



**Auditor of State  
Betty Montgomery**



VILLAGE OF CYGNET  
WOOD COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Cygnet  
Wood County  
325 Front Street, P.O. Box 190  
Cygnet, Ohio 43414-0190

To the Village Council:

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

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

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

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

As described in Note 4, the Village changed the fund type classification of the debt service fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

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

**Betty Montgomery**  
Auditor of State

October 24, 2003

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$11,369	\$3,179		\$14,548
Municipal Income Tax	88,662			88,662
Intergovernmental Receipts	22,869	21,787	\$915,332	959,988
Charges for Services	5,250			5,250
Fines, Licenses, and Permits	1,728			1,728
Earnings on Investments	12,123	1,349		13,472
Miscellaneous	5,773			5,773
<b>Total Cash Receipts</b>	<b>147,774</b>	<b>26,315</b>	<b>915,332</b>	<b>1,089,421</b>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	26,662			26,662
Leisure Time Activities	10,540			10,540
Community Environment	757			757
Basic Utility Services	9,200			9,200
Transportation		6,196		6,196
General Government	107,017			107,017
Capital Outlay			1,637,448	1,637,448
<b>Total Cash Disbursements</b>	<b>154,176</b>	<b>6,196</b>	<b>1,637,448</b>	<b>1,797,820</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(6,402)</b>	<b>20,119</b>	<b>(722,116)</b>	<b>(708,399)</b>
<b>Other Financing Receipts and (Disbursements):</b>				
OWDA Loan Proceeds			716,878	716,878
Transfers-Out	(55,550)			(55,550)
Other Financing Uses	(240)			(240)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(55,790)</b>		<b>716,878</b>	<b>661,088</b>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(62,192)	20,119	(5,238)	(47,311)
Fund Cash Balances, January 1	298,137	46,154	13,321	357,612
<b>Fund Cash Balances, December 31</b>	<b>\$235,945</b>	<b>\$66,273</b>	<b>\$8,083</b>	<b>\$310,301</b>
Reserves for Encumbrances, December 31	\$4,732			\$4,732

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

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

	<b>Proprietary Fund Types</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$390,752
Miscellaneous	64
	390,816
<b>Operating Cash Disbursements:</b>	
Personal Services	35,085
Fringe Benefits	7,830
Contractual Services	166,711
Supplies and Materials	78,349
Capital Outlay	71,863
Miscellaneous	7,721
	367,559
Operating Income	23,257
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	66,838
Total Non-Operating Cash Disbursements	66,838
Excess of Disbursements Over Receipts Before Interfund Transfers	(43,581)
Transfers-In	100,450
Transfers-Out	(44,900)
Net Receipts Over Disbursements	11,969
Fund Cash Balances, January 1	564,033
<b>Fund Cash Balances, December 31</b>	<b>\$576,002</b>
Reserve for Encumbrances, December 31	

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



**VILLAGE OF CYGNET  
WOOD COUNTY**

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

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$9,859	\$2,423		\$12,282
Municipal Income Tax	90,289			90,289
Intergovernmental Receipts	23,472	23,981	\$25,460	72,913
Charges for Services	1,842			1,842
Fines, Licenses, and Permits	1,763			1,763
Earnings on Investments	33,558	2,885		36,443
Miscellaneous	11,952			11,952
<b>Total Cash Receipts</b>	<u>172,735</u>	<u>29,289</u>	<u>25,460</u>	<u>227,484</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	7,160			7,160
Public Health Services	235			235
Leisure Time Activities	30,210			30,210
Community Environment	900			900
Basic Utility Services	8,000			8,000
Transportation		72,530		72,530
General Government	103,260			103,260
Debt Service:				
Interest Payments	8,312			8,312
Capital Outlay			12,139	12,139
<b>Total Cash Disbursements</b>	<u>158,077</u>	<u>72,530</u>	<u>12,139</u>	<u>242,746</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>14,658</u>	<u>(43,241)</u>	<u>13,321</u>	<u>(15,262)</u>
<b>Other Financing Receipts:</b>				
Transfers-In	5,038			5,038
<b>Total Other Financing Receipts</b>	<u>5,038</u>			<u>5,038</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	19,696	(43,241)	13,321	(10,224)
Fund Cash Balances, January 1	278,441	89,395		367,836
<b>Fund Cash Balances, December 31</b>	<u><b>\$298,137</b></u>	<u><b>\$46,154</b></u>	<u><b>\$13,321</b></u>	<u><b>\$357,612</b></u>
Reserves for Encumbrances, December 31	<u>\$150</u>	<u>\$317</u>		<u>\$467</u>

