



**Auditor of State  
Betty Montgomery**



VILLAGE OF MADISON  
LAKE COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Madison  
Lake County  
126 West Main Street  
Madison, Ohio 44057

To the Village Council:

We have audited the accompanying financial statements of the Village of Madison, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002, as listed in the table of contents. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 described more fully 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.

As described more fully in Note 7, the Village used note proceeds on disbursements not allowed by the debt covenant.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Madison, Lake County, Ohio, as of December 31, 2003 and December 31, 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

May 16, 2005 Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801  
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**VILLAGE OF MADISON  
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Cash Receipts:</b>						
Property Tax and Other Local Taxes	\$847,294	\$82,868	\$0		\$12,338	\$942,500
Intergovernmental Receipts	218,602	159,685		\$65,757		444,044
Charges for Services	35,019					35,019
Fees, Licenses, and Permits	17,599					17,599
Earnings on Investments	12,524					12,524
Fines and Forfeits	81,350	25				81,375
Contributions/Gifts	539	7,071				7,610
Miscellaneous	12,143	46,261		\$5,557		63,961
<b>Total Cash Receipts</b>	<b>1,225,070</b>	<b>295,910</b>	<b>\$0</b>	<b>71,314</b>	<b>12,338</b>	<b>1,604,632</b>
<b>Cash Disbursements:</b>						
Current:						
Security of Persons and Property	468,885	44,000				512,885
Public Health Services	13,000					13,000
Community Development		31,558				31,558
Basic Utility Services	21,971					21,971
Transportation	2,200	14,479				16,679
General Government	303,858	7,055				310,913
Capital Outlay	23,793	574				24,367
Debt Service:						
Principal Payments	150,000					150,000
Interest Payments	4,125					4,125
Fringe Benefits	137,121	24,819			14,941	176,881
Materials and Supplies	24,926	43,737		2,995		71,658
Utilities	16,599	96,410				113,009
Contractual Services	140,422	11,135				151,557
Other Operating Expenses	28,156	67,683				95,839
<b>Total Cash Disbursements</b>	<b>1,335,056</b>	<b>341,450</b>	<b>0</b>	<b>2,995</b>	<b>14,941</b>	<b>1,694,442</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(109,986)</b>	<b>(45,540)</b>	<b>0</b>	<b>68,319</b>	<b>(2,603)</b>	<b>(89,810)</b>
<b>Other Financing Receipts and (Disbursements):</b>						
Proceeds of Notes	130,000					130,000
Transfers-In				16,266		16,266
Transfers-Out	(16,266)		0	0	0	(16,266)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>113,734</b>	<b>0</b>	<b>0</b>	<b>16,266</b>	<b>0</b>	<b>130,000</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>3,748</b>	<b>(45,540)</b>	<b>0</b>	<b>84,585</b>	<b>(2,603)</b>	<b>40,190</b>
<b>Fund Cash Balances, January 1, 2003</b>	<b>29,560</b>	<b>141,789</b>	<b>1,381</b>	<b>233,650</b>	<b>7,617</b>	<b>413,997</b>
<b>Fund Cash Balances, December 31, 2003</b>	<b>\$33,308</b>	<b>\$96,249</b>	<b>\$1,381</b>	<b>\$318,235</b>	<b>\$5,014</b>	<b>\$454,187</b>
<b>Reserves for Encumbrances, December 31, 2003</b>	<b>\$3,179</b>	<b>\$25,963</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$29,142</b>

