



Dave Yost • Auditor of State

VILLAGE OF NEW MADISON
DARKE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of New Madison
Darke County
124 South Harrison Street, PO Box 15
New Madison, Ohio 45346

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of New Madison, Darke County, (the Village) as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position or cash flows thereof for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

Because of inadequacies in the Village's accounting records, we were unable to form an opinion regarding the amount of income tax revenues in the accompanying statement of receipts, disbursements, and changes in fund balances (cash basis) stated at \$139,531 and \$115,478 (or 42.9% and 39.0% of total general fund revenues) at December 31, 2012 and 2011, respectively.

Opinion on Regulatory Basis of Accounting

In addition, in our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of New Madison, Darke County as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2011 the Village of New Madison adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter. Fund Balances were restated at January 1, 2011 to correct improper fund classification, see Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report November 27, 2013 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

November 27, 2013

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Governmental Fund Types			Totals
	General	Special Revenue	Debt Service	(Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$42,350	\$52,574	\$19,117	\$114,041
Municipal Income Tax	139,531			139,531
Intergovernmental	50,232	66,897	3,652	120,781
Special Assessments		978		978
Charges for Services	71,026			71,026
Fines, Licenses and Permits	5,551			5,551
Earnings on Investments	2,538			2,538
Miscellaneous	13,576	24		13,600
Total Cash Receipts	324,804	120,473	22,769	468,046
Cash Disbursements:				
Current:				
Security of Persons and Property	35,476	19,312		54,788
Community Environment	80,906			80,906
Basic Utility Services	44,461			44,461
Transportation	30,063	35,429		65,492
General Government	182,822	1,522	554	184,898
Debt Service:				
Principal Retirement			5,400	5,400
Interest and Fiscal Charges			19,637	19,637
Total Cash Disbursements	373,728	56,263	25,591	455,582
Total Receipts Over/(Under) Disbursements	(48,924)	64,210	(2,822)	12,464
Other Financing Receipts/(Disbursements):				
Other Financing Sources	351	76		427
Total Other Financing Receipts/(Disbursements)	351	76		427
Net Change in Fund Cash Balances	(48,573)	64,286	(2,822)	12,891
Fund Cash Balance, January 1	237,953	131,321	53,764	423,038
Fund Cash Balance, December 31:				
Non-spendable				
Restricted		195,607	50,942	246,549
Committed				
Assigned	49,271			49,271
Unassigned (Deficit)	140,109			140,109
Fund Cash Balance, December 31	\$189,380	\$195,607	\$50,942	\$435,929

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$434,808
Total Operating Cash Receipts	\$434,808
Operating Cash Disbursements:	
Personal Services	\$45,108
Supplies and Materials	\$170,025
Total Operating Cash Disbursements	\$215,133
Operating Income/(Loss)	\$219,675
Non-Operating Receipts/Disbursements:	
Intergovernmental	\$169,110
Special Assessments	\$7,028
Capital Outlay	(\$214,377)
Principal Retirement	(\$61,100)
Interest and Other Fiscal Charges	(\$85,599)
Other Financing Sources	\$5,533
Total Non-Operating Receipts/Disbursements	(\$179,405)
Net Change in Fund Cash Balances	\$40,270
Fund Cash Balance, January 1	\$861,446
Fund Cash Balance, December 31	\$901,716

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Fund Types</u>			<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>(Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$31,089	\$50,882	\$20,972	\$102,943
Municipal Income Tax	115,478			115,478
Intergovernmental	78,841	126,519	3,988	209,348
Special Assessments		326		326
Charges for Services	65,412			65,412
Fines, Licenses and Permits	60			60
Earnings on Investments	2,990			2,990
Miscellaneous	2,000	23		2,023
Total Cash Receipts	<u>295,870</u>	<u>177,750</u>	<u>24,960</u>	<u>498,580</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	28,124	46,145		74,269
Leisure Time Activities		385		385
Community Environment	79,094			79,094
Basic Utility Services	68,694			68,694
Transportation	160,203	91,101		251,304
General Government	34,263	1,482	609	36,354
Debt Service:				
Principal Retirement			5,100	5,100
Interest and Fiscal Charges			19,879	19,879
Total Cash Disbursements	<u>370,378</u>	<u>139,113</u>	<u>25,588</u>	<u>535,079</u>
Net Change in Fund Cash Balances	<u>(74,508)</u>	<u>38,637</u>	<u>(628)</u>	<u>(36,499)</u>
Fund Cash Balance, January 1	<u>312,461</u>	<u>92,684</u>	<u>54,392</u>	<u>459,537</u>
Fund Cash Balance, December 31:				
Nonspendable				
Restricted		131,321	53,764	185,085
Committed				
Assigned	48,173			48,173
Unassigned (Deficit)	189,780			189,780
Fund Cash Balance, December 31	<u>\$237,953</u>	<u>\$131,321</u>	<u>\$53,764</u>	<u>\$423,038</u>