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

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

	<b>Proprietary Fund Types</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$380,292
Miscellaneous	128
	380,420
<b>Operating Cash Disbursements:</b>	
Personal Services	35,929
Fringe Benefits	8,330
Contractual Services	116,143
Supplies and Materials	67,782
Capital Outlay	41,810
Miscellaneous	6,548
	276,542
Operating Income	103,878
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	58,089
Total Non-Operating Cash Disbursements	58,089
Excess of Receipts Over Disbursements Before Interfund Transfers	45,789
Transfers-In	55,350
Transfers-Out	(60,388)
Net Receipts Over Disbursements	40,751
Fund Cash Balances, January 1	523,282
<b>Fund Cash Balances, December 31</b>	<b>\$564,033</b>
Reserve for Encumbrances, December 31	\$3,235

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

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Cygnet, Wood County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water, sewer, and electric utilities, and park operations (leisure time activities). The Village contracts with the Wood County Sheriff's department to provide security of persons and property. The Village appropriates general fund money to support a volunteer fire department.

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

**B. Basis of Accounting**

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

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

**C. Cash and Investments**

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

Certificates of deposit and overnight repurchase agreements are valued 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:

**1. General Fund**

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Fund**

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

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

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

**3. 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:

*Capital Project Fund* - This fund receives federal grant monies and Ohio Public Works Commission Issue II monies. The proceeds are being used to construct a new water plant.

**4. Enterprise Funds**

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

*Water 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.

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

**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 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.

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

**3. Encumbrances**

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

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

**F. Property, Plant and Equipment**

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

**G. Accumulated Leave**

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

**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:

	2002	2001
Demand deposits	\$36,253	\$26,595
Change Fund	50	50
Total deposits and cash on hand	36,303	26,645
Repurchase agreement	850,000	895,000
Total investments	850,000	895,000
Total deposits, cash on hand, and investments	\$886,303	\$921,645

**Deposits:** Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

**Investments:** The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

**3. BUDGETARY ACTIVITY**

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

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$138,917	\$147,774	\$8,857
Special Revenue	23,001	26,315	3,314
Capital Projects	1,998,679	1,632,210	(366,469)
Enterprise	475,700	491,266	15,566
Total	<u>\$2,636,297</u>	<u>\$2,297,565</u>	<u>(\$338,732)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$298,000	\$214,698	\$83,302
Special Revenue	59,317	6,196	53,121
Capital Projects	2,012,000	1,637,448	374,552
Enterprise	669,674	479,297	190,377
Total	<u>\$3,038,991</u>	<u>\$2,337,639</u>	<u>\$701,352</u>

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$155,258	\$177,773	\$22,515
Special Revenue	21,000	29,289	8,289
Capital Projects		25,460	25,460
Enterprise	313,300	435,770	122,470
Total	<u>\$489,558</u>	<u>\$668,292</u>	<u>\$178,734</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$165,430	\$158,227	\$7,203
Special Revenue	75,500	72,847	2,653
Capital Projects	5,000	12,139	(7,139)
Enterprise	404,885	398,254	6,631
Total	<u>\$650,815</u>	<u>\$641,467</u>	<u>\$9,348</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water Operating Fund by \$5,448 for the year ended December 31, 2002 and in the Capital Project Fund, Water Operating Fund, and Sewer Enterprise Debt Fund by \$7,139, \$1,660, and \$5,554 respectively for the year ended December 31, 2001.

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

**4. RESTATEMENT OF PRIOR YEAR FUND EQUITY**

To properly reflect the activity of the Village's Enterprise Fund debt, it has been reclassified from a governmental fund type activity to an enterprise fund type activity.

The restatement had the following effect on fund balances as previously reported as of December 31, 2000:

	Governmental Fund Type	Enterprise Fund Type
	Debt Service	Debt Service
Fund Balance as previously reported, December 31, 2000	\$11,435	\$511,847
Restatement	(11,435)	11,435
Restated Fund Balance at December 31, 2000	-----	\$523,282

The reclassification of the Debt Service Fund changed the Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements and Excess of Cash Receipts and Other Financing Receipts over Cash Disbursements as follows:

	Governmental Fund Type Debt Service	Enterprise Fund Type Debt Service
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements for the year ended December 31, 2000	\$11,435	
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements for the year ended December 31, 2000		\$103,191
Restatement	(11,435)	11,435
Restated Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements for the year ended December 31, 2000	-----	
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements for the year ended December 31, 2000		\$114,626

