



**Auditor of State
Betty Montgomery**

VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Proctorville
Lawrence County
P.O. Box 406
Proctorville, Ohio 45669

To the Village Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Proctorville, Lawrence County, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As described in Note 11, the Village's unaudited August 31, 2003 General Fund balance is \$9,754, and the General Fund owes the Ohio Police and Fire Pension Funds \$80,722. There is substantial doubt regarding the Village's viability as a going concern. Management has no plans to address this deficiency.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Betty Montgomery
Auditor of State

October 7, 2003

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$23,455	\$6,431	\$29,886
Intergovernmental	32,877	31,329	64,206
Fines and Forfeitures	99,333		99,333
Rental Income	18,556		18,556
Franchise Fees	3,468		3,468
Earnings on Investments	111	114	225
Other Revenue	9,364	40	9,404
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	187,164	37,914	225,078
Cash Disbursements:			
Current:			
General Government	58,425	1,800	60,225
Security of Persons and Property	136,962	10,268	147,230
Transportation		25,317	25,317
Leisure Time Activities	750		750
Debt Service:			
Redemption of Principal	6,250		6,250
Interest and Fiscal Charges	1,867		1,867
Capital Outlay	15,048		15,048
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	219,302	37,385	256,687
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	(32,138)	529	(31,609)
Other Financing Receipts:			
Insurance Proceeds	8,283		8,283
Proceeds of Notes	15,048		15,048
Sale of Fixed Assets	6,650		6,650
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts	29,981	0	29,981
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	(2,157)	529	(1,628)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	596	12,099	12,695
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>
	(\$1,561)	\$12,628	\$11,067

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

**VILLAGE OF PROCTORVILLE
LAWRENCE 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, 2002**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$82,618	\$	\$82,618
Total Operating Cash Receipts	82,618	0	82,618
Operating Cash Disbursements:			
Personal Services	42,498		42,498
Supplies and Materials	22,989		22,989
Capital Outlay	39,757		39,757
Total Operating Cash Disbursements	105,244	0	105,244
Operating Income/(Loss)	(22,626)	0	(22,626)
Non-Operating Cash Receipts:			
Intergovernmental Receipts	37,967		37,967
Other Non-Operating Receipts	3,693	120,265	123,958
Total Non-Operating Cash Receipts	41,660	120,265	161,925
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	12,324		12,324
Interest	17,522		17,522
Other Non-Operating Cash Disbursements	3,777	122,639	126,416
Total Non-Operating Cash Disbursements	33,623	122,639	156,262
Net Receipts Over/(Under) Disbursements	(14,589)	(2,374)	(16,963)
Fund Cash Balances, January 1	35,108	4,930	40,038
Fund Cash Balances, December 31	<u>\$20,519</u>	<u>\$2,556</u>	<u>\$23,075</u>

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

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$20,750	\$5,634	\$26,384
Intergovernmental	70,044	33,316	103,360
Fines and Forfeitures	94,908		94,908
Rental Income	18,378		18,378
Franchise Fees	3,239		3,239
Bureau of Workers Compensation Refunds	3,450		3,450
Earnings on Investments	181		181
Other Revenue	2,213	695	2,908
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	213,163	39,645	252,808
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	65,810	1,800	67,610
Security of Persons and Property	130,433	32	130,465
Transportation		42,295	42,295
Leisure Time Activities	1,000		1,000
Debt Service:			
Redemption of Principal	3,721		3,721
Interest and Fiscal Charges	1,216		1,216
Capital Outlay	22,610		22,610
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	224,790	44,127	268,917
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(11,627)	(4,482)	(16,109)
	<hr/>	<hr/>	<hr/>
Other Financing Receipts:			
Proceeds of Notes	22,610		22,610
Sale of Fixed Assets	14,000		14,000
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts	36,610	0	36,610
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	24,983	(4,482)	20,501
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	(24,387)	16,581	(7,806)
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$596	\$12,099	\$12,695
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**VILLAGE OF PROCTORVILLE
LAWRENCE 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	Agency	
Operating Cash Receipts:			
Charges for Services	\$87,483	\$	\$87,483
Miscellaneous	853		853
Total Operating Cash Receipts	<u>88,336</u>	<u>0</u>	<u>88,336</u>
Operating Cash Disbursements:			
Personal Services	38,520		38,520
Supplies and Materials	28,181		28,181
Capital Outlay	14,271		14,271
Total Operating Cash Disbursements	<u>80,972</u>	<u>0</u>	<u>80,972</u>
Operating Income/(Loss)	<u>7,364</u>	<u>0</u>	<u>7,364</u>
Non-Operating Cash Receipts:			
Intergovernmental Receipts	3,733		3,733
Other Non-Operating Receipts	3,413	115,155	118,568
Total Non-Operating Cash Receipts	<u>7,146</u>	<u>115,155</u>	<u>122,301</u>
Non-Operating Cash Disbursements:			
Debt Service:			
Principal	11,600		11,600
Interest	18,246		18,246
Other Non-Operating Cash Disbursements	3,125	111,622	114,747
Total Non-Operating Cash Disbursements	<u>32,971</u>	<u>111,622</u>	<u>144,593</u>
Net Receipts Over/(Under) Disbursements	(18,461)	3,533	(14,928)
Fund Cash Balances, January 1	<u>53,569</u>	<u>1,397</u>	<u>54,966</u>
Fund Cash Balances, December 31	<u>\$35,108</u>	<u>\$4,930</u>	<u>\$40,038</u>

