

VILLAGE OF CARDINGTON
MORROW COUNTY
REPORT ON FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003



**Auditor of State
Betty Montgomery**

Village Council
Village of Cardington
P.O. Box 10
Cardington, OH 43315

We have reviewed the *Independent Auditors' Report* of the Village of Cardington, Morrow County, prepared by Holbrook & Manter, for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Cardington is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 28, 2005

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INDEPENDENT AUDITORS' REPORT

Village Council
Village of Cardington
Morrow County

We have audited the accompanying financial statements of the Village of Cardington, Morrow County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003. 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 audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State of Ohio 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 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 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 of Ohio 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 of Ohio permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended 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, 2004, or its changes in financial position for the year 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 Cardington, Morrow County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

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, 2004. The Government 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 October 26, 2005 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.



Certified Public Accountants

October 26, 2005

VILLAGE OF CARDINGTON
MORROW COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Governmental Fund Types</u>				Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash receipts:-					
Local taxes	\$ 196,712	\$ 64,953	\$ 38,145	\$ 0	\$ 299,810
Municipal income tax	0	781,572	0	0	781,572
Intergovernmental	47,366	56,705	0	0	104,071
Charges for services	7,135	82,488	0	0	89,623
Special assessments	1,181	0	0	0	1,181
Fines, licenses, and permits	36,080	0	0	0	36,080
Earnings on investments	11,784	20,375	0	1,211	33,370
Miscellaneous	6,238	6,338	0	0	12,576
Total cash receipts	306,496	1,012,431	38,145	1,211	1,358,283
Cash disbursements:-					
Current:					
Security of persons and property	219,317	115,064	0	0	334,381
Public health service	1,109	0	0	0	1,109
Community environment	3,827	0	0	0	3,827
Basic utility services	6,481	1,980	0	0	8,461
Transportation	40,218	108,317	0	0	148,535
General government	160,533	149,982	0	0	310,515
Debt service:					
Redemption of principal	31,352	0	26,445	0	57,797
Interest and fiscal charges	8,140	0	11,700	0	19,840
Capital outlay	0	414	0	0	414
Total cash disbursements	470,977	375,757	38,145	0	884,879
Total receipts over (under) cash disbursements	(164,481)	636,674	0	1,211	473,404
Other financing receipts (disbursements):-					
Other debt proceeds	22,000	0	0	0	22,000
Sale of fixed assets	0	3,400	0	0	3,400
Transfers - in	184,000	113,500	0	0	297,500
Transfers - out	(6,099)	(341,984)	0	0	(348,083)
Other financing sources	112	0	0	0	112
Other financing uses	(1,483)	0	0	0	(1,483)
Total other financing receipts (disbursements)	198,530	(225,084)	0	0	(26,554)
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	34,049	411,590	0	1,211	446,850
Fund cash balances, January 1, 2004	130,320	616,218	0	47,382	793,920
Fund cash balances, December 31, 2004	\$ 164,369	\$ 1,027,808	\$ 0	\$ 48,593	\$ 1,240,770
Reserve for encumbrances, December 31, 2004	\$ 7,433	\$ 36,793	\$ 0	\$ 0	\$ 44,226