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

**5. PROPERTY TAX**

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

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, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$778,368	3.28%
Mortgage Revenue Bonds	1,058,000	5.13%
Total	<u>\$1,836,368</u>	

The Ohio Water Development Authority (OWDA) loan relates to water system improvements that were mandated by the Ohio Environmental Protection Agency. The Village had an OWDA water trunk line design loan during the audit period, the balance of which was rolled into the water systems improvement loan. The balance that was rolled into the water systems improvement loan was \$40,471. The OWDA loan balance at December 31, 2002 was \$778,368. An amortization schedule will not be available until the project is complete and no payments will be due until that time. 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 Mortgage Sanitary Sewer Revenue Bonds relate to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The bonds will be repaid in annual installments as set forth on the face of the bond certificate, including interest, over 40 years.



**VILLAGE OF CYGNET  
WOOD COUNTY**

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

The Village of Jerry City has a contractual obligation with the Village of Cygnet to pay \$14,900 a year for the life of the bonds for their share of the wastewater treatment facility.

As required by the mortgage revenue bond covenant, the Village has established and funded a debt service reserve fund, included as an enterprise debt service fund. The balance in the fund at December 31, 2002 is \$33,050.

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

Year ending December 31:	Mortgage Revenue Bonds
2003	\$66,223
2004	66,608
2005	65,941
2006	66,275
2007	66,558
Subsequent	1,924,466
Total	\$2,256,071

The Village's sanitary sewer system mortgage revenue bond issue contained several debt covenants. The Village did not comply with the following debt covenant:

Annually, on October 15, beginning October 15, 1997, the revenues available in the revenue fund at the end of the preceding calendar year, after making payments required by other paragraphs, and after reserving therein an amount sufficient to provide adequate working capital for the System and to provide necessary accruals against the current requirements of other requirements, shall be transferred to the Surplus Fund. No such transfers were made.

Noncompliance with the above could possibly effect a change from a long-term to a current liability for the mortgage revenue bonds.

The Village also did not comply with 17 C.F.R. Section 240.15c2-12, which provides that municipal securities issued after July 3, 1995 must provide that the entities directly or contingently responsible for repaying the securities must agree in writing to provide to all approved Nationally Recognized Municipal Security Information Repositories (NRMSIR's) and to the State Information Depository the following information:

- Annual financial information and operating data.
- Timely material event notices.
- Audited financial statements, when and if available.
- Timely notice of failure to provide required financial information.

This information was not provided to the aforementioned repositories.

**VILLAGE OF CYGNET  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001  
(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. This plan provides 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. Members of OPERS contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries for 2001 and 2002. The Village has paid all contributions required through December 31, 2002.

**9. RISK MANAGEMENT**

**Risk Pool Membership**

The Village belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is deemed 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 coverage, 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 uses conventional insurance coverages and reinsures these coverages. Effective September 1, 2002, the Plan retains 5 percent of the premium and losses on the first \$500,000 casualty treaty (up to \$25,000 of a loss) and 5 percent of the first \$1,000,000 property treaty (up to \$50,000 of a loss). The Plan also participates in a loss corridor in its first \$500,000 casualty reinsurance. The corridor includes losses paid between 55 percent and 65 percent of premiums earned under this treaty. (Reinsurance coverage would resume after a paid loss ratio of 65 percent is exceeded.) The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

**10. RELATED PARTY TRANSACTIONS**

A village board of public affairs member is owner of a hardware store from which the Village acquired various parts and supplies during 2001. The Village paid \$2,692 for these transactions.

**11. SUBSEQUENT EVENTS**

On March 17, 2003, the Village Council authorized the issuance of water system mortgage revenue bonds, Series 2003 of the Village of Cygnet, Ohio in the aggregate principal amount of \$760,000, pursuant to Section 12 of Article XVII of the Ohio Constitution for the purpose of paying the cost of improving, extending, and replacing the Villages' water distribution system.