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

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Proctorville, Lawrence County (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council and a publicly-elected Clerk and Mayor. The Village provides maintenance of roads and police and fire protection, as well as providing water services for the citizens.

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.

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

C. Cash and Investments

The Village has one demand deposit account and no investments.

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 Funds

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 Township had the following significant Special Revenue Funds:

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

Firefighting Fund – This fund receives property tax money to operate a volunteer fire department.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. 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 Fund:

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

4. Fiduciary Funds (Agency Fund)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Fund:

Agency Fund – This fund includes activities of the Village's Mayor's Court.

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 or function level of control for 2002 and the fund, function or object level of control for 2001, 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. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and Sick Leave

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

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 follows:

	2002	2001
Demand Deposits	\$34,142	\$52,733

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

3. BUDGETARY ACTIVITY

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

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$230,000	\$217,145	(\$12,855)
Special Revenue	39,104	37,914	(1,190)
Enterprise	493,000	124,278	(368,722)
Total	\$762,104	\$379,337	(\$382,767)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$231,940	\$219,302	\$12,638
Special Revenue	51,362	37,385	13,977
Enterprise	526,464	138,867	387,597
Total	\$809,766	\$395,554	\$414,212

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

4. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$212,825	\$249,773	\$36,948
Special Revenue	36,995	39,645	2,650
Enterprise	242,000	95,482	(146,518)
Total	\$491,820	\$384,900	(\$106,920)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$219,100	\$224,790	(\$5,690)
Special Revenue	41,500	44,127	(2,627)
Enterprise	261,000	113,943	147,057
Total	\$521,600	\$382,860	\$138,740

The Village did not properly encumber funds prior to making commitments contrary to Ohio Rev. Code Section 5705.41 (D).

The Village had expenditures exceeding appropriations in the General Fund-Lands and Building line item in 2002 and General Fund and Street Construction, Maintenance and Repair Fund and the Street Construction, Maintenance and Repair Fund-Salaries line item and the Water Fund-Salaries line item in 2001 contrary to Ohio Rev. Code Section 5705.41 (B).

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 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.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Water Treatment Plant Mortgage Loan	\$273,538	6.04%
General Obligation Note - Insurance	11,849	15.00%
General Obligation Note - Truck	12,336	5.75%
General Obligation Note - Cruiser	16,995	7.50%
Total	<u>\$314,718</u>	

The Water Treatment Plant Mortgage Loan relates to a water treatment plant expansion project. Principal and interest payments on the above debt are to be \$2,265.00 per month, with one final payment for the balance of the principal and interest due in the 60th month (May 2003) after completion of the construction. The remaining principal balance may be renewed for subsequent five-year intervals, at the Bank's option, with the rate adjusted to the previous month's 5-year Treasury Rate in effect at the time of renewal. The Water Loan is collateralized by water and sewer receipts. The Village intends on refinancing the loan at the end of the 60 month period in 2003.