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

**VILLAGE OF MADISON  
LAKE COUNTY**

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

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
<b>Operating Cash Receipts:</b>				
Charges for Services	\$903,578			\$903,578
Miscellaneous	27,864	\$1,852	\$0	29,716
Total Operating Cash Receipts	931,442	1,852	0	933,294
<b>Operating Cash Disbursements:</b>				
Fringe Benefits	55,779			55,779
Supplies and Materials	35,042			35,042
Utilities	242,573			242,573
Capital Outlay	262,670			262,670
Contractual Services	129,355			129,355
Transportation	1,935			1,935
General Government	165,019			165,019
Other Operating Expenses	15,750			15,750
Total Operating Cash Disbursements	908,123	0	0	908,123
Operating Income/(Loss)	23,319	1,852	0	25,171
<b>Non-Operating Cash Receipts:</b>				
Intergovernmental Receipts				0
Other Non-Operating Receipts			110,475	110,475
Total Non-Operating Cash Receipts	0	0	110,475	110,475
<b>Non-Operating Cash Disbursements:</b>				
Debt Service - Note Principal Payment	1,309,657			1,309,657
Debt Service - Interest and Fiscal Services	124,050			124,050
Other Non-Operating Disbursements			105,509	105,509
Total Non-Operating Cash Disbursements	1,433,707	0	105,509	1,539,216
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(1,410,388)	1,852	4,966	(1,403,570)
<b>Other Financing Receipts/Disbursements</b>				
Proceeds of Notes	1,550,000			1,550,000
OPWC Proceeds				0
OWDA Proceeds				0
OPWC Loans				0
<b>Total Other Financing Receipts/Disbursements</b>	<b>1,550,000</b>	<b>0</b>	<b>0</b>	<b>1,550,000</b>
Net Receipts Over/(Under) Disbursements	139,612	1,852	4,966	146,430
Fund Cash Balances, January 1, 2003	26,580	62,593	5,299	94,472
<b>Fund Cash Balances, December 31, 2003</b>	<b>\$166,192</b>	<b>\$64,445</b>	<b>\$10,265</b>	<b>\$240,902</b>
Reserve for Encumbrances, December 31, 2003	\$2,148	\$0	\$0	\$2,148

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



**VILLAGE OF MADISON  
LAKE COUNTY**

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

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>Cash Receipts:</b>						
Property Tax and Other Local Taxes	\$793,462	\$71,569	\$0		\$13,055	\$878,086
Intergovernmental Receipts	259,470	156,259		\$77,977	1,602	495,308
Charges for Services	44,912					44,912
Fees, Licenses, and Permits	16,087					16,087
Earnings on Investments	9,104					9,104
Fines and Forfeits	65,698					65,698
Contributions/Gifts	147	7,454				7,601
Miscellaneous	17,775	18,028		7,933		43,736
<b>Total Cash Receipts</b>	<b>1,206,655</b>	<b>253,310</b>	<b>\$0</b>	<b>85,910</b>	<b>14,657</b>	<b>1,560,532</b>
<b>Cash Disbursements:</b>						
Current:						
Security of Persons and Property	460,360	23,921				484,281
Public Health Services	12,500					12,500
Community Development		28,950				28,950
Basic Utility Services	20,916					20,916
Transportation	1,423	20,829				22,252
General Government	294,330	6,935				301,265
Capital Outlay	254,660	30,395				285,055
Debt Service:						
Principal Payments						
Interest Payments						
Fringe Benefits	172,119	25,392			12,728	210,239
Materials and Supplies	25,361	40,166				65,527
Utilities	14,642	83,664		475		98,781
Contractual Services	146,803	13,925		1,500		162,228
Other Operating Expenses	54,619	40,921				95,540
<b>Total Cash Disbursements</b>	<b>1,457,733</b>	<b>315,098</b>	<b>0</b>	<b>1,975</b>	<b>12,728</b>	<b>1,787,534</b>
Total Receipts Over/(Under) Disbursements	(251,078)	(61,788)	0	83,935	1,929	(227,002)
<b>Other Financing Receipts and (Disbursements):</b>						
Note Proceeds	150,000					150,000
Transfers-In		16,246		48,000		64,246
Transfers-Out	(16,246)	(48,000)				(64,246)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>133,754</b>	<b>(31,754)</b>	<b>0</b>	<b>48,000</b>	<b>0</b>	<b>150,000</b>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(117,324)	(93,542)	0	131,935	1,929	(77,002)
Fund Cash Balances, January 1, 2002	146,884	235,331	1,381	101,715	5,688	490,999
<b>Fund Cash Balances, December 31, 2002</b>	<b>\$29,560</b>	<b>\$141,789</b>	<b>\$1,381</b>	<b>\$233,650</b>	<b>\$7,617</b>	<b>\$413,997</b>
Reserves for Encumbrances, December 31, 2002	\$16,479	\$1,396	\$0	\$0	\$0	\$17,875