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$406,035
Miscellaneous	\$858
Total Operating Cash Receipts	\$406,893
Operating Cash Disbursements:	
Personal Services	\$55,102
Employee Fringe Benefits	\$2,200
Supplies and Materials	\$174,400
Total Operating Cash Disbursements	\$231,702
Operating Income/(Loss)	\$175,191
Non-Operating Receipts/Disbursements:	
Intergovernmental	\$34,983
Special Assessments	\$4,098
Capital Outlay	(\$30,698)
Principal Retirement	(\$47,600)
Interest and Other Fiscal Charges	(\$86,673)
Other Financing Sources	\$6,247
Total Non-Operating Receipts/Disbursements	(\$119,643)
Net Change in Fund Cash Balances	\$55,548
Fund Cash Balance, January 1 (restated)	\$805,898
Fund Cash Balance, December 31	\$861,446

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of New Madison, Darke County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with New Madison Fire Department Association to receive fire protection services and with Tri-Village Joint Ambulance District for rescue services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

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

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

Road Levy Fund – This fund receives property tax levy proceeds for improving Village roads.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fire Levy Fund – This fund receives property tax levy proceeds to provide funding for fire protection services for the Village.

Police Levy Fund – This fund receives property tax levy proceeds that are used to help operate the police department in the Village.

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Funds.

Debt Service Fund – This fund receives property tax levy proceeds to pay for debt and interest on General Obligation bonds.

4. Enterprise Funds

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

Water Operating Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Operating Fund - This fund receives charges for services from residents to cover sewer service costs.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2012 and 2011 budgetary activity appears in Note 4.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Village classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accumulated Leave

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

2. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND EQUITY

For fiscal year 2011, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 54 as required. However, no funds were required to be reclassified as required by the revised fund classification guidance which would affect fund balances previously reported.

The Village's Wastewater Bond Construction Capital Projects fund, fund cash balance was restated at January 1, 2011 to be reported in the Village's Enterprise Fund and resulted in the fund balance for the Enterprise fund at January 1, 2011 being restated to \$805,898 from \$746,205 previously reported.

3. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2012	2011
Demand deposits	\$1,247,418	\$1,194,257
Certificates of deposit	90,227	90,227
Total deposits	\$1,337,645	\$1,284,484

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

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$259,224	\$ 325,155	\$65,931
Special Revenue	127,672	120,549	(7,123)
Debt Service	203,000	22,769	(180,231)
Enterprise	361,200	616,479	255,279
Total	\$951,096	\$1,084,952	\$133,856

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. BUDGETARY ACTIVITY (Continued)

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 510,501	\$ 422,999	\$ 87,502
Special Revenue	123,479	72,858	50,621
Debt Service	25,591	25,591	
Enterprise	925,906	626,637	299,269
Total	<u>\$1,585,477</u>	<u>\$1,148,085</u>	<u>\$437,392</u>

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$259,224	\$295,870	\$36,646
Special Revenue	127,672	177,750	50,078
Debt Service	203,000	24,960	(178,040)
Enterprise	361,200	452,221	91,021
Total	<u>\$951,096</u>	<u>\$950,801</u>	<u>(\$ 295)</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 523,747	\$ 418,551	\$105,196
Special Revenue	184,852	178,661	6,191
Debt Service	25,588	25,588	
Enterprise	1,168,118	488,797	679,321
Total	<u>\$1,902,305</u>	<u>\$1,111,597</u>	<u>\$790,708</u>

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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.

6. LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. LOCAL INCOME TAX (Continued)

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

7. DEBT

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
USDA Mortgage Revenue Bond 92-01	\$1,466,800	4.75%
USDA Mortgage Revenue Bond 92-03	311,700	4.75%
USDA General Obligation Bond 92-05	408,000	4.75%
Ohio Public Works Commission Loan	262,500	0%
Total	\$2,449,000	

The United States Department of Agriculture (USDA) mortgage revenue bonds relate to a water and sewer plant construction project the Ohio Environmental Protection Agency mandated. The Village will repay the bonds in annual installments including interest, over 40 years. Water and sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover USDA debt service requirements.

The Village issued general obligation bonds to assist in financing of a water and sewer plant construction project. This is being repaid with property tax receipts, and the Village will repay this bond in annual installments with interest over 40 years. The Village's taxing authority collateralized the bonds.

