



**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

VILLAGE OF LOUDONVILLE
ASHLAND COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental and Similar Fiduciary Fund Type For the Year Ended December 31, 2002.....	3
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.....	4
Notes to the Financial Statements.....	5
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	13
Schedule of Findings.....	15
Schedule of Prior Audit Findings.....	18

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Loudonville
Ashland County
P.O. Box 150
Loudonville, Ohio 44842

To the Village Council:

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

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

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

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

As discussed in Note 2, the Village restated its fund balances at January 1, 2002 to reflect income tax activity in the General Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of Loudonville
Ashland County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of 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 13, 2003

VILLAGE OF LOUDONVILLE
ASHLAND COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPE
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	
Cash Receipts:						
Property Tax and Other Local Taxes	\$157,802	\$206,320				\$364,122
Municipal Income Taxes	978,393					978,393
Intergovernmental Receipts	169,290	111,723		\$143,902		424,915
Charges for Services	30,882	99,908				130,790
Fines, Licenses, and Permits	26,910	3,114				30,024
Earnings on Investments	14,535	130	\$587			15,252
Contributions and Donations	63,756					63,756
Miscellaneous	17,596	6,845				24,441
Total Cash Receipts	1,459,164	428,040	587	143,902	0	2,031,693
Cash Disbursements:						
Current:						
Security of Persons and Property	73,623	476,817				550,440
Public Health Services	5,387					5,387
Leisure Time Activities	39,178					39,178
Community Environment	7,147					7,147
Transportation		184,603				184,603
General Government	600,852					600,852
Debt Service:						
Principal Payments	25,833	129,754	352,980	714,000		1,222,567
Interest Payments	26,762	7,029	18,869	13,804		66,464
Capital Outlay	42,733	28,289		435,079		506,101
Total Cash Disbursements	821,515	826,492	371,849	1,162,883	0	3,182,739
Total Receipts Over/(Under) Disbursements	637,649	(398,452)	(371,262)	(1,018,981)	0	(1,151,046)
Other Financing Receipts/(Disbursements):						
Sale of Bonds or Notes			188,930	980,513		1,169,443
Transfers-In		399,188	276,754	30,000		705,942
Transfers-Out	(543,014)		(22,254)			(565,268)
Advances-In	21,500					21,500
Advances Out				(21,500)		(21,500)
Other Financing Sources		66			\$8,100	8,166
Other Financing Uses	(80)	(246)			(8,000)	(8,326)
Total Other Financing Receipts/(Disbursements)	(521,594)	399,008	443,430	989,013	100	1,309,957
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	116,055	556	72,168	(29,968)	100	158,911
Fund Cash Balances, January 1, Restated	237,226	181,282	22,254	37,902	3,933	482,597
Fund Cash Balances, December 31	\$353,281	\$181,838	\$94,422	\$7,934	\$4,033	\$641,508
Reserves for Encumbrances, December 31	\$9,784	\$11,641	\$0	\$0	\$100	\$21,525

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

**VILLAGE OF LOUDONVILLE
ASHLAND 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 Type	Fiduciary Fund Types		Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	Agency	
Operating Cash Receipts:				
Charges for Services	\$818,256			\$818,256
Earnings on Investments		\$2,313		2,313
Miscellaneous	13,833			13,833
Total Operating Cash Receipts	<u>832,089</u>	<u>2,313</u>	<u>0</u>	<u>834,402</u>
Operating Cash Disbursements:				
Personal Services	258,266			258,266
Contractual Services	116,226			116,226
Supplies and Materials	119,736	22		119,758
Capital Outlay	85,019			85,019
Total Operating Cash Disbursements	<u>579,247</u>	<u>22</u>	<u>0</u>	<u>579,269</u>
Operating Income	<u>252,842</u>	<u>2,291</u>	<u>0</u>	<u>255,133</u>
Non-Operating Cash Receipts:				
Village of Perrysville Taxes			\$130,306	130,306
Mayor's Court Receipts			24,858	24,858
Intergovernmental Receipts	93,205			93,205
Other Non-Operating Receipts	8,577			8,577
Total Non-Operating Cash Receipts	<u>101,782</u>	<u>0</u>	<u>155,164</u>	<u>256,946</u>
Non-Operating Cash Disbursements:				
Debt Service:				
Principal Payments	134,616			134,616
Interest Payments	14,768			14,768
Distribution of Village of Perrysville Taxes			130,306	130,306
Distribution of Mayor's Court Receipts			23,140	23,140
Other Non-Operating Cash Disbursements	131			131
Total Non-Operating Cash Disbursements	<u>149,515</u>	<u>0</u>	<u>153,446</u>	<u>302,961</u>
Excess of Receipts Over Disbursements Before Interfund Transfers	205,109	2,291	1,718	209,118
Transfers-In	47,930			47,930
Transfers-Out	(188,604)			(188,604)
Net Receipts Over Disbursements	64,435	2,291	1,718	68,444
Fund Cash Balances, January 1	<u>672,786</u>	<u>107,231</u>	<u>0</u>	<u>780,017</u>
Fund Cash Balances, December 31	<u>\$737,221</u>	<u>\$109,522</u>	<u>\$1,718</u>	<u>\$848,461</u>
Reserve for Encumbrances, December 31	<u>\$15,639</u>	<u>\$0</u>	<u>\$0</u>	<u>\$15,639</u>