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

**VILLAGE OF MADISON  
LAKE COUNTY**

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

	Proprietary Fund Types	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
<b>Operating Cash Receipts:</b>				
Charges for Services	\$900,473			\$900,473
Miscellaneous	1,198	\$2,412	\$0	3,610
<b>Total Operating Cash Receipts</b>	<b>901,671</b>	<b>2,412</b>	<b>0</b>	<b>904,083</b>
<b>Operating Cash Disbursements:</b>				
Fringe Benefits	47,645			47,645
Supplies and Materials	39,247			39,247
Utilities	216,725			216,725
Capital Outlay	19,385			19,385
Contractual Services	148,681			148,681
Transportation	21,593			21,593
General Government	152,515			152,515
Other Operating Expenses	1,386			1,386
<b>Total Operating Cash Disbursements</b>	<b>647,177</b>	<b>0</b>	<b>0</b>	<b>647,177</b>
Operating Income/(Loss)	254,494	2,412	0	256,906
<b>Non-Operating Cash Receipts:</b>				
Intergovernmental Receipts	6,296			6,296
Other Non-Operating Receipts			76,443	76,443
<b>Total Non-Operating Cash Receipts</b>	<b>6,296</b>	<b>0</b>	<b>76,443</b>	<b>82,739</b>
<b>Non-Operating Cash Disbursements:</b>				
Debt Service - Note Principal Payment	1,374,405			1,374,405
Debt Service - Interest and Fiscal Services	132,830			132,830
Other Non-Operating Disbursements			72,145	72,145
<b>Total Non-Operating Cash Disbursements</b>	<b>1,507,235</b>	<b>0</b>	<b>72,145</b>	<b>1,579,380</b>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(1,246,445)	2,412	4,298	(1,239,735)
<b>Other Financing Receipts/Disbursements</b>				
Proceeds of Notes	1,190,000			1,190,000
OPWC Proceeds				0
OWDA Proceeds				0
OPWC Loans				0
<b>Total Other Financing Receipts/Disbursements</b>	<b>1,190,000</b>	<b>0</b>	<b>0</b>	<b>1,190,000</b>
Net Receipts Over/(Under) Disbursements	(56,445)	2,412	4,298	(49,735)
Fund Cash Balances, January 1, 2002	83,025	60,181	1,001	144,207
<b>Fund Cash Balances, December 31, 2002</b>	<b>\$26,580</b>	<b>\$62,593</b>	<b>\$5,299</b>	<b>\$94,472</b>
Reserve for Encumbrances, December 31, 2002	\$29,339	\$0	\$0	\$29,339

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

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**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 Madison, Lake County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general governmental services, including water and sewer utilities, rubbish collections, building, zoning and police protection.

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

**B. Basis of Accounting**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

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

Certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Fund**

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

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

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Fund (Continued)**

*Senior Citizens Operating Fund* - This fund receives county levied and grant monies for the operation of the Senior Citizens Center.

*Street Lighting Fund* - This fund receives monies for the installation and operation of street lighting in the Village.

**3. Debt Service Fund**

The debt service fund is used to accumulate resources for the payment of bonds and loan indebtedness.

**4. Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

*Senior Citizens Capital Fund* - This fund receives levy and grant monies for maintenance and improvements of a Senior Citizens Center.

**5. Enterprise Funds**

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

*Water Capital Fund* - This fund receives proceeds from water charges which are used to improve the Village's water treatment plant.

*Sewer Capital Fund* - This fund receives proceeds from sewer charges which are used to improve the Village's sewer system.

*Water Fund* - This fund receives charges for services from residents to cover the cost of providing water.

**6. Fiduciary Funds (Trust and Agency Funds)**

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

*Police Disability and Pension Fund* - This fund is used to account for the police pension prior to paying the funds to the retirement system (Expendable Trust).

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**6. Fiduciary Funds (Trust and Agency Funds)**

*Cemetery Endowment Fund* - This fund is for future maintenance of the cemetery (Nonexpendable Trust).

*Mayor's Court Fund* - This fund is used to account for the collection and distribution of Mayor's Court fines, fees, and bonds (Agency Fund).

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. 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 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. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. 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.

**G. 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.

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2003	2002
Demand deposits	\$417,132	\$234,457
Certificates of deposit	97,824	95,861
Total deposits	514,956	330,318
STAR Ohio	180,133	178,151
Total investments	180,133	178,151
Total deposits and investments	\$695,089	\$508,469

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

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

**3. BUDGETARY ACTIVITY**

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

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,188,500	\$1,355,070	\$166,570
Special Revenue	308,654	295,910	(12,744)
Debt Service	160,300	0	(160,300)
Capital Projects	60,500	87,580	27,080
Expendable Trust	14,925	12,338	(2,587)
Enterprise	2,486,500	2,481,442	(5,058)
Non-Expendable Trust	2,500	1,852	(648)
Total	\$4,221,879	\$4,234,192	\$12,313

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$484,612	\$1,354,501	(\$869,889)
Special Revenue	173,286	367,413	(194,127)
Capital Projects	4,000	2,995	1,005
Expendable Trust	5,000	14,941	(9,941)
Enterprise	518,999	2,343,978	(1,824,979)
Total	\$1,185,897	\$4,083,828	(\$2,897,931)