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

VILLAGE OF CARDINGTON
MORROW COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Proprietary</u> <u>Fund Type</u>	<u>Fiduciary</u> <u>Fund Type</u>	<u>Total</u> <u>(Memorandum</u> <u>Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
OPERATING CASH RECEIPTS:-			
Charges for services	\$ 572,347	\$ 0	\$ 572,347
Miscellaneous	2,690	0	2,690
Total operating cash receipts	<u>575,037</u>	<u>0</u>	<u>575,037</u>
OPERATING CASH DISBURSEMENTS:-			
Personal services	169,165	0	169,165
Employee fringe benefits	76,834	0	76,834
Contractual services	149,091	0	149,091
Supplies and materials	103,691	0	103,691
Other	800	0	800
Capital outlay	45,673	0	45,673
Total operating cash disbursements	<u>545,254</u>	<u>0</u>	<u>545,254</u>
Operating income	29,783	0	29,783
NON-OPERATING CASH RECEIPTS:-			
Property and other local taxes	134,091	0	134,091
Intergovernmental	20,000	0	20,000
Special assessments	21,844	0	21,844
Interest	6,386	0	6,386
Debt Proceeds	37,000	0	37,000
Fines collected	0	32,932	32,932
Other financing sources	6,600	0	6,600
Total non-operating cash receipts	<u>225,921</u>	<u>32,932</u>	<u>258,853</u>
NON-OPERATING CASH DISBURSEMENTS:-			
Redemption of principal	186,479	0	186,479
Interest and other fiscal charges	225,339	0	225,339
Fines distributed	0	31,869	31,869
Total non-operating cash disbursements	<u>411,818</u>	<u>31,869</u>	<u>443,687</u>
Excess of receipts over (under) disbursements before interfund transfers	(156,114)	1,063	(155,051)
Transfers-in	51,414	0	51,414
Net receipts over (under) disbursements	<u>(104,700)</u>	<u>1,063</u>	<u>(103,637)</u>
Fund cash balances, January 1, 2004	<u>742,119</u>	<u>1,851</u>	<u>743,970</u>
Fund cash balances, December 31, 2004	<u>\$ 637,419</u>	<u>\$ 2,914</u>	<u>\$ 640,333</u>
Reserve for encumbrances, December 31, 2004	<u>\$ 27,415</u>	<u>\$ 0</u>	<u>\$ 27,415</u>

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

VILLAGE OF CARDINGTON
MORROW COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Governmental Fund Types</u>				Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash receipts:-					
Local taxes	\$ 173,910	\$ 56,331	\$ 38,145	\$ 0	\$ 268,386
Municipal income tax	0	695,517	0	0	695,517
Intergovernmental	41,294	43,841	0	0	85,135
Charges for services	277	75,553	0	0	75,830
Special assessments	7,206	2,894	0	0	10,100
Fines, licenses, and permits	27,582	0	0	0	27,582
Earnings on investments	14,040	15,388	0	2,728	32,156
Miscellaneous	655	13,483	0	0	14,138
Total cash receipts	264,964	903,007	38,145	2,728	1,208,844
Cash disbursements:-					
Current:					
Security of persons and property	193,175	142,673	0	0	335,848
Public health service	1,140	0	0	0	1,140
Community environment	15,856	0	0	0	15,856
Basic utility services	6,156	0	0	0	6,156
Transportation	78,767	143,528	0	0	222,295
General government	160,229	122,893	0	0	283,122
Debt service:					
Redemption of principal	29,462	0	25,085	0	54,547
Interest and fiscal charges	10,010	6,065	13,060	0	29,135
Capital outlay	0	3,216	0	0	3,216
Total cash disbursements	494,795	418,375	38,145	0	951,315
Total receipts over (under) cash disbursements	(229,831)	484,632	0	2,728	257,529
Other financing receipts (disbursements):-					
Transfers - in	323,948	80,907	0	0	404,855
Transfers - out	(8,807)	(910,102)	0	0	(918,909)
Advance - in	0	10,000	0	0	10,000
Advance - out	0	(10,000)	0	0	(10,000)
Other financing sources	2,352	0	0	0	2,352
Other financing uses	(48)	0	0	0	(48)
Total other financing receipts (disbursements)	317,445	(829,195)	0	0	(511,750)
Excess of cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	87,614	(344,563)	0	2,728	(254,221)
Fund cash balances, January 1, 2003	42,706	960,781	0	44,654	1,048,141
Fund cash balances, December 31, 2003	\$ 130,320	\$ 616,218	\$ 0	\$ 47,382	\$ 793,920
Reserve for encumbrances, December 31, 2003	\$ 830	\$ 799	\$ 0	\$ 0	\$ 1,628

