



**Auditor of State
Betty Montgomery**

VILLAGE OF NEW MADISON
DARKE COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of New Madison
Darke County
124 South Harrison Street
P.O. Box 15
New Madison, Ohio 45346

To the Mayor and Village Council:

We have audited the accompanying financial statements of the Village of New Madison, Darke County, (the Village), as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our 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.

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code §§ 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 of New Madison as of December 31, 2003, 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 November 16, 2004, 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.

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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

November 16, 2004

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$85,256	\$57,218		\$142,474
Special Assessments			\$202,100	202,100
Intergovernmental Receipts	19,102	39,417		3,216,586
Charges for Services	55,480			55,480
Fines, Licenses, and Permits	474			474
Earnings on Investments	2,616	662		4,798
Miscellaneous	5,586			5,586
	<u>168,514</u>	<u>97,297</u>		<u>3,627,498</u>
			<u>3,361,687</u>	
Total Cash Receipts				3,627,498
Cash Disbursements:				
Current:				
Security of Persons and Property	65,051	37,417		102,468
Public Health Services	3,283			3,283
Leisure Time Activities	4,000			4,000
Community Environment	27,214			27,214
Basic Utility Services	73,722			73,722
Transportation	5,321	63,362		68,683
General Government	25,442			25,442
Debt Service:				
Principal Payments	3,446	10,952		561,898
Interest Payments	30	2,132		70,909
Capital Outlay				3,176,955
	<u>207,509</u>	<u>113,863</u>		<u>4,114,574</u>
			<u>3,793,202</u>	
Total Cash Disbursements				4,114,574
Total Receipts Over/(Under) Disbursements	<u>(38,995)</u>	<u>(16,566)</u>		<u>(487,076)</u>
			<u>(431,515)</u>	
Other Financing Receipts and (Disbursements):				
Sale of Notes			520,000	520,000
Other Financing Sources	6,158	3,702	273	10,133
	<u>6,158</u>	<u>3,702</u>		<u>530,133</u>
			<u>520,273</u>	
Total Other Financing Receipts/(Disbursements)				530,133
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(32,837)	(12,864)	88,758	43,057
Fund Cash Balances, January 1	164,171	88,104	\$54,385	83,455
	<u>164,171</u>	<u>88,104</u>	<u>\$54,385</u>	<u>83,455</u>
Fund Cash Balances, December 31	<u>\$131,334</u>	<u>\$75,240</u>	<u>\$54,385</u>	<u>\$172,213</u>
	<u>\$131,334</u>	<u>\$75,240</u>	<u>\$54,385</u>	<u>\$172,213</u>
Reserves for Encumbrances, December 31	\$2,996	\$0	\$0	\$2,996
	<u>\$2,996</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,996</u>

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

	<u>Enterprise Funds</u>
Operating Cash Receipts:	
Charges for Services	\$112,417
Total Operating Cash Receipts	<u>112,417</u>
Operating Cash Disbursements:	
Personal Services	34,280
Supplies and Materials	<u>64,970</u>
Total Operating Cash Disbursements	<u>99,250</u>
Operating Income/(Loss)	<u>13,167</u>
Non-Operating Cash Receipts:	
Miscellaneous Receipts	52
Other Non-Operating Receipts	<u>379</u>
Total Non-Operating Cash Receipts	<u>431</u>
Net Receipts Over/(Under) Disbursements	13,598
Fund Cash Balances, January 1	<u>16,446</u>
Fund Cash Balances, December 31	<u><u>\$30,044</u></u>
Reserve for Encumbrances, December 31	<u><u>\$11,972</u></u>

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of New Madison, Darke 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 government services, water and sewer utilities, park operations (leisure time activities), and police protection. The Village contracts with the New Madison Fire Department Association to provide fire protection services and with Tri-Village Ambulance District for emergency services.

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

B. Basis of Accounting

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

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

C. Cash and Investments

Certificates of deposit 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:

Street Construction, Maintenance, and Repair Fund - This fund receives the proceeds from gasoline and motor vehicle taxes for constructing and maintaining Village streets.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Fund (continued)

Road Construction Levy Fund - This fund receives the proceeds from a Village property tax levied for improving Village streets and alleys.