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

Budgetary activity for the year ending December 31, 2002 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,320,500	\$1,356,655	\$36,155
Special Revenue	421,800	269,556	(152,244)
Debt Service	48	0	(48)
Capital Projects	6,000	133,910	127,910
Expendable Trust	14,519	14,657	138
Enterprise	2,264,500	2,097,967	(166,533)
Non-Expendable Trust	2,000	2,412	412
Total	\$4,029,367	\$3,875,157	(\$154,210)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,569,647	\$1,490,458	\$79,189
Special Revenue	490,300	364,494	125,806
Debt Service	0	0	0
Capital Projects	3,000	1,975	1,025
Expendable Trust	13,000	12,728	272
Enterprise	2,441,388	2,183,751	257,637
Non-Expendable Trust	1,500	0	1,500
Total	\$4,518,835	\$4,053,406	\$465,429

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. LEGAL COMPLIANCE AND OTHER MATTERS**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the following funds for the year ending December 31, 2003:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
General	\$484,612	\$1,354,501	(\$869,889)
Special Revenue			
Street Construction	71,087	134,499	(63,412)
State Highway	5,000	7,872	(2,872)
Cemetery Operating	5,700	16,020	(10,320)
Senior Citizen	17,498	65,745	(48,247)
Education	0	3,000	(3,000)
Cops Fast	28,000	41,000	(13,000)
Street Lighting	20,000	82,529	(62,529)
Expendable Trust			
Police Pension	5,000	14,940	(9,940)
Enterprise			
Water Capital	11,926	859,449	(847,523)
Sewer Capital	174,532	747,931	(573,399)
Water Operating	161,349	393,049	(231,700)
Sewer Operating	135,000	265,808	(130,808)
Water/Sewer Deposit	10,500	77,740	(67,240)

The following fund had expenditures that exceeded appropriations for the year ending December 31, 2002:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
Enterprise			
Sewer Operating	\$323,690	\$374,861	(\$51,171)

Contrary to Ohio law, seventy percent of the Village's expenditures were not properly encumbered before the purchase was made.

Contrary to Ohio law, a permanent appropriation for 2003 was not passed.

Contrary to Ohio law, the amended appropriations were not sent to the County Auditor for approval.

Contrary to Ohio law, a 2002 financial report was not filed with the Auditor of State.

Contrary to Ohio law, a transfer was made from a Special Revenue Fund to a Capital Project Fund, also this transfer was made without Council approval.

Contrary to Ohio law, a rubber stamp was used to pay expenditures.



**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**5. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

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

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**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, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Municipal Complex Improvement Note	\$130,000	2.25%
Waterworks System Improvement Note	1,550,000	2.25%
OWDA Loan - Water Tower	166,493	7.96%
OWDA Loan - Sewer Expansion	225,349	7.96%
OWDA Loan - Belt Filter Press	161,545	4.56%
OWDA Loan - Waterline Replacement	928,220	4.12%
OWDA Loan - #531SRF	276,342	3.50%
OPWC - N. Lake St. Waterline	53,200	0.00%
OPWC - Eagle Street	37,500	0.00%
OPWC - River E. Main Waterline	45,000	0.00%
OPWC - West Main Waterline	40,000	0.00%
Total	<u>\$3,613,649</u>	

The Municipal Complex Improvement Note relates to land purchase and engineering fees. The Waterworks System Improvement Note and the Ohio Water Development Authority (OWDA) loans relate to upgrading the water and sewer plants and lines. The Ohio Public Works Commission loan was to upgrade water lines.

Contrary to Ohio law, note proceeds were used on disbursements not allowed by the debt covenant. The Village expensed \$96,434 on the engineer fees and acquisition of the real estate. The remaining portion of the note proceeds was put in the general fund and partially expensed on general operating expenses.