The Village did not maintain the Water Fund cash balance required by the debt covenant. The Water Fund cash balance was \$25,252 for 2001 and \$55,242 for 2002 less than the amounts required. According to the mortgage, failure to comply with any term, obligation, covenant or condition contained in this Mortgage, the Note, or in any of the other related documents or in any other agreement now existing or hereafter arising between Lender and Grantor shall constitute an event of default at the option of the Lender. In such event, the Lender, at its option, may exercise any one or more of the following rights and remedies, in addition to any other rights or remedies provided by the law: accelerated indebtedness, UCC remedies, appoint receiver, judicial foreclosure, deficiency judgment, and tenancy of sufferance.

The General Obligation Note for the insurance was for the payment of the 2002 insurance premium. The original loan was for \$15,048.80 with monthly installments of \$1,778.32 which includes principal and interest. The final payment is due in July of 2003. The Note is collateralized by the Village's taxing authority.

The General Obligation Note for the truck was for the purchase of a pick-up truck. Principal and interest payments on the above debt are to be \$444.38 per month, with the final payment due in June of 2005. The Note is collateralized by both the Village's taxing authority and the pick-up truck.

The General Obligation Note for the cruiser was for the purchase of a cruiser for the Police Department. The original loan was for \$22,610 with monthly installments in the amount of \$454.25 which includes principal and interest. The final payment is due in June of 2006. The Note is collateralized by both the Village's taxing authority and the police cruiser.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

6. DEBT (Continued)

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

Year ending December 31:	Water Plant Mortgage Loan	General Obligation Note - Insurance	General Obligation Note - Truck	General Obligation Note - Cruiser
2003	\$280,495	\$12,448	\$5,333	\$5,451
2004			5,333	5,451
2005			2,604	5,451
2006				2,639
Total	<u>\$280,495</u>	<u>\$12,448</u>	<u>\$13,270</u>	<u>\$18,992</u>

7. CONTRACTUAL COMMITMENTS

The Village started the Elevated Water Storage Tank Replacement Project in 2002. The approved funding for the project is as follows: \$184,950 grant from the Ohio Public Works Commission; \$21,000 grant from Lawrence County CDBG Formula with additional funding being made available for the project in 2003; and \$205,500 Community Development Block Grant through the Ohio Department of Development. Of the approved funds for the projects, the Village has received the following as of December 31, 2002: \$15,268 from the Ohio Public Works Commission grant and \$26,433 from the Lawrence County CDBG Formula grant. As of December 31, 2002, the Village had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Mid-Atlantic Storage Systems, Inc.	Construction of the Elevated Water Storage Tank	\$407,400
Lawrence County Community Action Organization	Elevated Water Storage Tank Replacement Project – Construction Phase Project Oversight	\$ 6,300

8. RETIREMENT SYSTEM

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 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all PERS contributions through December 31, 2002. The Village has not paid all OP&F employer contributions through December 31, 2002. As of September 8, 2003, the Village owed \$80,722 to OP&F for delinquent employer contributions.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

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

9. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Pool provides a program of property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

Casualty excess-of-loss contracts at December 31, 2002 and 2001 generally protect against individual losses exceeding \$150,000 for policies issued prior to April 1, 2000; \$100,000 for policies issued between April 1, 2000 and March 1, 2002; and \$125,000 for policies April 1, 2002 or later.

Property coverage contracts protect against losses, subject to a deductible of \$50,000, limited to an annual aggregate loss of the greater of \$300,000 or 1% of total coverage.

The Pool cedes reinsurance to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer become unable to meet its obligations under the reinsurance agreements.

The Pool's audited financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained (deficit) earnings at December 31, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Assets	\$1,852,060	\$3,354,251
Liabilities	<u>(3,627,321)</u>	<u>(4,851,866)</u>
Retained deficit	<u>(\$1,775,261)</u>	<u>(\$1,497,615)</u>

10. SUBSEQUENT EVENTS

The Water Treatment Plant Mortgage Loan is due in 2003. The Village refinanced the loan, in the amount of \$266,450, on September 15, 2003 at an interest rate of 6.150% for 60 months.