The Ohio Public Works Commission loan is an interest-free loan, which was obtained to aid in construction of the water and sewer project. This loan is being repaid in semi-annual installments of \$12,500. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

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

Year ending December 31:	USDA Mortgage Revenue	USDA General Obligation	OPWC Loan
2013	\$ 109,179	\$ 25,080	\$ 12,500
2014	109,306	25,109	25,000
2015	109,171	25,024	25,000
2016	109,183	25,030	25,000
2017	109,234	25,021	25,000
2018-2022	546,052	125,313	125,000
2023-2027	546,155	125,239	25,000
2028-2032	546,049	125,281	
2033-2037	546,008	125,241	
2038-2042	546,152	125,326	
2043-2044	218,435	50,054	
Total	\$3,494,924	\$801,718	\$262,500

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. RETIREMENT SYSTEMS

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

10. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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Dave Yost • Auditor of State

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

Village of New Madison
Darke County
124 South Harrison Street, PO Box 15
New Madison, Ohio 45346

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of New Madison, Darke County, (the Village) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated November 27, 2013 wherein we qualified our report on the financial statements due to inadequacies in the Village's accounting records, regarding the amount of income tax revenues in the accompanying statement of receipts, disbursements, and changes in fund balances (cash basis) stated at \$139,531 and \$115,478 (or 42.9% and 39.0% of total general fund revenues) at December 31, 2012 and 2011, respectively. We also noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits. We also noted the Village adopted the provisions of Governmental Accounting Standards Board Statement No. 54 *Fund Balance and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-002 through 2012-004 described in the accompanying schedule of findings to be material weaknesses.

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 and 2012-002.

Entity's Response to Findings

The Village's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

November 27, 2013

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING 2012-001

NONCOMPLIANCE

Ohio Rev. Code Section 5705.41(D)(1) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. 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. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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

- A. "Then and Now" Certificate** - If the fiscal officer can certify that both at the time the contract or order was made ("then") and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without resolution or ordinance upon completion of the "then and now" certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

- B. Blanket Certificate** - Fiscal officers may prepare "blanket" certificates for a certain sum of money not to excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

The Village used super blanket certificates in 2011 and 2012, however, those certificates were used for various types of purchases (including the purchase of land) and not just for specific recurring and reasonably predictable expenses. Additionally, several super blanket certificates were not closed at fiscal year-end.

**FINDING 2012-001
(Continued)**

The Village should implement procedures to verify that Super Blanket Certificates are only used for regular recurring and reasonably predictable expenses and should utilize regular purchase orders for all other purchases. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Village should certify that the funds are or will be available prior to the obligation. When prior certification is not possible, "then and now" certification should be used.

Finding 2012-002

NONCOMPLIANCE/MATERIAL WEAKNESS

Ohio Rev. Code Section 733.28 requires that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. Additionally, **Ohio Admin. Code Section 117-2-02(A)**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, and report the transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Further, **Ohio Rev. Code Section 5705.10(D)**, states, in part, that all revenue derived from a source other than the general property tax, and which the law prescribes shall be used for a particular purpose, is to be paid into a special fund for such purpose.

The Village's financial reports for 2012 and 2011 contained errors which resulted in reclassifications and adjustments to correctly report the financial activity during the period as follows:

2012 General Fund

- Beginning Fund Balance was overstated by \$103,527
- Property and Other Taxes were overstated by \$105,687
- Intergovernmental Revenues were understated by \$35,487
- Other Financing Sources Revenues were overstated by \$157,663
- General Government Expenditures were understated by \$4,643
- Transportation Expenditures were overstated by \$202,930
- Ending Assigned Fund Balance was understated by \$49,271
- Ending Unassigned Fund Balance was overstated by \$182,374

2012 Special Revenue Funds

- Beginning Fund Balance was understated by \$70,793
- Property and Other Taxes were understated by \$11,843
- Intergovernmental Revenues were understated by \$45,545
- Miscellaneous Revenues were overstated by \$4,288
- Other Financing Sources was overstated by \$5,478
- General Government Expenditures were understated by \$1,522
- Ending Restricted Fund Balance was understated by \$116,893

**FINDING 2012-002
(Continued)**

2012 Debt Service Fund

- Beginning Fund Balance was overstated by \$628
- Property and Other Taxes Revenues were understated by \$19,117
- Intergovernmental Revenues were understated by \$3,652
- General Government Expenses were understated by \$554
- Interest and other Fiscal Charges Expenses were understated by \$19,637
- Principal Retirement Expenses were understated by \$5,400
- Ending Restricted Fund Balance was overstated by \$3,450