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

VILLAGE OF CARDINGTON
MORROW COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES -
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
OPERATING CASH RECEIPTS:-			
Charges for services	\$ 703,306	\$ 0	\$ 703,306
OPERATING CASH DISBURSEMENTS:-			
Personal services	155,922	0	155,922
Employee fringe benefits	58,902	0	58,902
Contractual services	154,669	0	154,669
Supplies and materials	97,129	0	97,129
Other	790	0	790
Capital outlay	30,035	0	30,035
Total operating cash disbursements	<u>497,447</u>	<u>0</u>	<u>497,447</u>
Operating income	205,859	0	205,859
NON-OPERATING CASH RECEIPTS:-			
Property and other local taxes	134,091	0	134,091
Special assessments	14,880	0	14,880
Interest	16,580	0	16,580
Miscellaneous receipts	6,441	0	6,441
Debt proceeds	10,000	0	10,000
Fines collected	0	21,504	21,504
Other financing sources	4,950	0	4,950
Total non-operating cash receipts	<u>186,942</u>	<u>21,504</u>	<u>208,446</u>
NON-OPERATING CASH DISBURSEMENTS:-			
Redemption of principal	112,012	0	112,012
Interest and other fiscal charges	137,796	0	137,796
Fines distributed	0	20,970	20,970
Other financing uses	26,318	0	26,318
Total non-operating cash disbursements	<u>276,126</u>	<u>20,970</u>	<u>297,096</u>
Excess of receipts over (under) disbursements before interfund transfers	116,675	534	117,209
Transfers-in	<u>514,053</u>	<u>0</u>	<u>514,053</u>
Net receipts over (under) disbursements	630,728	534	631,262
Fund cash balances, January 1, 2003	<u>111,391</u>	<u>1,317</u>	<u>112,708</u>
Fund cash balances, December 31, 2003	<u>\$ 742,119</u>	<u>\$ 1,851</u>	<u>\$ 743,970</u>
Reserve for encumbrances, December 31, 2003	<u>\$ 1,429</u>	<u>\$ 0</u>	<u>\$ 1,429</u>

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

VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:-

- A. **Description of the Entity** - The Village of Cardington, Morrow 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, park operations, and police and fire protection services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

- B. **Basis of Accounting** - These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

- C. **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. The Village values certificates of deposit and repurchase agreements at cost.

- 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:

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.

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 Village had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund

This fund receives gasoline tax, motor vehicle tax money and municipal income taxes for constructing, maintaining and repairing Village streets.

Fire Protection Fund

This fund receives property tax proceeds and charges for services from Cardington and Lincoln Townships and the Fort Morrow Fire District. The funds are used to provide fire protection services to residents of the Village and other contracted local governments.

Income Tax Fund

This fund receives municipal income taxes from corporations, individuals, employee withholdings, and restraints. The funds are to be used for administration of the tax, street lighting, road and street repair, resurfacings, curb construction, and storm sewer maintenance and repair, or for an emergency purpose.

**VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Debt Service Funds

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service funds:

Cardington Lincoln Recreation

This fund receives proceeds from the General Fund and is used to pay off debt in connection with a swimming pool.

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 funds:

3rd Street Storm Sewer Fund

The proceeds from this fund are being used to renovate the 3rd street sewer.

Enterprise Funds

These funds are used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise funds:

Water Fund

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

Sewer Fund

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

Water Distribution Upgrade Fund

This fund receives grant proceeds from the Ohio Public Works Commission for future water line upgrades.

Fiduciary Funds

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

Mayor's Court Fund

The fund receives payments for fines and for court costs. These funds are distributed to the Village and to the State of Ohio.

- E. Budgetary Process** - The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control, and appropriations may not exceed estimated resources. The Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year-end.

**VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:- (continued)

Estimated Resources

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

Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated.

A summary of 2004 and 2003 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.

NOTE 2 - EQUITY IN POOLED CASH AND INVESTMENTS:-

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$ 138,089	\$ 993,704
Certificates of deposit	555,069	544,186
Total deposits	<u>693,158</u>	<u>1,537,890</u>
Repurchase agreement	<u>1,187,945</u>	<u>0</u>
Total investments and deposits	<u>\$ 1,881,103</u>	<u>\$ 1,537,890</u>

Deposits - Contrary to Ohio Law, as of December 31, 2003, \$437,890 of the Village's deposits are not collateralized by insurance or pledged securities. As of December 31, 2003, \$1,100,000 of the Village's deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) covered by specific collateral held by third party trustees. As of December 31, 2004, all of the Village's deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) covered by specific collateral held by third party trustees.

Investments - The Village maintains a repurchase agreement with their financial institution. The agreement allows the financial institution to invest excess funds in a repurchase agreement account. The Village's financial institution provides securities to collateralize the repurchase agreements. The securities are not held in the Village's name.

VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 3 - BUDGETARY ACTIVITY :-

Budgetary activity for the year ending December 31, 2004 was as follows:

2004 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 275,000	\$ 512,608	\$ 237,608
Special Revenue	880,500	1,129,331	248,831
Debt Service	38,500	38,145	(355)
Capital Projects	1,000	1,211	211
Proprietary and Fiduciary	715,000	885,304	170,304
Total	\$ 1,910,000	\$ 2,566,599	\$ 656,599

2004 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 554,279	\$ 485,992	\$ 68,287
Special Revenue	823,084	754,534	68,550
Debt Service	38,500	38,145	355
Capital Projects	0	0	0
Proprietary and Fiduciary	939,350	1,016,356	(77,006)
Total	\$ 2,355,213	\$ 2,295,027	\$ 60,186

Contrary to Ohio Law, budgetary expenditures exceeded the Village's appropriation authority as of December 31, 2004 for the Proprietary and Fiduciary fund types by \$77,006. In addition, as of December 31, 2004, the appropriation authority was exceeded in the Income Tax and Drug Law Enforcement funds (Special Revenue Fund type) by \$36,208 and \$540, respectively.

Also contrary to Ohio Law, appropriations exceeded estimated resources as of December 31, 2004 in the General Fund by \$148,959.

VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

NOTE 3 - BUDGETARY ACTIVITY:- (continued)

Budgetary activity for the year ending December 31, 2003 was as follows:

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 450,031	\$ 591,264	\$ 141,233
Special Revenue	854,078	993,914	139,836
Debt Service	0	38,145	38,145
Capital Projects	0	2,728	2,728
Proprietary and Fiduciary	<u>889,805</u>	<u>1,425,805</u>	<u>536,000</u>
Total	\$ <u>2,193,914</u>	\$ <u>3,051,856</u>	\$ <u>857,942</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 627,792	\$ 504,480	\$ 123,312
Special Revenue	1,434,140	1,339,276	94,864
Debt Service	38,145	38,145	0
Capital Projects	10,000	0	10,000
Proprietary and Fiduciary	<u>1,177,757</u>	<u>795,972</u>	<u>381,785</u>
Total	\$ <u>3,287,834</u>	\$ <u>2,677,873</u>	\$ <u>609,961</u>

Contrary to Ohio Law, the Village did not maintain record of its annual appropriation resolution. The appropriation authority numbers above are derived from the Village's UAN system.

Contrary to Ohio Law, the appropriations authority exceeded estimated resources as of December 31, 2003 in the General and Debt Service funds by \$135,055 and \$38,145, respectively. Also, appropriation authority exceeded estimated resources as of December 31, 2003 for the Proprietary and Fiduciary fund types by \$175,244.

**VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 4 - PROPERTY TAX:-

Real property taxes become a lien on January 1, preceding the October 1 date for which rates are adopted by the Village Council. The State Council of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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.

NOTE 5 - DEBT:-

Debt outstanding at December 31, 2004, was as follows:

	<u>Rate</u>	<u>Principal Balance 12/31/2004</u>
1978 Ohio Water Development Authority Loan	5.25%	\$ 74,209
1996 Ohio Water Development Authority Loan	4.16%	1,407,470
1996 Ohio Water Development Authority Loan	6.49%	1,774,230
2003 Ohio Water Development Authority Loan	0.00%	25,000
2004 Ohio Water Development Authority Loan	0.00%	32,000
1977 GMAC Loan	5.00%	216,000
1991 GMAC Loan	5.00%	566,000
2002 Fire Truck Note	5.86%	105,351
2004 Police Cruisers Note	2.75%	22,000
2001 Swimming Pool Bonds	5.37%	194,379
		<u>\$ 4,416,639</u>

The Ohio Water Development Authority (OWDA) loans relate to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$4,341,770 in loans to the Village for this project. The loans will be repaid in semiannual installments including interest, over 20, 25, and 40 years. The scheduled payment will be adjusted to reflect any revisions in amounts actually borrowed. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The GMAC loans relate to water and sewer plant improvement projects. The loans will be repaid in semiannual installments including interest, over 30-35 years. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover GMAC debt service requirements.

**VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 5 - DEBT:- (continued)

During 2002, the Village issued a note for the purpose of purchasing a new fire truck. The loans will be repaid in 5 annual payments including interest beginning in 2003.

During 2002, the Village issued a note for the purpose of purchasing two police vehicles. The loans were repaid in full in 2004.

