enterprise Funds. 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 2001-001 through 2001-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 9, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-004 through 2001-007.

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, of the reportable conditions described above, we consider items 2001-004 through 2001-007 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 September 9, 2004.

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

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

Betty Montgomery
Auditor of State

September 9, 2004

**VILLAGE OF MADISON
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001**

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

Noncompliance Citations

FINDING NUMBER	2001-001
-----------------------	-----------------

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. The following Enterprise fund had expenditures that exceeded appropriations for the year ending December 31, 2001:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
Water Capital	\$1,394,191	\$1,820,648	(\$426,457)

The Village should monitor the expenditures in comparison to appropriations.

FINDING NUMBER	2001-002
-----------------------	-----------------

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. During 2001, the Village Clerk-Treasurer rubber stamped the majority of the Village's checks.

We recommend the Village immediately discontinue the use of a rubber stamp and that all expenditures should be signed manually or in accordance with the above requirement.

FINDING NUMBER	2001-003
-----------------------	-----------------

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.

This section also provides two exceptions to the above requirements:

- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- If the amount involved is less than one thousand dollars (\$3,000 after April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Village Council.

**VILLAGE OF MADISON
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

Noncompliance Citations (Continued)

FINDING NUMBER	2001-003
-----------------------	-----------------

The Village did not certify forty-four of the sixty (73%) non-payroll expenditure transactions tested. We noted numerous instances where the Clerk-Treasurer did not use purchase orders for “direct” payment expenditures, such as utility bills. The Village purchase orders from December 18, 2001 through December 31, 2001, (a total of 60) were not signed by the Clerk-Treasurer. Further, we noted the Village did not track and monitor the funds and time remaining on open blanket purchase orders, therefore this could lead to errors in dollar amounts used and timely cancellation of the purchase orders in compliance with the Ohio Revised Code.

These weaknesses could allow expenditures to exceed the total of the available fund balance and the current year revenues. This could result in a negative fund balance(s).

We recommend the Village use purchase orders for all expenditures to assist in monitoring expenditure activities and to properly certify the availability of funds for any orders or contracts involving the expenditure of money. Every purchase order should be signed timely by the Clerk-Treasurer. In emergency situations, where prior certification is not feasible, we encourage the Village to utilize then and now certificates or blanket certificates.

Material Weaknesses

FINDING NUMBER	2001-004
-----------------------	-----------------

Condition of the Financial Records

Management is responsible for adopting sound accounting policies and for establishing and maintaining internal controls that are designed to record, process, summarize and report transactions consistent with management’s assertions. Also, the fair presentation of cash basis financial statements is a direct and integral part of management’s responsibility to provide reliable and accurate information. During this engagement, we had numerous adjustments that had to be made to enable us to verify the accuracy of the cash activity and cash fund balances of the Village. Management showed no evidence of performing monthly reconciliations.

Without accurate and complete recording and presentation of financial activity, additional audit steps had to be completed to verify the financial position of the Village. In the absence of complete and accurate financial records and monthly reconciliations, the Village could experience losses, lose assets, have debt amounts in excess of their ability to repay, and possibly receive a disclaimer of opinion. We noted the Village’s financial records had the following weaknesses:

**VILLAGE OF MADISON
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

Material Weaknesses (Continued)

FINDING NUMBER	2001-004
-----------------------	-----------------

- The Village has not reconciled their ledgers to the bank statements since at least January 1, 2001;
- All manual checks were not recorded on the Village's ledgers;
- Checks that cleared the bank did not agree to the Village's Detailed Expenditure Ledger and/or Check Register;
- Checks were recorded on the ledgers to different vendors with the same check number;
- Voided checks are still on the ledgers as actual expenditures;
- Voided checks were reissued with the same check number;
- Instances occurred where a check was voided, reissued as a manual check with a different check number, voided again, and again reissued as another manual check number. The original check number did not clear the bank and was not voided off the Village's books, and the final reissued manual check was not recorded on the Village's ledgers, however it cleared the bank;
- The Village twice issued dual payments to vendors on the same invoice;
- There were checks that the bank had not processed that were not recorded on the 2001 outstanding check listings;
- Several checks were written and not posted to the ledgers on a daily basis;
- The Village had gaps in check registers that could not be readily explained by the Village;
- Stale dated outstanding checks made the reconciliation process cumbersome;
- Bank deposits were not posted to the Village's ledgers;
- Receipts and Expenditures were posted with the same reference numbers;
- The Village did not adjust their ledgers for Non Sufficient Funds checks, nor did they track the final disposition of these checks;
- Numerous adjustments were made to the Village ledgers with little or no support;
- The Village made adjustments to their ledgers a year after the original transaction took place;
- Recording payroll at gross, which entails manual checks to be written for the deductions. The payroll manual checks are never recorded on the Village's ledgers;
- The Village paid the child support for an employee who was no longer employed by the Village for one pay period in 2001;
- The Village made numerous payroll adjustments which made it difficult to reconcile the ADP Payroll reports to the Village's ledgers;
- Numerous payroll adjustments were never made to the Village's ledgers;
- The Village incorrectly doubled the PERS deduction that they were required to withhold, from an employee;
- The bail bond bank account was eliminated so all bail bond account activity is commingled with the Mayor's Court account activities, which compromises control over bail bond activity;
- Outstanding bail bonds are not being sufficiently documented and accounted for by the Village; and,
- The Mayor and Council have not received monthly financial reports for several months.