2012 Enterprise Fund

- Beginning Fund Balance was understated by \$33,362
- Intergovernmental Revenues were understated by \$169,110
- Special Assessment Revenues were overstated by \$408,566
- Charge For Services Revenues were understated by \$415,094
- Principal Retirement Expenditures were understated by \$61,100
- Interest and Other Fiscal Charges Revenues were understated by \$85,599
- Capital Outlay Expenditures were understated by \$214,377
- Supplies and Materials Expenditures were overstated by \$171,736
- Ending Fund Balance was understated by \$19,660

2011 General Fund

- Property and Other Taxes Revenues were overstated by \$34,280
- Intergovernmental Revenues were overstated by \$65,016
- General Government Expenditures were understated by \$4,231
- Ending Unassigned Fund Balance was overstated by \$151,700
- Ending Assigned Fund Balance was understated by \$48,173

2011 Special Revenue Funds

- Property and Other Taxes Revenues were understated by \$26,608
- Intergovernmental Revenues were understated by \$112,690
- Miscellaneous Revenues were overstated by \$7,843
- General Government Expenditures were understated by \$1,482
- Transportation Expenditures were understated by \$59,180
- Ending Restricted Fund Balance was understated by \$70,793

2011 Debt Service Fund

- Property and Other Taxes were understated by \$20,972
- Intergovernmental Revenues were understated by \$3,988
- General Government Expenditures were understated by \$609
- Interest and Other Fiscal Charges Expenditures were understated by \$19,897
- Principal Retirement Expenditures were understated by \$5,100
- Ending Restricted Fund Balance was overstated by \$628

**FINDING 2012-002
(Continued)**

2011 Enterprise Fund

- Charge for services Revenues were understated by \$401,109
- Intergovernmental Revenues were understated by \$34,983
- Special Assessments Revenues were overstated by \$397,011
- Principal Retirement Expenditures were understated by \$47,600
- Capital Outlay Expenditures were understated by \$30,698
- Interest and Other Fiscal Charges Expenditures were understated by \$86,673
- Supplies and Materials Expenditures were overstated by \$159,252
- Ending Fund Balance was understated by \$33,362

Adjustments and reclassifications to correct the errors above are reflected in the accompanying financial statements. Additionally, the client has recorded the fund balance adjustments in the UAN accounting system. Additionally, there were insignificant revenue and expenditure reclassifications that were identified that were not adjusted or reflected in the accompanying financial statements.

Additionally, the Village's subsidiary utility accounting system, Software Solutions Inc., did not agree with amounts posted to the UAN accounting system in 2011 and 2012.

The Village should develop and implement procedures to verify accurate recordkeeping of all its activities and to improve the accuracy and completeness of the Village's financial statements and provide comparative financial statements from year to year. The posting of receipts should be performed consistently with the instructions contained in the Ohio Village Officers Handbook and the Uniform Accounting Network (UAN) Chart of Accounts. Additionally, the Village should implement procedures to verify that amounts reported as charges for services in the UAN accounting system agrees and or reconciles to the subsidiary utility accounting system. Vouchers should be used as a written order authorizing the drawing of a check in payment of a lawful obligation of the public office. Each voucher shall contain the date, purchase order number, the account code, amount, approval, and any other required information. Each UAN check stub should be used as the voucher, and the Fiscal Officer should attach supporting documentation to the voucher, such as vendor invoices. Vouchers should be maintained and organized (i.e numerical sequence). Receipts should contain the date, the account code, amount, received of, revenue source and any other required information. The Fiscal Officer should attach supporting documentation to the receipt, such as tax settlement sheets, utility batch reports, income tax batch reports, State notifications, deposit slip, etc. Receipts should be maintained and organized (i.e numerical sequence). Failure to maintain complete accountability of public monies could increase the possibility of funds being altered, impaired, lost, or stolen. Additionally, independent detailed reviews should be regularly performed by the Village Council over the Village's accounting records as a means of providing for their accuracy.

FINDING 2012-003

MATERIAL WEAKNESS – BANK RECONCILIATIONS

The Village completed bank to book reconciliations for each month during 2012 and 2011 on the UAN accounting system. The Village's monthly bank reconciliations from the period of January 2011 through January 2012 contained multiple old and unusual reconciling items and errors that were listed as "other adjusting factors" in order to balance each month and they accumulated each month ranging in total from a low of \$47,886.91 in February 2011 to a high of \$256,097.69 in November 2011. These reconciling items included the following items:

- Deposits were not recorded timely in the UAN system;
- A fund balance adjustment made in a prior audit period was reversed and had to be made again by current fiscal officer in 2011 in the amount of \$81,895.79;
- Failure to record a memo expenditure for the annual payment on bonds in the amount of \$134,252 for three months after the payment was deducted by the bank;
- Payroll remittances were not recorded timely in the UAN system;
- Posting of receipts to the revenue ledger that did not agree with deposit slips;
- Issuance of checks that were indicated as being voided in the UAN accounting system but had actually cleared the bank;
- Interest earned on certificates of deposits at maturity was not recorded.