11. GOING CONCERN

At December 31, 2002, the General Fund balance was (\$1,561). The Village has not paid all Ohio Police and Fire Pension Funds (OP&F) employer contributions through December 31, 2002. As of September 8, 2003, the Village owed \$80,722 to OP&F for delinquent employer contributions.

The unaudited fund balance status report as of August 31, 2003 reported a General Fund balance of \$9,754. Therefore, the Village may be facing a fiscal watch/fiscal emergency condition in fiscal year 2003. At this time, management has no corrective action plan to help remedy this going concern problem.

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**Auditor of State
Betty Montgomery**

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

Village of Proctorville
Lawrence County
P.O. Box 406
Proctorville, Ohio 45669

To the Village Council:

We have audited the accompanying financial statements of the Village of Proctorville, Lawrence County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated October 7, 2003, wherein we expressed substantial doubt regarding the Village's ability to continue as a going concern. 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 included in the accompanying Schedule of Findings as items 2002-001 through 2002-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 7, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as item 2002-005 through 2002-009.

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 above, we consider items 2002-008 and 2002-009 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 Village in a separate letter dated October 7, 2003.

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

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

Betty Montgomery
Auditor of State

October 7, 2003

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-001

Noncompliance Citation

In the loan agreement for the Water Treatment Plant Mortgage Loan, dated March 11, 1997, the Village has covenanted that it will maintain adequate funds necessary to cover the required debt service by 1.2 times. That is, net revenues from the collection of water fees, plus depreciation, plus interest, plus fund balance must total 120% of the required annual principal and interest payment on the loan.

The Village did not maintain adequate funds as required by the loan commitment. According to the mortgage, failure to comply with any term, obligation, covenant or condition contained in this Mortgage, the Note, or in any of the other related documents or in any other agreement now existing or hereafter arising between Lender and Grantor shall constitute an event of default at the option of the Lender. In such event, the Lender, at its option, may exercise any one or more of the following rights and remedies, in addition to any other rights or remedies provided by law:

1. Accelerated Indebtedness. Lender shall have the right, at its option, without notice to Grantor, to declare the entire Indebtedness immediately due and payable, including any prepayment penalty which the Village would be required to pay.;
2. UCC Remedies. With respect to all or any part of the Personal Property, Lender shall have the rights and remedies of a secured party under the Uniform Commercial Code.;
3. Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Property, with the power to protect and preserve the Property, to operate the Property preceding foreclosure or sale, and to collect the Rents from the Property and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Property exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.;
4. Judicial Foreclosure. Lender may obtain judicial decree foreclosing Grantor's interest in all or any part of the Property.;
5. Deficiency Judgment. If permitted by applicable law, Lender may obtain a judgment for any deficiency remaining in the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this section.;
6. Tenancy of Sufferance. If Grantor remains in possession of the Property after the Property is sold as provided above or Lender otherwise becomes entitled to possession of the Property upon default of Grantor, Grantor shall become a tenant as sufferance of Lender or the purchaser of the Property and shall, at Lender's option, either (a) pay a reasonable rental for the use of the Property, or (b) vacate the Property immediately upon the demand of the Lender.

The Net Income in the Water Fund during 2001 amounted to \$7,364, while the requirement of 120% of the principal and interest of the loan (\$27,180 x 120%) totaled \$32,616. The Net Income in the Water Fund during 2002 amounted to (\$22,626), with the requirement of 120% of the principal and interest of the loan (\$27,180 x 120%) totaled \$32,616. This resulted in a deficiency of \$25,252 for 2001 and \$55,242 for 2002 in meeting the debt covenant requirements.

We recommend the Village consult Bank One to determine the necessary steps to resolve this issue.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Rev. Code Section 742.33 provides that each employer shall pay quarterly, on such dates as the board of trustees of the Ohio police and fire pension fund requires, from its general fund, or from a levy imposed pursuant to division (J) or (W) of section 5705.19 of the Revised Code, to the fund an amount known as the "police officer employers' contribution," which shall be nineteen and one-half per cent of the salaries as defined in division (L) of section 742.01 of the Revised Code of the members of the police department of the employer.