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

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Loudonville, Ashland County, Ohio, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides general governmental services, including water and sewer utilities, street maintenance and repair, fire and police protection, emergency medical services, planning and zoning, and park operations (leisure time activities).

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

Certificates of deposit are valued at cost. The Village has no investments.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village has 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.

Police Levy Fund - This fund receives levy monies for operating and maintaining the Village Police Department.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Debt Service Funds

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has the following significant Debt Service Funds:

Industrial Park Fund - This fund received proceeds from notes in anticipation of the issuance of bonds for the purpose of paying for improvements to the Village's industrial park.

Washington Street Building Fund - This fund is used to retire debt related to purchasing the Village's Washington Street Building.

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 has the following significant Capital Projects Fund:

Storm Sewer Grant Fund - This fund received a loan from the United States Department of Agriculture. This fund also receives grant funds from the United States Department of Agriculture. The proceeds and grant funds are being used to construct a storm sewer system.

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 has the following significant Enterprise Funds:

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

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

Storm Drainage Revenue Fund – This fund receives charges for services from residents to cover the cost and expense of the operation, maintenance, repair, replacement, new construction and management of the public storm drainage system.

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified 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 Fund:

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

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

Perrysville Income Tax Fund (Agency Fund) - This fund receives monies from collections of income taxes on behalf of the Village of Perrysville. Monies received are remitted directly to the Village of Perrysville. The Village contracts with the Village of Perrysville to perform these services.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve the appropriation measure 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.

A summary of 2002 budgetary activity appears in Note 4.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay 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.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

2. RESTATEMENT OF PRIOR YEAR FUND BALANCE

Prior to January 1, 2002, the Village's Income Tax activity was recorded in the Expendable Trust Fund. To better comport with governmental accounting principles, an adjustment was made to reflect this activity in the General Fund. This adjustment had the following effect on beginning fund balance:

	General Fund	Expendable Trust Fund
Beginning fund balance, as previously reported	\$179,524	\$61,635
Income tax adjustment	57,702	(57,702)
Beginning fund balance, restated	\$237,226	\$3,933

The effect of this reclassification on reported 2002 General Fund revenues, expenditures, and excess of revenues over expenditures was \$672,081, \$613,166 and \$58,915, respectively.

3. EQUITY IN POOLED CASH

The Village maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31, 2002 was as follows:

Demand deposits	\$1,009,969
Certificates of deposit	480,000
Total deposits	\$1,489,969

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

4. BUDGETARY ACTIVITY

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

Fund Type	2002 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$1,287,424	\$1,480,664	\$193,240
Special Revenue	873,219	827,294	(45,925)
Debt Service	432,890	466,271	33,381
Capital Projects	2,149,618	1,154,415	(995,203)
Enterprise	975,068	981,801	6,733
Fiduciary	209,500	165,577	(43,923)
Total	\$5,927,719	\$5,076,022	(\$851,697)

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

4. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,474,316	\$1,374,393	\$99,923
Special Revenue	937,758	838,379	99,379
Debt Service	394,103	394,103	0
Capital Projects	2,166,019	1,184,383	981,636
Enterprise	1,181,313	933,005	248,308
Fiduciary	209,000	161,568	47,432
Total	\$6,362,509	\$4,885,831	\$1,476,678

Contrary to Ohio Rev. Code Section 5705.41(D), certain expenditures were not properly certified prior to incurring the obligation.