During 2001, the Village issued swimming pool bonds on behalf of the Cardington Recreation District. The current obligation bond outstanding was issued to provide funds for the improvement of the local swimming pool and is a general obligation of the Village for which the full faith and credit of the Village is pledged for repayment. The payments of principal and interest relating to this debt are recorded as expenditures in the debt service fund. The source of payment is derived from a current bonded debt levy of the Cardington Recreation District, which is remitted to the Village and recorded as tax receipts in the debt service fund.

During 2003, the Village entered into a loan agreement with OWDA for the purpose of planning and designing future water line and sewer system expansions. The loan was repaid in full in 2005.

During 2004, the Village entered into a loan agreement with OWDA for the purpose of planning and designing future water line and sewer system expansions. The loan was repaid in full in 2005.

During 2004, the Village issued a note for the purpose of purchasing two police vehicles. The loans will be repaid in 3 annual payments including interest beginning in 2005.

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

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 328,137	\$ 232,394	\$ 560,531
2006	280,402	218,628	499,030
2007	295,103	204,105	499,208
2008	264,680	188,783	453,463
2009	276,358	175,105	451,463
2010 - 2014	1,315,211	665,477	1,980,688
2014 - 2019	1,224,016	320,976	1,544,992
2019 - 2024	432,732	48,143	480,875
	<u>\$ 4,416,639</u>	<u>\$ 2,053,611</u>	<u>\$ 6,470,250</u>

NOTE 6 - LOCAL INCOME TAXES:-

The Village levies a municipal income tax of one (1.00) 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.

The Village has contracted with the Regional Income Tax Authority (RITA) to begin collecting municipal income taxes on behalf of the Village, starting on January 1st, 2006.

**VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 7 - RETIREMENT SYSTEMS:-

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants, as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, participants contributed 10% of their salaries to OP&F. The Village contributed an amount equal to 19.55% of police participants' wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2004 and 2003. The Village has paid all contributions required through December 31, 2004.

NOTE 8 - RISK MANAGEMENT:-

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures with A-VII or better rated carriers, except for a 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 for casualty losses and the lesser of 5% or \$50,000 for property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Plan's financial statements are represented to conform with accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and retained earnings at December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Assets	\$ 6,685,522	\$ 5,402,167
Liabilities	<u>(2,227,808)</u>	<u>(1,871,123)</u>
Members' Equity	<u>\$ 4,457,714</u>	<u>\$ 3,531,044</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

**VILLAGE OF CARDINGTON
MORROW COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

NOTE 9 - CONTINGENT LIABILITIES:-

The Village is aware of one pending issue of litigation. The plaintiff is a former police officer of the Village and is claiming four days of pay as well as punitive damages and attorney fees. The Village's counsel and management estimate that any liabilities will not exceed \$500.

In addition to the pending case, the Village's counsel and management are aware of three threatened cases in connection with the Village's Police Department. Although the outcome of these threatened cases is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the Village's financial condition. The Village counsel believes that sufficient insurance coverage is available to cover any of the above claims.

NOTE 10 - INTERFUND ASSETS AND LIABILITIES:-

The Village Council approved ordinance number 2002-06 that authorized the advance of \$50,000 from the Income Tax Fund to the Sewer Fund. The clerk/treasurer was further ordered to transfer back \$50,000 from the Sewer Fund to the Income Tax Fund in April 2002. As of December 31, 2004, the fund advance of \$50,000 has not been made back to the Income Tax Fund. A recommendation was included in the management letter to the Village Council to pass a resolution, authorizing the conversion of the advance to an inter-fund transfer.

NOTE 11 - PRIOR PERIOD ADJUSTMENTS:-

In 2003, the Village voided several outstanding checks from prior periods by posting adjustments to the following fund cash balances. In addition, adjustments were made to fund cash balances in connection with the prior year audit as follows:

<u>Fund Type</u>	<u>Balances 12/31/2002</u>	<u>Adjustments</u>	<u>Balances 1/1/2003</u>
General	\$ 42,384	\$ 322	\$ 42,706
Special Revenue	988,627	(27,846)	960,781
Debt Service	(24)	24	0
Proprietary and Fiduciary	94,686	18,022	112,708
Total	\$ 1,125,673	\$ (9,478)	\$ 1,116,195



Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with *Government Auditing Standards*

Village Council
Village of Cardington
Morrow County

We have audited the accompanying financial statements of the Village of Cardington, Morrow county, Ohio (the Village), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated October 26, 2005, wherein we noted the Village followed accounting practices the Auditor of State of Ohio prescribes rather than accounting principles generally accepted in the United States of America.. 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*.