Ohio Rev. Code Section 742.35 provides that each employer shall pay its annual police officer employers' contribution in four equal installments promptly as provided in section 742.33 of the Revised Code. If an employee fails to make a payment on or before the date that is sixty days after the last day of the calendar quarter, a penalty determined under section 742.352 of the Revised Code shall be assessed against the employer. In addition, interest on past due accounts and penalties may be charged at a rate determined by the board from the date the installment is due to the date of payment.

The Village Clerk paid the employees' share to Ohio Police and Fire Pension Funds (OP&F) in 2001 and 2002. However, the Village Clerk did not pay the employer's share to OP&F in 2001 and 2002. As of September 8, 2003, the employer share due to OP&F totaled \$80,722.

We recommend the Village Clerk remit both the employee and employer share of withholdings to the Ohio Police and Fire Pension Funds. We further recommend the Village Clerk remit the unpaid portion to the Ohio Police and Fire Pension Funds. This matter will be referred to the Ohio Police and Fire Pension Funds.

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated.

Expenditures exceeded appropriations at December 31, 2001 at the fund level in the Street Construction, Maintenance and Repair Fund by \$8,154 (30%) and the General Fund by \$5,690 (3%) and at the legal level in the Street Construction, Maintenance and Repair Fund-Salaries line item by \$12,519 (125%) and the Water Fund-Salaries line item by \$3,520 (10%). Expenditures exceeded appropriations at December 31, 2002 at the legal level in the General Fund-Lands and Buildings line item by \$2,419 (8%).

We recommend the Village Clerk deny payment requests that exceed appropriations. The Village Clerk may request the Village Council to approve increased expenditures levels by increasing appropriations and amended estimated resources, if necessary.

VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)

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

FINDING NUMBER 2002-004

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (D) states 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 the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time he is completing his certification, 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 taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

If the amount involved is less than \$1,000 (which was increased to \$3,000 on April 7, 2003), the fiscal officer may authorize it to be paid without affirmation of the taxing authority, 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 taxing authority.

Certification of funds was not completed at the time the commitment was incurred for 42% of the disbursements tested in 2001 and 26% of the disbursements tested in 2002. By not certifying funds prior to a purchase commitment, this may lead to the Village obligating money it does not have.

It was also noted, during a review of the purchase orders, that the Village Clerk certified the exact amounts of total expenditures that were listed on the purchase orders by the person who completed the purchase order. Furthermore, the total amount of the expenditures listed on the purchase orders did not recompute properly due to shipping and handling costs being excluded from the expenditures by the preparer.

We recommend the Village Clerk certify that the amount required to meet a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the appropriate fund free from any previous encumbrances prior to incurring obligations. In instances where prior certification is not practical, we recommend issuance of a "then and now" certificate.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-005

Reportable Condition

Monitoring of Financial Activity

The small size of the Village's staff did not allow for an adequate segregation of duties. The Clerk performed all accounting functions. It is, therefore, important that the Council monitor financial activity closely. While the Council did approve all payment vouchers, there was no documentation of the extent to which the Council used other financial information to monitor financial activity. The Clerk provided the Council with a list of disbursements and monthly fund balances; however, the Council did not receive monthly financial reports which could result in Council not monitoring the financial and budgetary activity of the Village.

We recommend the Clerk prepare monthly bank reconciliations and provide the Council a copy of the monthly bank reconciliation for at least a signature approval. We further recommend the Clerk provide Council with a monthly financial report which includes month-to-date and year-to-date receipts and disbursements, prior year-to-date receipts and disbursements and the budgetary information. The Council should carefully review this information and make appropriate inquiries to help determine the continued integrity of financial information. This information also provides important data necessary to manage the Village.

This information can help answer questions such as the following:

Inquiries Relevant to Overall Village Operations:

- * Are current receipts sufficient to cover expenditures?
- * Are expenditures in line with prior year costs?
- * If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- * Are anticipated receipts being timely received?
- * Is the Village maximizing its return on invested cash balances?
- * Is the Village able to achieve the financial goals as set by the original or amended budgets?