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**7. DEBT (Continued)**

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

	<u>Improvement Notes</u>	<u>OWDA Water Tower</u>	<u>OWDA Sewer Expansion</u>	<u>OWDA Belt Filter Press</u>
Year ending December 31:				
2004	1,717,800	30,357	37,518	17,628
2005		30,357	37,518	17,628
2006		30,357	37,518	17,628
2007		30,357	37,518	17,628
2008		30,357	37,518	17,628
2009-2013		75,893	131,315	88,141
2014-2018				35,258
2019-2021				
Total	<u>\$1,717,800</u>	<u>\$227,678</u>	<u>\$318,905</u>	<u>\$211,539</u>

	<u>OWDA Water Replacement</u>	<u>OWDA #531SRF</u>	<u>OPWC N. Lakeline Waterline</u>	<u>OPWC Eagle Street</u>
Year ending December 31:				
2004	87,910	21,251	3,800	5,000
2005	87,910	21,251	3,800	5,000
2006	87,910	21,251	3,800	5,000
2007	87,910	21,251	3,800	5,000
2008	87,910	21,251	3,800	5,000
2009-2013	439,551	106,256	19,000	12,500
2014-2018	351,643	106,256	15,200	
2019-2021		53,128		
Total	<u>\$1,230,744</u>	<u>\$371,895</u>	<u>\$53,200</u>	<u>\$37,500</u>

	<u>OPWC River E. Main Waterline</u>	<u>OPWC West Main Waterline</u>	<u>TOTALS</u>
Year ending December 31:			
2004	2,500	5,000	1,928,764
2005	2,500	5,000	210,964
2006	2,500	5,000	210,964
2007	2,500	5,000	210,964
2008	2,500	5,000	210,964
2009-2013	12,500	15,000	900,156
2014-2018	12,500		520,857
2019-2021	7,500		60,628
Total	<u>\$45,000</u>	<u>\$40,000</u>	<u>\$4,254,261</u>

**VILLAGE OF MADISON  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**8. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 2002 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

**9. RISK MANAGEMENT**

The Village has obtained commercial insurance for the following risks:

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

**10. CONTINGENT LIABILITIES**

The Village is defendant in three lawsuits. Although the outcomes of these suits are not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

**11. NORTHEAST OHIO PUBLIC ENERGY COUNCIL**

The Village is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of 104 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The Village did not contribute to NOPEC during 2002 and 2003. Financial information can be obtained by contacting NOPEC, 1615 Clarke Ave., Cleveland, Ohio 44109.

**12. SUBSEQUENT EVENTS**

In May 2004, the Village issued a one year note in the amount of \$130,000. In August 2004, the Village issued a one year note in the amount of \$1,525,000.

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**Auditor of State  
Betty Montgomery**

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

Village of Madison  
Lake County  
126 West Main Street  
Madison, Ohio 44057

To the Village Council:

We have audited the financial statements of the Village of Madison, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated May 16, 2005, wherein we noted the Village used note proceeds on disbursements not allowed by the debt covenant. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2003-010 through 2003-013.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable conditions 2003-010 through 2003-013, listed above, to be material weaknesses. In a separate letter to the Village's management dated May 16, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-009. In a separate letter to the Village's management dated May 16, 2005, we reported other related matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and Village Council. It is not intended for 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

May 16, 2005

**VILLAGE OF MADISON  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002**

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

**Noncompliance Citations**

<b>FINDING NUMBER</b>	<b>2003-001</b>
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**Finding for Recovery**

In the Village of Madison, child support deductions are automatically paid by the village payroll system even if the employee has no hours to withhold the dollars. In December 2001, village police department employee Stephen Brennan took a temporary leave of absence, resigning three months later, in March 2002. On January 2, January 16, and January 30, 2002 and on February 16, 2002, while Stephen Brennan was on a leave of absence, David G. Reed, Jr., the Village's Clerk-Treasurer, submitted automatic payments in the amount of \$117.69 each for child support on behalf of Stephen Brennan. The total amount of the four payments is \$471. Since there was no pay check from which to withhold these funds, the Village wrote a letter to the Cuyahoga Child Support Enforcement Agency (CSEA) on April 27, 2004 in an attempt to recover these funds. As CSEA had already paid the checks out to the custodial parent and they had been subsequently cashed, CSEA informed the Village that any recoupment activity must be directed to Stephen Brennan. The payments as of this date have not been returned.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against David G. Reed, Jr., Former Clerk-Treasurer and Ohio Farmers Insurance Co., his bonding company, jointly and severally, in the amount of \$471 and in favor of the Village of Madison.