Fire Fund - This fund receives levy monies and provides fire protection services to Village residents.

Police Levy Fund – This fund receives levy monies to provides for the operation of the Village police department.

3. Debt Service Fund

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

Bond Retirement Fund - This fund is used to retire the principal and interest of Village loan and note debt issues.

4. 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 fund:

Wastewater Bond Construction Fund – This was established to account for the construction of the Village sewer system and plant.

5. Enterprise Fund

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 water utility.

Sewer Operating Fund – This fund receives charges for services from Village residents to cover the costs of providing this activity.

E. Budgetary Process

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2003 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

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:

	2003
Demand Deposits	<u>\$441,702</u>
Certificates of Deposit	<u>21,514</u>
	<u><u>\$463,216</u></u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Village.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2003:

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$184,258	\$174,672	(\$9,586)
Special Revenue	97,136	100,999	3,863
Debt Service	50,000	0	(50,000)
Capital Project	3,348,986	3,881,960	532,974
Enterprise	88,000	112,848	24,848
Total	\$3,768,380	\$4,270,479	\$502,099

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$225,650	\$210,505	\$15,145
Special Revenue	130,309	113,863	16,446
Debt Service	104,385	0	104,385
Capital Project	2,929,186	3,793,202	(864,016)
Enterprise	101,200	111,222	(10,022)
Total	\$3,490,730	\$4,228,792	(\$738,062)

4. 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.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

5. CAPITAL LEASES

The Village had the following capital leases in effect as of December 31, 2003:

	<u>Inception</u>	<u>Remaining</u>	<u>Period</u>	<u>Interest Rate</u>
Ford Motor Credit - F-350 Street Maintenance	11/17/2000	\$5,949	4 Year	8.15%
Ford Motor Credit - Crown Victoria Police Cruiser	1/19/2002	12,048	4 Year	6.85%
De Lage Landen - Savin Copier	1/1/2002	3,662	4 year	0.00%
Total		<u>\$21,659</u>		

6. DEBT

Debt outstanding at December 31, 2003, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer System Temporary Mortgage Revenue Bonds	\$1,940,000	3.04%
Sewer System Bond Anticipation Note	520,000	1.75%
Wastewater Treatment Improvement OPWC Loan	487,500	0.00%
Total	<u>\$2,947,500</u>	

The Sewer System Temporary Mortgage Revenue Bonds and Sewer System Bond Anticipation Note were used as temporary funding for the Village's \$5,700,000 sewer system construction project. These issues will be retired with bonds upon completion of the project in 2004.

The Wastewater Treatment Improvement OPWC Loan was provided by the State to assist in the cost of the Village's \$5,700,000 sewer system construction project and will be retired with semi-annual payments of \$12,500 ending July 1, 2023.

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

	<u>Temporary Mortgage Revenue Bonds</u>	<u>Sewer Bond Anticipation Note</u>	<u>OPWC Sewer Loan</u>
Year ending December 31:			
2004	\$1,969,815	\$529,100	\$12,500
2005			25,000
2006			25,000
2007			25,000
2008			25,000
2009-2013			125,000
2014-2018			125,000
2019-2023			125,000
Total	<u>\$1,969,815</u>	<u>\$529,100</u>	<u>\$487,500</u>

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

7. 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. For 2003 OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements	Loans
U.S. DEPT. OF HOUSING AND URBAN DEVELOPMENT					
(Passed through the Ohio Department of Development)					
Community Development Block Grant	C-W-01-266-1	14.228	\$47,890	\$48,458	
U.S. DEPT. OF HOMELAND SECURITY					
(Passed through Ohio Emergency Management Agency)					
Public Assistance Grant	N/A	97.044	834	834	
U.S. DEPT. OF AGRICULTURE					
(Direct Receipt)					
Water and Waste Disposal System for Rural Communities	N/A	10.760	<u>1,384,021</u>	<u>1,384,021</u>	<u>\$1,334,544</u>
TOTAL FEDERAL ASSISTANCE			<u><u>\$1,432,745</u></u>	<u><u>\$1,433,313</u></u>	<u><u>\$1,334,544</u></u>

See accompanying notes to the Schedule of Federal Awards Expenditures.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**INSERT NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURE
FOR THE YEAR ENDED DECEMBER 31, 2003**

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 – COMMINGLING

Federal funds received from Community Development Block Grant and Water and Waste Disposal System for Rural Communities were commingled with state and local revenues for the village's waste water treatment facilities project. It was assumed that federal funds were expended first.