In order to effectively monitor the financial activity, we recommend the Village Council review and accept/approve the monthly financial information provided by the Village Clerk. The review of this information should be noted in the minutes of the meetings of the Village Council.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2002-006

Reportable Condition

Annual Financial Report

The Annual Financial Report for both 2001 and 2002 did not agree to the Village's accounting records such as revenue and disbursements ledgers. This did result in inaccurate reporting of the Village activity.

We recommend the Annual Financial Report be prepared from the Village's accounting records. We further recommend the Village Clerk review the Annual Financial Report for accuracy.

FINDING NUMBER 2002-007

Reportable Condition

Supporting Documentation

For 2001 and 2002, 17% of the disbursements selected for testing did not include supporting documentation (e.g. vouchers including invoices and purchase orders) of the disbursement and indication of receipt of goods or services rendered. We were able to gain assurance that disbursements were appropriate through performance of other audit procedures. However, this could result in unauthorized disbursements as well as the inability to determine if all commitments have been properly encumbered.

We recommend the Village Clerk maintain voucher packets for all disbursements of the Village. Voucher packets should include, at the minimum, invoices, supporting documentation, and purchase orders.

FINDING NUMBER 2002-008

Material Weakness

Monthly Reconciliations

The Village Clerk prepared bank reconciliations on a monthly basis; however, the bank balances were not correctly reconciled to the cashbook balances. This was due, in part, to the Clerk not utilizing all outstanding checks in his outstanding check listing. There were also numerous posting errors in 2002 for the water receipts which were not discovered timely, interest was not always posted, returned deposits which were not deducted from receipts, and bank fees which were not posted as disbursements. These factors resulted in the Village being out of balance with the bank at December 31, 2001 and December 31, 2002, incorrect balances in individual funds, and the Village's Annual Financial Report for 2001 and 2002 being incorrect. This also resulted in additional time and cost to the Village for accounting services to reconcile the Village's books to the bank, to determine the correct individual fund balances, and to determine proper receipts and disbursement classifications for the financial statements.

We recommend the Village Clerk reconcile bank balances to the fund balances each month and that of the bank reconciliation be presented to Council for review. We further recommend the Clerk review his postings of receipts and disbursements to ensure that the proper amounts were posted as well as post all interest and bank fees.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

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

FINDING NUMBER 2002-009

Material Weakness

Estimated Exceeded Actual Receipts

Estimated receipts exceeded actual receipts at December 31, 2001 in the following funds: Firefighting Fund by \$2,129 (25%) and Water Fund by \$146,518 (61%). Estimated receipts exceeded actual receipts at December 31, 2002 in the following funds: General Fund by \$12,856 (6%); Street Construction, Maintenance and Repair Fund by \$1,687 (6%); State Highway Fund by \$654 (22%); and Water Fund by \$368,722 (75%). Lack of monitoring of the financial activity by the Village Clerk and the Village Council resulted in an over appropriation of funds; however, this did not result in overspending. As a result, a reduced amended certificate of estimated resources should have been obtained.

We recommend the Village Clerk obtain a reduced amended certificate when it is apparent that estimated receipts will exceed actual receipts. We further recommend that estimated receipts be monitored more closely by the Village Clerk and Village Council in order to make necessary adjustments to reflect changes in actual receipts.

**VILLAGE OF PROCTORVILLE
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-001	Ohio Rev. Code Section 5705.10 – General Fund contained negative cash balances at December 31, 1999 and December 31, 2000.	No.	Partially Corrected. General Fund contained a negative cash balance at December 31, 2002. Issued management letter noncompliance.
2000-002	Ohio Rev. Code Section 5705.39 – appropriations exceeded estimated revenue.	Yes	
2000-003	Ohio Rev. Code Section 5705.41 (D) – funds were not certified by Clerk prior to commitment.	No.	Not Corrected. Reissued as Finding 2002-004.
2000-004	Invoices not included with vouchers to support disbursements.	No.	Not Corrected. Reissued as Finding 2002-007
2000-005	Minutes did not contain an indication of Council's acceptance, review or approval of monthly financial reports.	No.	Not Corrected. Reissued as Finding 2002-005.
2000-006	Annual financial report did not agree to accounting records.	No.	Not Corrected. Reissued as Finding 2002-006.



**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 PROCTORVILLE

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2003**