**VILLAGE OF MADISON
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)**

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

Material Weaknesses (Continued)

FINDING NUMBER	2001-004
-----------------------	-----------------

Without timely and accurate reconciliations and ledgers, the Village had errors that were not detected. In 2001, the Village was not able to determine what their actual fund cash balances were. In 2001, the Village's ledgers were overstated by \$38,944. All material adjustments were made on the financial statements.

We recommend the Village reconcile their ledgers to the bank statements on a monthly basis. The Village should limit the amount of manual checks written and verify that all manual checks are recorded on the Village's ledgers. The Village should also stamp "PAID" on invoices when the invoices are paid to avoid duplicate payments. Since payroll was written on the regular checking account, the recording of payroll should be at net, so the deduction checks can be recorded on the ledgers. Remove voided checks from the Village's ledgers. Reconciliations should be reviewed, initialed and dated by the Village Administrator to ensure the accuracy and validity of the reconciliation process and data forwarded to the Council and Mayor. The Village should make additional efforts to resolve unreconciled differences when noted. In addition, the Village should establish a process of removing stale dated outstanding checks and placing the funds in an unclaimed funds account. All Village checks should be posted to the ledger in a timely manner.

The Village management has numerous sources of information available describing the process of internal controls, recordkeeping requirements and reporting procedures. It is the responsibility of management to ensure that all responsible parties have access to this literature and training sessions.

It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the Village management should seek training sessions for financial statement preparation, read and study the available authoritative literature, develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity, and if necessary seek out the assistance of a professional who is familiar with the these requirements.

FINDING NUMBER	2001-005
-----------------------	-----------------

Supporting Documentation

Twelve of sixty (20%) non-payroll transactions reviewed were not sufficiently documented. The Village could not locate 4 invoices and 8 purchase orders for expenditures made in 2001. Not having proper documentation to support transaction(s) could result in duplicate payments and/or questioned costs and non-compliance for not properly encumbering expenditures.

The Village should review all non-payroll expenditures for supporting sufficient evidential matter in order to substantiate the validity of the transactions and ensure compliance with the Ohio Revised Code.

VILLAGE OF MADISON
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2001
(Continued)

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

Material Weaknesses (Continued)

FINDING NUMBER	2001-006
-----------------------	-----------------

Debt Postings

The Village was not correctly posting debt information to the ledgers. The following problems were noted regarding the Village's debt postings:

- While posting to ledgers, the Village did not distinguish between principal and interest, debt transactions were posted entirely to interest accounts;
- The Village booked all of their debt payments together instead of breaking out the payments by what each payment was for, thus the Village could not readily determine how much principal was outstanding for each type of debt; and,
- The Village wrote one check for most of the debt payments to the Treasurer of State, which could lead to incorrect reductions to what is owed on each debt.

We recommend the Village track and post principal and interest payments separately and prepare individual checks for each type of debt issuance.

FINDING NUMBER	2001-007
-----------------------	-----------------

Mayor's Court Cashbook

The Mayor's Court cashbook does not document all cash activity, maintain a cash balance, and receipts are not posted. A valid cash reconciliation cannot be performed on the court's accounts without maintaining an accurate cash balance.

We recommend the Clerk of Court record receipts and maintain a cash balance in addition to the recording of disbursements in the Court's cashbook in order to reconcile the account.

**VILLAGE OF MADISON
LAKE COUNTY
DECEMBER 31, 2001**

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30843-001	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 with 2001-001
2000-30843-002	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 with 2001-003
2000-30843-003	The Village was not reconciling their ledgers to the bank statements on a timely basis	No	Reissued with 2001-004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
NOVEMBER 23, 2004**