Contrary to Ohio Rev. Code Section 5705.14, certain transfers were made without a resolution by Council.

5. PROPERTY TAX

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

6. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.75 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. In addition, the Village collects and remits a municipal income tax for the Village of Perrysville, Ashland County.

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.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

7. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$397,315	7.51% - 7.77%
General Obligation Bonds	30,000	5.25%
Bond Anticipation Notes	188,930	4.00% - 4.25%
Mortgage Revenue Bonds	876,000	4.50% - 4.75%
Lease Purchase Agreements	13,871	5.35% - 6.00%
Total	\$1,506,116	

The 1990 Ohio Water Development Authority (OWDA) loan, due in semi-annual installments of \$17,770 through January 1, 2005, relates to a waterworks system expansion project in the Village and bears interest of 7.51%. The loan had a balance of \$78,103 at December 31, 2002.

The 1992 Ohio Water Development Authority (OWDA) loan, due in semi-annual installments of \$2,394 through January 1, 2007, relates to a waterworks system expansion project in the Village and bears interest of 7.54%. The loan had a balance of \$17,688 at December 31, 2002.

The 1992 Ohio Water Development Authority (OWDA) loan, due in semi-annual installments of \$23,903 through January 1, 2011, relates to a reservoir project in the Village and bears interest of 7.77%. The loan had a balance of \$301,524 at December 31, 2002.

The OWDA loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The 1993 Wetlands Restoration Improvement Bonds, due in varying amounts through November 15, 2003, relate to the construction of wetlands improvements in the Village and bear interest of 5.25%. The bonds had a balance of \$30,000 at December 31, 2002. The Bond is collateralized by the Village's taxing authority.

The 2002 Street Improvement Bond Anticipation Note, due in one annual payment on June 14, 2003, relates to street improvement projects within the Village's industrial park and bears interest of 4.25%. The note had a balance of \$115,188 at December 31, 2002.

The 2002 Building Acquisition Bond Anticipation Note, due in one annual payment on September 22, 2003, relates to the purchase of a municipal building and bears interest of 4.00%. The note had a balance of \$73,742 at December 31, 2002.

The Storm Sewer Mortgage Revenue Bonds, due in varying annual installments through February 1, 2042, relate to a sanitary sewer replacement project in the Village and bear interest of 4.50%. The bonds had a balance of \$714,000 at December 31, 2002. These bonds are collateralized by a lien on the related properties and revenues of the storm sewer system. As required by the mortgage revenue bond covenant, the Village has established and funded a debt service reserve fund and a debt service sinking fund, included as debt service funds. The balances in these funds at December 31, 2002 are \$39,463 and \$38,830, respectively.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

7. DEBT (Continued)

The Water System Mortgage Revenue Bonds, due in varying annual installments through April 1, 2042, relate a water system improvement project in the Village and bear interest of 4.75%. The bonds had a balance of \$162,000 at December 31, 2002. These bonds are collateralized by a lien on the related properties and revenues of the water system. As required by the mortgage revenue bond covenant, the Village has established and funded a debt service reserve fund and a debt service sinking fund, included as debt service funds. The balances in these funds at December 31, 2002 are \$9,216 and \$6,912, respectively.

A lease purchase agreement was entered into in 1999 for the purpose of obtaining a boom mower. This lease will be paid in annual installments of \$3,697 through December 10, 2004, and bears interest of 6.00%. The lease's present value at December 31, 2002 was \$6,811.

A lease purchase agreement was entered into in 2001 for the purpose of obtaining a police cruiser. This lease will be paid in annual installments of \$7,398 through June 26, 2003, and bears interest of 5.35%. The lease's present value at December 31, 2002 was \$7,060.

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

	OWDA Loans	General Obligation Bonds	Bond Anticipation Notes	Mortgage Revenue Bonds	Lease Purchase Agreements
Year ending December 31:					
2003	\$88,135	\$31,575	\$196,775	\$47,925	\$11,095
2004	88,135			47,857	3,696
2005	70,365			47,975	
2006	52,596			47,871	
2007	50,201			47,953	
2008 - 2012	191,232			239,643	
2013 - 2017				239,667	
2018 - 2022				239,550	
2023 - 2027				239,567	
2028 - 2032				239,627	
2033 - 2037				239,591	
2038 - 2042				239,613	
Total	\$540,664	\$31,575	\$196,775	\$1,916,839	\$14,791

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. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

8. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2002, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of their wages. OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002. The Village has paid all contributions required through December 31, 2002.