<b>FINDING NUMBER</b>	<b>2003-002</b>
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The Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure of money unless it has been properly appropriated. The following funds had expenditures that exceeded appropriations for the year ending December 31, 2003:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
General	\$484,612	\$1,354,501	(\$869,889)
Special Revenue			
Street Construction	71,087	134,499	(63,412)
State Highway	5,000	7,872	(2,872)
Cemetery Operating	5,700	16,020	(10,320)
Senior Citizen	17,498	65,745	(48,247)
Education	0	3,000	(3,000)
Cops Fast	28,000	41,000	(13,000)
Street Lighting	20,000	82,529	(62,529)
Expendable Trust - Police Pension	5,000	14,940	(9,940)
Enterprise			
Water Capital	11,926	859,449	(847,523)
Sewer Capital	174,532	747,931	(573,399)
Water Operating	161,349	393,049	(231,700)
Sewer Operating	135,000	265,808	(130,808)
Water/Sewer Deposit	10,500	77,740	(67,240)

The following fund had expenditures that exceeded appropriations for the year ending December 31, 2002:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess Expenditures</u>
Enterprise			
Sewer Operating	\$323,690	\$374,861	(\$51,171)

The Village should monitor the expenditures in comparison to appropriations.

VILLAGE OF MADISON  
LAKE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)

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

Noncompliance Citations (Continued)

FINDING NUMBER	2003-003
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Ohio Revised Code Section 9.11 states, in part, that any elected or appointed public official of this state or of any political subdivision or instrumentality thereof, or any member, agent, or employee of any board, commission, bureau, or other public body established by law, who is permitted or required in the performance of his duties to affix his signature on any check, draft, warrant, voucher, or other instrument for the payment of money, may adopt a facsimile thereof, in lieu of such manual signature, and affix such facsimile to any such instrument. Ohio Rev. Code Section 9.10 states, in part, that "facsimile signature" includes, but is not limited to, the reproduction of any authorized signature by a copper plate or by a photographic, photostatic, or mechanical device, but does not authorize the use of a rubber stamp signature by the official or authorized employee.

During 2002 and 2003, the Village Clerk-Treasurer used a rubber stamp on the majority of the Village's checks.

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

FINDING NUMBER	2003-004
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Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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 sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**1. "Then and Now" certificate** – If the fiscal officer can certify that both at the time that 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 the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a 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.



**VILLAGE OF MADISON  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Noncompliance Citations (Continued)**

<b>FINDING NUMBER</b>	<b>2003-004 (Continued)</b>
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**2. Blanket Certificate** – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in 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 year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

**3. Super Blanket Certificate** – The Village may also make expenditures and contracts 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. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Fifty-nine percent of non-payroll expenditures tested in 2003 and eighty-three percent of non-payroll expenditures tested in 2002 were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. In addition, purchase orders from January 2003 through June 2003 (approximately 450) were not signed by the Clerk-Treasurer. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Clerk-Treasurer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

<b>FINDING NUMBER</b>	<b>2003-005</b>
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Ohio Revised Code Section 5705.38(A) provides that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1 of the current year, and the appropriations made in the temporary measure shall be chargeable to the appropriations in the annual appropriation measure for that fiscal year when passed.

**VILLAGE OF MADISON  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Noncompliance Citations (Continued)**

<b>FINDING NUMBER</b>	<b>2003-005 (Continued)</b>
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The Village passed a temporary appropriation measure in December 2002 for 2003; however, the Village never passed a permanent appropriation for 2003.

We recommend the Village pass temporary and permanent appropriations timely and update and review on a monthly basis their appropriation ordinance prior to making encumbrances or expenditures.

<b>FINDING NUMBER</b>	<b>2003-006</b>
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Ohio Revised Code Section 5705.39 states that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission, or in case of appeal, by the board of tax appeals. No appropriation measure shall become effective until the county auditor files with the appropriating authority a certificate that the total appropriations from each fund, taken together with all other outstanding appropriations, do not exceed such official estimate or amended official estimate. When the appropriation does not exceed such official estimate, the county auditor shall give such certificate forthwith upon receiving from the appropriating authority a certified copy of the appropriation measure. Appropriations shall be made from each fund only for the purposes for which such fund is established.

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36(A)(3) requires that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.36(A)(4) requires that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation. Ohio Rev. Code Section 5705.36(A)(5) provides that the amended certificate of estimated resources certified prior to making the appropriation from each fund, should not exceed the total estimated revenue.

Council passed their original appropriations for 2003 and 2002 and six amended appropriations in 2003 and four amended appropriations in 2002. However, except for the original appropriation measure, none of the appropriations passed by the Board were submitted to the county auditor so that a "Does Not Exceed" certificate could be issued.

We recommend that all appropriation measures passed by the Board be submitted to the county auditor as required by law.