**VILLAGE OF CYGNET  
WOOD COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Water and Waste Disposal Systems for Rural Communities	95-01	10.760	\$404,392
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b> <i>Passed Through Ohio Department of Development</i>			
Small Cities CDBG Program - Formula	440-11	14.228	<u>245,000</u>
<b>Total</b>			<b><u><u>\$649,392</u></u></b>

*The accompanying notes are an integral part of this schedule.*

**VILLAGE OF CYGNET  
WOOD COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED DECEMBER 31, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain Federal programs require that the Village contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State  
Betty Montgomery**

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

Village of Cygnet  
Wood County  
325 Front Street, P.O. Box 190  
Cygnet, Ohio 43414-0190

To the Village Council:

We have audited the accompanying financial statements of the Village of Cygnet, Wood County, (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated October 24, 2003, in which we noted the Village changed the fund type classification of the debt service fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompany schedule of findings as items 2002-001, 2002-002, 2002-003, 2002-004, and 2002-005. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 24, 2003.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-006 and 2002-007.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated October 24, 2003.

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

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

**Betty Montgomery**  
Auditor of State

October 24, 2003



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Village of Cygnet  
Wood County  
325 Front Street, P.O. Box 190  
Cygnet, Ohio 43414-0190

To the Village Council:

**Compliance**

We have audited the compliance of the Village of Cygnet, Wood County, (the Village) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The Village's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

As described in item 2002-008 in the accompanying schedule of findings, the Village did not comply with requirements regarding equipment and real property management that is applicable to its Water and Waste Disposal Systems for Rural Development federal program. Compliance with the requirement is necessary, in our opinion, for the Village to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Village complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002.

### **Internal Control over Compliance**

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, Village Council, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

October 24, 2003



**VILLAGE OF CYGNET  
WOOD COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
DECEMBER 31, 2002**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Program (list):	Water & Waste Disposal Systems for Rural Communities
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

**FINDING NUMBER 2001-001**

**Finding for Recovery**

Ohio Revised Code § 117.28 requires audit reports to set forth all instances of any public money which has been illegally expended.

In 2002, the clerk reimbursed a citizen \$180 on check number 4734 dated October 7, 2002, and \$180 on check number 4793 dated November 4, 2002, for reimbursement of utility deposits for water and electric. The citizen was only due one reimbursement, thus there was an overpayment of \$180 made. The first check had support attached for the reimbursement, however, the second check did not have any support attached.

**FINDING NUMBER 2002-001  
(Continued)**

In accordance with the forgoing facts, a Finding for Recovery for public money that has been illegally expended is hereby issued against Philip Bowsher, Clerk/Treasurer and Auto-Owners Mutual Insurance Company, his bonding company, in the amount of one hundred eighty dollars (\$180) and in favor of the Water Deposit Fund.

**FINDING NUMBER 2002-002**

**Noncompliance Citation**

Ohio Revised Code § 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the 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. Further, contracts and orders for expenditures lacking prior certification should be null and void.

This section also provides two exceptions to the above requirements:

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

The Board of Public Affairs members and Council signed the purchase orders; however, the Clerk/Treasurer did not sign the clerk's certification. Certification is not only required by Ohio law it is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by the Council. To improve controls over disbursements, it is recommended that all Village non-payroll disbursements receive prior certification of the Clerk/Treasurer.

**FINDING NUMBER 2002-003**

**Noncompliance Citation**

Ohio Revised Code § 5705.41 (B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated.

The Capital Project Fund Type, Water CDBG Grant Fund, had expenditures in excess of appropriations of \$7,139 for the fiscal year ended December 31, 2001. This was a result of the Village not budgeting or posting their Issue II funds spent on their behalf. The Water Operating Fund also had expenditures in excess of appropriations of \$5,448 and \$1,660 for fiscal years ended December 31, 2002 and 2001 respectively.

**FINDING NUMBER 2002-003  
(Continued)**

In fiscal year 2001 and 2002, the Village received Ohio Public Works Commission Monies for projects in the village. The Village did not record the receipt or disbursement activity to the books of the village. An audit adjustment was made for this transaction. Further, the village did not certify said monies nor did they appropriate such funds. Not recording the aforementioned activity could result in inaccurate financial statements and inaccurate budgetary information. We recommend the Village review audit bulletins 2000-08 and 2002-004 for the appropriate accounting treatment of improvement projects.

The Village should review expenditures versus appropriations during the course of the year in order to identify instances in which expenditures exceed amounts appropriated. The failure to limit expenditures to amounts appropriated may result in expenditures exceeding available resources. This will allow the Village to be aware of diminishing appropriations and allow for an amendment of appropriations before the line item is overspent.