9. RISK MANAGEMENT

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

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

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

The Village also provides health insurance, life insurance, and dental and vision coverage to full-time employees through various private carriers.

10. CONTINGENT LIABILITIES

The Village is currently not a defendant in any lawsuits.

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

11. RELATED PARTY TRANSACTION

A Village employee is a partner of a company from which the Village awarded a sludge hauling contract in 2002. The Village paid a total of \$12,749 to the company for services performed in 2002.



**Auditor of State
Betty Montgomery**

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

Village of Loudonville
Ashland County
P.O. Box 150
Loudonville, Ohio 44842

To the Village Council:

We have audited the accompanying financial statements of the Village of Loudonville, Ashland County, Ohio, (the Village) as of and for the year ended December 31, 2002, and have issued our report thereon dated November 13, 2003 which disclosed the restatement of beginning fund balances related to the Income Tax activity. 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 2002-001 through 2002-003.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated November 13, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-004 and 2002-005.

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 consider items 2002-004 and 2002-005 to be material weaknesses.

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 13, 2003.

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

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

Betty Montgomery
Auditor of State

November 13, 2003

VILLAGE OF LOUDONVILLE
ASHLAND COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2002

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

Noncompliance Citations

FINDING NUMBER 2002-001

Ohio Rev. Code Section 5705.14 provides guidelines pertaining to allowable inter-fund transfers. Money may be transferred from the general fund to any other fund of the subdivision by resolution passed by a majority vote of the taxing authority.

The Village made transfers throughout the year from the income tax account of the general fund to other funds without resolutions by Council. Although these transfers were within amounts appropriated by the appropriation ordinance, individual transfers should be approved by Council by resolution at the time of the transfer. On December 15, 2003, Council retroactively approved these transfers.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 117.38 requires, in part, that cash basis entities file annual reports with the Auditor of State within 60 days of the fiscal year end. If the Auditor of State has prescribed a form for the annual report, these forms must be utilized. Any public office which does not file the report by the required date shall pay a penalty of \$25 for each day the report remains unfilled, not to exceed \$750. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer. The Auditor of State may provide waivers of these dates and penalties in certain circumstances.

The Village did not file its 2001 cash basis annual report with the Auditor of State nor publish notice of the availability of the annual report in a local newspaper until May of 2002. In addition, the 2002 report was not filed until June 23, 2003. The Village should prepare an annual report, in the format utilized for their financial statement presentation and submit the report to the Auditor of State within 60 days of year end. In addition, a notice should be publicized in a local newspaper at the time of filing stating the financial report is available for public inspection at the office of the chief fiscal officer.

FINDING NUMBER 2002-003

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two "exceptions" to the above requirements:

- a) Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- b) If the amount involved is less than \$1,000 (\$3,000 effective April 7, 2003), the Clerk-Treasurer may authorize payment through a Then and Now Certificate without affirmation of Village Council, if such expenditure is otherwise valid.

Noncompliance Citations (Continued)

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

For the audit period, 11 out of 60 expenditures tested (18%) were not certified by the Clerk-Treasurer prior to incurring the obligation. It was also found that neither of the two exceptions above was utilized for the items found to be in non-compliance. The Village should certify the availability of funds prior to incurring the obligation for expenditures. The Village should also implement the use of "Then and Now" certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

Material Weaknesses

FINDING NUMBER 2002-004

Bank Reconciliations

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records. This process involves reconciling the bank balance to the cash and investment balance. Throughout the audit period, monthly reconciliations were not performed in a timely manner for both the general and payroll clearing bank accounts. Some reconciliations were up to six months late. Numerous reconciling items were carried throughout the year and not corrected prior to year end.

Without complete and accurate monthly bank reconciliations, the Village's internal control is weakened, which could hinder the detection of errors or irregularities by the Village's management in a timely manner. In addition, the lack of legislative monitoring may lead to errors, irregularities or misappropriation of Village assets.