NOTE C – FEDERAL LOAN

In accordance with OMB Circular A-133 the direct loan from the U.S. Department of Agriculture is presented separately on the schedule and used in conjunction with actual federal program expenditures in the determination federal audit requirements.



Auditor of State Betty Montgomery

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

Village of New Madison
Darke County
124 South Harrison Street
P.O. Box 15
New Madison, Ohio 45346

To the Mayor and Village Council:

We have audited the financial statements of the Village of New Madison, Darke County, (the Village), as of and for the year ended December 31, 2003, and have issued our report thereon dated November 16, 2004, wherein we noted the Village's financial transaction were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 16, 2004.

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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the accompanying schedule of findings as item 2003-003.

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**Internal Control Over Financial Reporting
(Continued)**

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 the reportable condition 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 November 16, 2004.

This report is intended for the information and use of the audit committee, management, Village Council, and 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

November 16, 2004



**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 New Madison
Darke County
124 South Harrison Street
P.O. Box 15
New Madison, Ohio 45346

To the Mayor and Village Council:

Compliance

We have audited the compliance of the Village of New Madison, Darke 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, 2003. 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.

In our opinion, 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, 2003.

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.

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**Internal Control Over Compliance
(Continued)**

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Village's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as item 2003-004.

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. Our consideration of the internal control over compliance 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 the reportable condition described above is a material weakness. We also noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated November 16, 2004.

This report is intended for the information and use of the audit committee, management, Village Council, and 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

November 16, 2004

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE YEAR ENDED DECEMBER 31, 2003**

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)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance 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?	Yes
<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	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Program:	Water and Waste Disposal System for Rural Communities CFDA 10.760
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<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 2003-001

Material Citation:

Ohio Rev. Code Section 5705.41(D) 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 \$1,000 (\$3,000, effective 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.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 (an amount established by resolution or ordinance adopted by the legislative authority, effective September 26, 2003) against any specific line item account over a period not exceeding three months (three month limitation was eliminated effective September 26, 2003) or running beyond the current year. 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 one line item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for 41% of the expenditures tested for 2003 and there was no evidence that the Village followed the aforementioned exceptions. The failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

**FINDING 2003-001
 (Continued)**

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 Village's Fiscal Officer certify that the funds are or will be available prior to the 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.

FINDING 2003-002

Material Citation:

Ohio Rev. Code Section 5705.41(B), prohibits expenditures unless the funds have been properly appropriated. This prohibits expenditures from exceeding appropriations. Contrary to this requirement, expenditures and current encumbrances exceeded appropriations for the following funds at December 31, 2003:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Current Encumbrances</u>	<u>Variance</u>
4101 - Wastewater Construction	\$2,929,186	\$3,793,202	\$0	(\$864,016)
5101 – Water	\$99,000	\$96,590	\$11,972	(\$9,562)
5102 – Meter	\$2,200	\$2,660	\$0	(\$460)

The Village should monitor the budgetary financial reports throughout the year to prevent budgetary expenditures from exceeding appropriations at the legal level of control. In instances where it appears appropriations are insufficient to meet projected needs, the Village should pass a resolution to amend appropriations. This analysis should also encompass a review of available resources.

FINDING 2003-003

Material Weakness:

Unnecessary Bank Accounts and Accounts Off the Books

The Village's Uniform Accounting Network (UAN) accounting system provides fund and budgetary accounting systems appropriate for governments such as the Village of New Madison. In order for the accounting system to function properly and reflect all the activity of the Village, all activity must be posted to the UAN system. During the year ended December 31, 2003, the Village maintained six bank accounts whose balances and/or activity were not reflected on the Village's accounting system. The activity of the New Madison Police Trust account, Mayor's Court account, CDBG account, and 3 interim financing accounts were not included on the Village's accounting records.