**FINDING NUMBER 2002-004**

**Noncompliance Citation**

17 C.F.R. Section 240.15c2-12 provides that municipal securities issued after July 3, 1995 must provide that the entities directly or contingently responsible for repaying the securities must agree in writing to provide to all approved Nationally Recognized Municipal Security Information Repositories (NRMSIR's) and to the State Information Depository the following information:

- Annual financial information and operating data.
- Timely material event notices.
- Audited financial statements, when and if available.
- Timely notice of failure to provide required financial information.

This information was not provided to the aforementioned repositories. We recommend that the Village provide the required information to the repositories.

**FINDING NUMBER 2002-005**

**Noncompliance Citation**

Section 12, Article XVIII of the Ohio Constitution provides for the issuance of mortgage revenue bonds. The Village's Ordinance 11.18.96 authorized the issuance of mortgage revenue bonds. The Village did not comply with the following debt covenant for the Village's sanitary sewer system mortgage revenue bonds:

Annually, on October 15, beginning October 15, 1997, the revenues available in the revenue fund at the end of the preceding calendar year, after making payments required by other paragraphs, and after reserving therein an amount sufficient to provide adequate working capital for the System and to provide necessary accruals against the current requirements of other requirements, shall be transferred to the Surplus Fund. No such transfers were made.

We recommend the Village comply with the aforementioned debt covenant.

**FINDING NUMBER 2002-006**

**Reportable Condition**

Disbursement Procedures

The following weaknesses were noted in regard to the Village’s disbursement procedures:

- Invoices were not attached to the copy of the voucher. They were filed together but not attached.
- No indication was made on the paid invoice indicating that it was paid.
- No indication was made on the paid invoice that the merchandise had been received.
- Approval of expenditures was made in the minutes by Council and the Board of Public Affairs. However; there was no documentation of what checks were being approved.

In order to prevent invoices becoming separated from the copy of the voucher and to ensure that invoices are not paid twice and that all expenditures are formally approved, we recommend:

- Invoices be attached to the copy of the voucher to prevent separation.
- Invoices be marked paid when payment occurs to prevent possible double payment.
- Indication be made on the invoice that the merchandise has been received or service provided.
- Either the check numbers be listed in the minutes as to the checks approved or a copy of the listing that is approved be attached to the appropriate minutes.

**FINDING NUMBER 2002-007**

**Reportable Condition**

Utility Deposits

The utility clerk’s ledger of utility deposit activity for electric and water for 2002 and 2001 did not always agree with the activity posted by the clerk/treasurer in the Electric Deposit Fund and Water Deposit Fund. To ensure that errors are corrected and found in a timely manner, we recommend that the utility clerk and clerk/treasurer review the entries in the deposit accounts for 2002 and 2001 to find the discrepancies and correct them and in the future these ledgers should be balanced against one another on a regular basis.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2002-008
<b>CFDA Title and Number</b>	Water and Waste Disposal Systems for Rural Communities CFDA #10.760
<b>Federal Award Number / Year</b>	95-01
<b>Federal Agency</b>	United States Department of Agriculture
<b>Pass-Through Agency</b>	None

### **Noncompliance Citation**

7 CFR 3016.32 states “Property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years. A control system must be developed to ensure safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated”.

The Village of Cygnet does not have an inventory listing of property purchased with federal monies.

Due to the lack of an inventory listing of property purchased with federal monies, the Village can not maintain a control system to ensure safeguards are in place to prevent loss, damage, or theft of the property.

The invoices submitted for payment for the construction of the water treatment plant did not specify what equipment was purchased. Said invoice went through the entire approval process including the engineer, mayor, and representative from United States Department of Agriculture, however; they did not provide the necessary documentation for the clerk/treasurer to prepare a listing of inventory from these documents. A listing of the anticipated equipment to be purchased was part of the original bid documents.

We recommend that the Village establish an inventory listing that complies with federal regulations and is updated at least once every two years. We also recommend the Village establish a control system over the property purchased to help prevent loss, damage, or theft.

**VILLAGE OF CYGNET  
WOOD COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2000-30187-001	Revised Code § 5705.41 (B) Expenditures exceeded appropriations	No	Not corrected. Repeated as finding number 2002-003
2000-30187-002	Revised Code § 5705.41 (D) Clerk's Certification	No	Not corrected. Repeated as finding number 2002-002
2000-30187-003	Section 12, Article XVIII of the Ohio Constitution noncompliance with debt covenant	No	Partially corrected. Repeated a portion as finding number 2002-005.



**Auditor of State  
Betty Montgomery**

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**VILLAGE OF CYGNET**

**WOOD 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 2, 2003**