The Clerk-Treasurer should perform and complete monthly bank reconciliations in a timely manner. In addition, a copy of each monthly bank reconciliation along with a complete listing of reconciling items (outstanding checks, posting errors, bank coding errors, etc.) should be filed in the bank activity folder along with the bank statements and supporting documents for the applicable month (or another logical manner). The bank reconciliation should be included as part of the monthly financial package presented to the Village Council for review and approval. As part of this review Council should consider whether deposits and investments are allowable per the Ohio Revised Code. Furthermore, Village Council should document that it has reviewed the monthly financial package and reconciliations (e.g., sign and date the package and bank reconciliations.)

FINDING NUMBER 2002-005

Payroll Clearing Account

The Village maintains a zero balance payroll bank account which is not properly reconciled monthly.

Numerous errors and uncorrected reconciling items were noted as follows:

- Amounts in excess of the biweekly payroll amounts were transferred from the general account to the payroll account from 1997 to 2000. \$19,290 was still due to be transferred back to the general account as of December 31, 2002. The Clerk-Treasurer should return the remaining excess funds to the general bank account. In addition, the Clerk-Treasurer should ensure that only the exact amount necessary to cover future bi-weekly payrolls is transferred from the general account to the payroll account every two weeks.

Material Weaknesses (Continued)

**FINDING NUMBER 2002-005
(Continued)**

- An overpayment of \$168.32 was made to FICA in December, 1999. This amount was refunded to the Village in March, 2000. However, this amount continued to be carried as a reconciling item as of December 31, 2002. The refunded amount was deposited in the general account and should be transferred to the payroll account from where it was overpaid.
- Various bank posting errors occurred between January, 1999 through December, 2002 totaling \$532.66. All of these errors were carried as reconciling items at December 31, 2002. The Clerk-Treasurer should contact the bank to remedy these errors. Any future errors should be corrected in the subsequent month.
- In June, 1998, the Local Government Services division of the Auditor of State documented employee overpayments to PERS (Public Employees Retirement System) of \$8,622 and employer overpayments of \$13,745 from October, 1997 through January, 1998. The employee overpayment was still being carried as a reconciling item on the December 31, 2002 payroll reconciliation. By not rectifying this situation in a timely manner, and as a result of additional duplicate payments and other errors, the amount overpaid to the Ohio Public Employees Retirement System (OPERS) as employee contributions between September, 1997 through December, 2002 has increased to \$15,844. These overpayments were from the excess transfers between the general and payroll accounts noted above. Therefore, these are Village funds that were overpaid and are not incorrect withholdings from employees. This amount is due to the Village from OPERS and not due to the employees as of December 31, 2002. In addition to the \$15,844 overpayment from the payroll account, there was an overpayment of \$25,257 from the general account for the employer portion during the same period of time.

As of December 31, 2002, the Village has taken action to correct these errors. As of the date of this report, the Village has received a refund in the amount of \$13,315 for the employee portion and \$21,225 for the employer portion. Errors in calculations by OPERS resulted in the Village paying back \$1,496 of the refunds and OPERS owing the Village \$344. As the Village did not take timely action in recovering overpayments, OPERS has been refunding individuals who have left public employment. Therefore, approximately \$7,713 of overpayments will not be recoverable. In the future, the Clerk-Treasurer should correct these errors as soon as possible and ensure that correct amounts are paid to OPERS.

The Village's payroll zero balance bank account should be maintained such that it carries a zero book balance. In addition, the account should be reconciled on a monthly basis and any errors detected should be corrected in a timely manner.

**VILLAGE OF LOUDONVILLE
ASHLAND COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-30503-001	Ohio Rev. Code Section 135.21 – Interest revenue improperly allocated.	Yes	
2001-30503-002	Ohio Rev. Code Section 5705.41(B) – Expenditures exceeded appropriations in the Fire Levy Fund.	Yes	
2001-30503-003	Ohio Rev. Code Section 117.38 – Annual Report to Auditor of State filed late.	No	Not Corrected – Repeated as Finding Number 2002-002
2001-30503-004	Monthly reconciliations were inaccurate and not performed timely.	No	Not Corrected – Repeated as Finding Number 2002-004
2001-30503-005	Payroll clearing account not properly reconciled	No	Not Corrected – Repeated as Finding Number 2002-005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF LOUDONVILLE

ASHLAND 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
JANUARY 8, 2004**