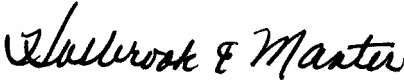
Internal Control Over Financial Reporting

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider 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 management's assertions in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item 2004-009. 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. 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 material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. In a separate letter to the Village's management dated October 26, 2005, 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 that we must report under Government Auditing Standards, which are described in the accompanying Schedule of Findings as items 2004-001 to 2004-008. In a separate letter to the Village's management dated October 26, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intended this report solely for the information and use of the management and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Shullbrook & Manton". The script is cursive and elegant.

Certified Public Accountants

October 26, 2005

**VILLAGE OF CARDINGTON
MORROW COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

Finding Number	2004-001
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Noncompliance Citation - Certification of Expenditures

Section 5705.41 (D), Ohio Revised Code, states that no subdivision shall make any contract or order any expenditure of money, unless a certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment 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 encumbrance. Furthermore, contracts and orders for expenditures lacking prior certification should be null and void, unless the Village Council obtains from the fiscal officer a certificate stating that there was at the time of the making of the contracts or orders a sufficient sum appropriated and free from previous encumbrance. The Council may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid. If the amount involved is less than \$1,000 through April 7, 2003, and \$3,000 thereafter, the fiscal officer may authorize it to be paid without the affirmation of Council upon completion of a then and now certificate, if such expenditure is otherwise valid.

During our testing of expenditures, we noted instances of funds obligated without prior or any certification. A purchase order is required prior to the obligation date, which precedes the invoice date in many instances. In other situations, a “then-and-now” certificate was used, but it was dated more than 30 days after the obligation date. We also noted instances where “then-and-now” certificates were for amounts over \$3,000, but the Council did not approve the certificates through a resolution. Expenditures without prior certification could result in expenditures exceeding appropriations. We recommend that a purchase order be completed before Village funds are obligated. Alternatively, the Village might consider using “blanket” or “super blanket” certificates, allowed by the O.R.C. for expenditures meeting certain criteria.

Finding Number	2004-002
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Noncompliance Citation – Conversion of Advances to Transfers

Though no statutory provisions directly address inter-fund advances, the following requirements are in part derived from the provisions of Ohio Rev. Code Sections: 5705.10 (restriction on the purpose for which funds may be used); 5705.14, 5705.15, and 5705.16 (transfer of funds); 5705.39 (appropriations limited to estimated resources); 5705.41 (restriction on appropriation/ expenditure of money); and 5705.36 (certification of available revenue). Auditor of State Bulletin 97-003 sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions. The intent for this type of cash advance is to require repayment within the current or succeeding year. If, after an advance is made, the taxing authority determines that the transaction should, in fact, be treated as a transfer (repayment is no longer expected) the following procedures should be followed:

- 1) the necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas;
- 2) the transfer should be formally recorded on the records of the subdivision; and
- 3) the entries recording the cash advance should be reversed (if applicable).

During our audit procedures, we noted Note 10 in the Auditor of State’s audit report from 2002 identified an advance-out in the amount of \$50,000 from the Income Tax Fund to the Sewer Fund. In addition, the report stated that the clerk/treasurer was further ordered to transfer back \$50,000 from the Sewer Fund to the Income Tax Fund in April 2002. As of December 31, 2004, the fund advance of \$50,000 has not been made back to the Income Tax Fund.

**VILLAGE OF CARDINGTON
MORROW COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

**FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

Finding Number	2004-002 (continued)
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Noncompliance Citation – Conversion of Advances to Transfers (continued)

It appears that the Council’s intention is to treat the above-mentioned advance as an inter-fund transfer. To comply with the requirements of the Ohio Revised Code, we recommend that the Council pass a resolution to convert the advance to a transfer by following the steps outlined above.

Finding Number	2004-003
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Noncompliance Citation – Annual Appropriation Measure

Ohio Revised Code, Section 5705.38, states that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1. This does not apply to school district appropriations.

During our compliance testing procedures we noted that either no appropriation resolution was passed for the year ended December 31, 2003, or no evidence was retained by the Village to show that the resolution was properly passed and filed with the County Budget Commission. We recommend that the Village follow all budgetary procedures as outlined by the Ohio Revised Code and retain proper paper or electronic documentation of budgetary records.