**VILLAGE OF MADISON  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Noncompliance Citations (Continued)**

<b>FINDING NUMBER</b>	<b>2003-007</b>
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Ohio Revised Code Section 117.38 provides that cash basis entities must file annual reports with the Auditor of State within sixty days of the fiscal year end. At the time the report is filed with the Auditor of State, the Chief Fiscal Officer shall publish notice in a local newspaper, and if there is no such newspaper, then in a newspaper of general circulation in the political subdivision. The notice shall state that the financial report has been completed and is available for public inspection at the office of the chief fiscal officer. Pursuant to this Section, the Village may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Village did not file its 2002 financial report with the Auditor of State, nor was the public notified of its availability for inspection.

We recommend the Village take the necessary steps to ensure that the annual financial report is prepared on a cash basis accounting principles format and is published in accordance with the above Revised Code section.

<b>FINDING NUMBER</b>	<b>2003-008</b>
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According to the \$150,000 Bond Anticipation Note that the Village issued in 2002, and the corresponding Council resolution, the Village was allowed to use the note proceeds for the expenditure of money for acquiring real estate for a new Village hall. The Village expensed \$96,434 on the engineer fees and acquisition of the real estate. The remaining portion of the note proceeds, which totaled \$53,566, was put in the general fund. As of December 31, 2002 the General Fund had a balance of \$29,560. Therefore, the Village expended the bond funds on general operating expenses.

We recommend the Village only use the note proceeds as stated in the debt covenant and Council resolution.

<b>FINDING NUMBER</b>	<b>2003-009</b>
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Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. Ohio Rev. Code Section 5705.14 indicates that before an inter-fund transfer can be made from the General Fund, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board. See *a/so* 1989 Ohio Attorney General Opinion Number 89-075 (Ohio Rev. Code Section 5705.14(E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds). In addition to the transfers listed above, which are authorized in Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and of the Court of Common Pleas, may transfer from one fund to another any public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

VILLAGE OF MADISON  
LAKE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)

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

Noncompliance Citations (Continued)

FINDING NUMBER	2003-009 (Continued)
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In 2002, the Village transferred \$48,000 from the Senior Citizen Program Fund, a Special Revenue Fund, to the Senior Center Capital Fund, a Capital Project Fund. This transfer was contrary to Ohio Revised Code Section 5705.14. Further, no action was taken to receive approval from the Court of Common Pleas or the Tax Commissioner, under Sections 5705.15 and 5705.16. Also this transfer was not approved by Council.

We recommend the Village follow the above mentioned Revised Code sections when transferring funds, and authorize individual transfers by resolution to ensure compliance with the Ohio Revised Code. In addition, approval of individual transfers is a good accounting practice and provides an audit trail to support the amounts transferred.

Material Weaknesses

FINDING NUMBER	2003-010
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Condition of the Financial Records

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

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

- The Village has not reconciled their ledgers to the bank statements since at least January 1, 2001;
- All manual checks were not recorded on the Village's ledgers;
- Checks that cleared the bank did not agree to the Village's Detailed Expenditure Ledger and/or Check Register;
- Checks were recorded on the ledgers to different vendors with the same check number;
- Voided checks are still on the ledgers as actual expenditures;
- Voided checks were reissued with the same check number;
- Instances occurred where a check was voided, reissued as a manual check with a different check number, voided again, and again reissued as another manual check number. The original check number did not clear the bank and was not voided off the Village's books, and the final reissued manual check was not recorded on the Village's ledgers, however it cleared the bank;
- Several checks were written and not posted to the ledgers on a daily basis;
- Fund balances were overstated for 2002 and 2003 and the cash activity of the Village was not sufficiently validated by reliable reconciliation procedures;

**VILLAGE OF MADISON  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**Material Weaknesses (Continued)**

<b>FINDING NUMBER</b>	<b>2003-010 (Continued)</b>
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- The Village had gaps in check registers that could not be readily explained by the Village;
- Stale dated outstanding checks made the reconciliation process cumbersome;
- Bank deposits were not posted to the Village’s ledgers;
- Receipts and Expenditures were posted with the same reference numbers;
- The Village did not adjust their ledgers for Non Sufficient Funds checks, nor did they track the final disposition of these checks;
- Numerous adjustments were made to the Village ledgers with little or no support;
- The Village made adjustments to their ledgers a year after the original transaction took place;
- Recording payroll at gross, which entails manual checks to be written for the deductions. The payroll manual checks are never recorded on the Village’s ledgers;
- The Village paid the child support for an employee who was no longer employed by the Village for four pay periods in 2002;
- The Village made numerous payroll adjustments which made it difficult to reconcile the ADP Payroll reports to the Village’s ledgers;
- Numerous payroll adjustments were never made to the Village’s ledgers;
  
- The bail bond bank account was eliminated so all bail bond account activity is commingled with the Mayor’s Court account activities, which compromises control over bail bond activity;
- Outstanding bail bonds are not being sufficiently documented and accounted for by the Village; and,
- The Mayor and Council did not always receive monthly financial reports during 2002 and 2003 and when they did, they were not accurate;

Without timely and accurate reconciliations and ledgers, the Village had errors that were not detected. In 2003 and 2002, the Village was not able to determine what their actual fund cash balances were. In 2002, the Village’s ledgers were overstated by \$4,886. In 2003, the Village’s ledgers were overstated by \$8,342. All material adjustments were made on the financial statements.