In order for the UAN system to properly reflect the activity of the Village, the accounts outside the accounting system should be handled as follows:

**FINDING 2003-003
 (Continued)**

- * The New Madison Police Trust account was determined to be the Law Enforcement Education funding received from past court distributions and the balance should be included as Village activity. The Village should eliminate the New Madison Police Trust bank account and establish a Special Revenue - Law Enforcement Education Fund to properly reflect and account for this activity.
- * The Mayor's court has been inactive for several years and has a balance that should be included as activity on the Village's ledgers. The Village should post the balance of the Mayor's account to the general fund as miscellaneous revenue. The Village should close out the separate account and deposit the balance into the general account of the Village.
- * The separate payroll bank account should be eliminated and all payroll transactions should be handled through the general bank account. The payroll account has excess funds so that the account is never overdrawn and the Village should post the payroll account balance less outstanding checks to the general fund.
- * The Village opened four different bank accounts for the sewer project to handle the interim financing and CDBG grant. The activity of the sewer project should have been reported in the Wastewater Construction Fund (4101) showing the revenue that was received from the various sources at the time notification was received by the grantor and/or the project manager. Also the Village should have recorded the memo checks that were written out on behalf of the Village by the grantor or when the Village wired money to the vendor for payment of services rendered. The Village should close out the separate accounts and deposit the balance into the general account of the Village.

The accompanying financial statements include the required adjustments to correctly report the activity of the bank accounts listed above during the period.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Federal Wastewater Program Revenue Posting

Finding Number	2003-004
CFDA Title and Number	All CFDA Titles and Numbers
Federal Award Number/Year	All Federal Award Numbers
Federal Agency	All Federal Agencies
Pass-Through Agency	All Pass-Through Agencies

OMB Circular A-133 requires federal recipients and sub-recipients to identify in their accounts all federal awards received and expended, as well as the federal programs under which they were granted. In assessing the appropriateness and completeness of the Village's identification of federal programs in the schedule of federal awards expenditure, it must be determined whether the required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements.

**FINDING 2003-004
(Continued)**

The Village's Uniform Accounting System (UAN) chart of accounts provides a logical sequence by fund, revenue source, and expenditure classification. During 2003, the Village received \$47,890 in Community Development Block Grant (CDBG) funds, \$2,718,565 in United States Department of Agriculture (USDA) RDA grants and loans, and \$334,602 in Ohio Public Works Commission (OPWC) grant funds towards a Village sewer project. The Village did not post all of the federal and state revenue received for the construction project or the corresponding expenditures to the accounting system resulting in a failure to report the activity of the construction project accurately in their annual financial report for 2003. The Village double posted the revenue and corresponding expenditures from the Ohio Public Works Commission. In addition, the Village Clerk posted all grant transactions on December 1, 2003, rather than throughout the year as the transactions occurred.

In order for the Village to be able to prepare an accurate schedule of federal awards expenditures and annual financial reports, the Village should report the project transactions when they occur and post all revenue according to whether it is federal, state, or local revenue for the project. The Village should utilize the guidance in Auditor of State Bulletin 2000-008 in recording the transactions associated with the receipt, expenditure, and budgeting of pass-through funds from grantor agencies.

The accompanying financial statements include the required adjustments to correctly report the CDBG, USDA, and OPWC funds received and expended during the period.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (c.)
FOR THE YEAR ENDED DECEMBER 31, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	Client will adopt the exceptions allowed in ORC 5705.41(D) (l) and (3) to improve compliance.	December 15, 2004	Christine Davis, Clerk/Treasurer
2003-002	The Village Council and Clerk will monitor monthly budgetary reports to prevent expenditures plus encumbrances from exceeding appropriations.	December 31, 2004	Christine Davis, Clerk/Treasurer
2003-003	The Village will close the unnecessary accounts to the Village's general account.	December 31, 2004	Christine Davis, Clerk/Treasurer
2003-004	The Village will adhere to the guidance in Auditor of State Bulletin 2000-008 in the posting of grant revenue.	December 31, 2004	Christine Davis, Clerk/Treasurer

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-001	Failure to comply with the certification requirements of ORC 5705.41(D)	No	Re-issued as finding 2003-001
2002-002	Failure to properly post federal and state revenues and expenditures to the Village accounting system.	No	Re-issued as finding 2003-004



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VILLAGE OF NEW MADISON

DARKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 21, 2004**