Finding Number	2004-004
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Noncompliance Citation – Appropriations Exceeding Estimated Resources

Ohio Revised Code, Section 5705.39, states that the total appropriation from each fund should not exceed the total estimated revenue as certified by the county budget commission. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The Village’s appropriations exceeded estimated resources as of December 31, 2004 and 2003, as outlined in Note 3 of the financial statements.

We recommend the Village Council and Fiscal Officer periodically review the Village’s appropriations versus certified estimated resources to identify and investigate any variances and to help monitor legal compliance. The Village officials should ensure that the Village has properly prepared and submitted all required budgetary documents to the county auditor. Also, each time appropriations are adopted or amended the Village should ensure the certificate of the County Auditor is received indicating appropriations do not exceed certified resources.

**VILLAGE OF CARDINGTON
MORROW COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

**FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

Finding Number	2004-005
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Noncompliance Citation – Amending or Supplementing Appropriations

Ohio Revised Code, Section 5705.40, states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. Transfers may be made by resolution or ordinance from one appropriation item to another.

During our compliance testing procedures we noted that the Village properly amended and supplemented appropriations internally, but did not certify the amended appropriations with the county budget commission. We recommend that the Village submit any amendments to the county for approval.

Finding Number	2004-006
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Noncompliance Citation – Amending Certificates of Estimated Resources

Ohio Revised Code, Section 5705.36, allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

During our compliance testing we noted that the Village did not amend estimated resources as outlined above. We recommend that the Fiscal Officer monitor estimated resources throughout the year and obtain amendments from the county budget commission as necessary.

Finding Number	2004-007
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Security for repayment of public deposits

Ohio Revised Code, Sections 135.18 (specific collateral) and 135.181 (pooled collateral), states that the treasurer of a political subdivision must require the depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

During our testing procedures, we noted that as of December 31, 2003, \$437,890 of the Village deposits were not insured or collateralized, contrary to Ohio Law. We recommend that the Village monitor the security for repayment of public deposits on an ongoing basis and modify depository agreements timely as necessary.

**VILLAGE OF CARDINGTON
MORROW COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

**FINDING RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

Finding Number	2004-008
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Rubber Stamp Signatures

Under ORC Sections 9.10, 9.11 and 1306.06 and OAG Opinion 90-082, the fiscal officer need not manually sign each certification (i.e., purchase order, “then-and-now” certificate, and “blanket” purchase orders). Electronic or mechanical signatures are permissible. However, ORC Section 9.10 expressly prohibits using rubber stamp signatures.

During our audit procedures, we noted that the Fiscal Officer uses a rubber stamp signature. We recommend that the Village discontinue the use of rubber stamp signatures and consider other alternatives such as electronic or mechanical signatures.

Finding Number	2004-009
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Income Tax Collection and Enforcement Policies

During our income tax revenue procedures, we noted that the Village does not have a formal policy outlining collection procedures for significantly delinquent taxpayers. In addition, a policy does not exist to prescribe specific enforcement procedures the Village is to undertake against businesses for suspected or known tax avoidance (i.e., instances of businesses that may not be filing required tax returns with the Village). We noted one instance where the Village has not been able to collect income tax from a local business (owned by a related party) for over 5 years, with the total amount overdue approximately \$6,000.

We recommend that the Village consider adopting and adhering to appropriate formal income tax collection and enforcement policies. In addition, in connection with the forthcoming implementation of the Regional Income Tax Authority for income tax collection on behalf of the Village, we suggest that these policies be considered and modified as necessary.

**VILLAGE OF CARDINGTON
MORROW COUNTY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Ohio Rev. Code Sections 135.21 and 5705.10 - interest allocation.	Yes	The Village passed ordinance 2003-23 to authorize interest allocation.
2002-002	Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 - fund transfers.	Yes	Transfers were properly approved.
2002-003	The provisions governing inter-fund advances are derived, in part, from Ohio Rev. Code Sections 5705.10, 5705.14, 5705.15, 5705.16, 5705.36, 5705.39, 5705.41. AOS Bulletin 97-003	Yes	Advances were properly approved.
2002-004	Ohio Rev. Code Section 5705.41(D) - prior certification.	No	Partially corrected. Reported as finding 2004-001.



**Auditor of State
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VILLAGE OF CARDINGTON

MORROW 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
DECEMBER 30, 2005**