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

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

**VILLAGE OF MADISON  
LAKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Material Weaknesses (Continued)**

<b>FINDING NUMBER</b>	<b>2003-010 (Continued)</b>
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It is imperative that accurate and complete records which exhibit true balances be maintained. If necessary, the Village management should seek training sessions for financial statement preparation, read and study the available authoritative literature, develop a program of recordkeeping which will provide assurance of financial statement accuracy and integrity, and if necessary seek out the assistance of a professional who is familiar with the these requirements.

<b>FINDING NUMBER</b>	<b>2003-011</b>
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**Ledger Postings**

The Village was not properly posting their revenues and expenditures to their ledgers. The following problems were noted regarding the Village's ledger postings:

- Numerous instances in 2002 and 2003 where the revenue and expenditure postings were not posted to the proper line items and/or proper funds.
- Numerous instances where the date the receipt/expenditure was posted to the Village's ledgers was numerous days later than when it was posted to the bank statements. One particular instance AOS noted was a check drawn in July 2001 for \$36,050 and it cleared the bank in July 2001, however it was not posted to the Village's ledgers until June 2003.
- While posting to ledgers, the Village did not distinguish between principal and interest, debt transactions were posted entirely to interest accounts;
- The Village booked all of their debt payments together instead of breaking out the payments by what each payment was for, thus the Village could not readily determine how much principal was outstanding for each type of debt; and,
- The Village wrote one check for most of the debt payments to the Treasurer of State, which could lead to incorrect reductions to what is owed on each debt.

The Village's financial statements did not accurately reflect the cash position of the Village. The process of reconciling the revenues/expenditures posted to the Village ledgers to the bank statements was extremely burdensome.

We recommend the Village track and post principal and interest payments separately and prepare individual checks for each type of debt issuance. We also recommend the Village do all of their postings in a timely fashion and in accordance with the Village's chart of accounts.

<b>FINDING NUMBER</b>	<b>2003-012</b>
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**Mayor's Court Cashbook**

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

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

VILLAGE OF MADISON  
LAKE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)

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

**Material Weaknesses (Continued)**

<b>FINDING NUMBER</b>	<b>2003-013</b>
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**Monitoring Cash Fund Balances**

The Village has spent more money in the general fund than it received in 2003 and 2002. This has resulted in a year end cash balance reduction of seventy eight percent. This could result in the Village overdrawing their accounts. Also, as seen in finding 2003-002, expenditures were exceeding appropriations.

We recommend the Mayor and Council monitor the available cash balance and adjust spending levels accordingly. As mentioned in finding 2003-010, management must monitor all financial statements and support documents at least on a monthly basis.

**VILLAGE OF MADISON  
LAKE COUNTY  
DECEMBER 31, 2003 AND 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2001-001	The Ohio Revised Code Section 5705.41(B) requires that no subdivision or taxing unit shall make any expenditure of money unless it has been properly appropriated.	No	Reissued as 2003-002
2001-002	The Ohio Rev. Code Sections 9.10 and 9.11, authorizes the reproduction of any authorized signature by a copper plate or by a photographic, photostatic, or mechanical device, but does not authorize the use of a rubber stamp signature by any elected or appointed public official of any political subdivision on the face of any instrument.	No	Reissued as 2003-003
2001-003	Ohio Rev. Code Section 5705.41(D) states, in part, that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.	No	Reissued as 2003-004
2001-004	The Village was not reconciling their ledgers to the bank statements on a timely basis	No	Reissued as 2003-010
2001-005	The Village did not have proper documentation to support transaction(s).	Yes	Corrected
2001-006	The Village was not correctly posting debt information to the ledgers.	No	Reissued as 2003-011
2001-007	The Mayor's Court cashbook does not document all cash activity, maintain a cash balance, and receipts are not posted.	No	Reissued as 2003-012





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**VILLAGE OF MADISON**

**LAKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 28, 2005**