These items resulted in inaccurate bank reconciliations and financial information (i.e. UAN reports) provided to the Village Council for the months of January 2011 through January 2012. These differences had the potential to misstate the financial statements had these differences not been adjusted by the fiscal officer and there were no outstanding unreconciled differences.

Additionally, the Village maintained 4 checking accounts which were funded from the main checking account. These accounts were not included on the Village's monthly bank reconciliations

The Village should implement procedures to verify that bank reconciliations are prepared timely, that other adjusting factors are documented on the reconciliation, include all village checking accounts and that the Village Council, independent of the fiscal officer, review and sign the bank reconciliation each month. Failure to do so may result in inaccurate financial information being presented to the Village Council and possible loss or theft of funds going undetected.

FINDING 2012-004

MATERIAL WEAKNESS – INCOME TAX RECORDS

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency or business activities within the Village as well as certain income on residents earned outside the Village.

**FINDING 2012-004
(Continued)**

The following weaknesses were noted:

- The only income tax records available for review were the income tax forms on file (i.e. individual, business and withholding). The Village's subsidiary computer system, CMI, which is used for income taxes crashed, and there were no computer systems generated reports available.
- There was limited or no documentation supporting when income tax returns were received, and no documentation supporting that those whom filed inaccurate returns or late returns were notified.
- There is no evidence that the Village had formal procedures in place to collect unpaid taxes due.
- In 2012 and 2011, the income tax forms reflected \$117,503 and \$112,459 respectively in income tax revenues in the General Fund and the amounts reported for income tax revenues in 2012 and 2011 were \$139,531 and \$115,478 respectively. This resulted in difference of \$22,028 (of which \$11,835 was misclassified miscellaneous revenues) for 2012 and \$3,019 for 2011, for which no income tax return forms were available.

The Village should implement and strengthen procedures in relation to income tax accounting system; and take into consideration the following:

- Ensure that the Village's personnel have been adequately trained to use any information technology systems.
- Rely on manual application controls (e.g., comparison of system data to non-system data) to assess whether the applications are functioning as intended.
- Obtain software support agreements with their application or hardware system vendor.
- Ensure that operators/users back-up programs on a regular basis and store the back-ups in a secure off-site location

Additionally, the Village Income Tax Administrator should review the adopted ordinances related to the 1% income tax and the municipal income tax rules and regulations and the contents within. Furthermore, the Village should develop and implement procedures to verify that all the income tax ordinances are followed, and that all required income tax returns are filed. This might include matching applicable street names or area codes from other computer files (such as IRS or State files), making periodic inquiry to major local employers for lists of employees, obtaining notices of utility hookups for new residents, etc. The failure to maintain complete and accurate income tax forms and accounting system reports could lead to a loss of revenue for the Village as well as the inability to detect errors and omissions promptly. Because of the inadequacies in the Village's accounting records related to income tax revenues in the General Fund, we were unable to form an opinion regarding the amount of income tax revenues reported for the General fund in the accompanying combined statement of receipts, disbursements, and changes in fund balances (cash basis) – all governmental fund types.

Official's Response:

We will be implementing training on the UAN system for the clerk from persons who are familiar with the UAN system, and we will be more diligent on assuring reports are reviewed and things are completed in a timely manner.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	ORC 5705.41(D) – Improper Use of Super Blanket Certificates	No	Repeated as Finding 2012-001
2010-002	ORC 5705.41(B) – Appropriations Exceeding Expenditures	Yes	
2010-003	ORC 5705.39 – Appropriations Exceeding Estimated Resources	Yes	
2010-004	OAC 117-2 – Failure to Maintain Accurate Financial Records	No	Repeated as Finding 2012-002 and 2012-004
2010-005	Material Weakness – Monitoring of Financial Activity	No	Included within Findings 2012-002 and 2012-003
2010-006	Material Weakness - Bank to book reconciliation	No	Repeated as Finding 2012-003
2010-007	ORC 5705.36 – Failure to obtain reduced certificates	No	Reported in a separate letter to management of the Village
2010-008	ORC 9.38 - Timely deposits	Yes	

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Dave Yost • Auditor of State

VILLAGE OF NEW MADISON

DARKE 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 31, 2013