



**Auditor of State
Betty Montgomery**

VILLAGE OF LEESBURG
HIGHLAND COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Leesburg
Highland County
57 South Fairfield Street
P.O. Box 305
Leesburg, Ohio 45135

To the Village Council:

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

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

The accompanying financial statements present current program disbursements by fund type totals only. Ohio Administrative Code, Section 117-2-02(A) requires governments to classify disbursement transactions.

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, except for the omission of current program disbursement classifications, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village as of December 31, 2002 and 2001, and its combined cash receipts and unclassified 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 September 15, 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.

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 Section 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

September 15, 2003

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property Tax and Other Local Taxes	\$403,434	\$3,265	\$0	\$406,699
Intergovernmental Receipts	59,986	43,309		103,295
Fines, Licenses, and Permits	2,056			2,056
Charges for Services	374			374
Earnings on Investments	2,982	558		3,540
Miscellaneous	35,476			35,476
Total Cash Receipts	<u>504,308</u>	<u>47,132</u>	<u>0</u>	<u>551,440</u>
Cash Disbursements:				
Current:				
Unclassified disbursements	479,448	26,395	29,756	535,599
Debt Service	17,483			17,483
Total Cash Disbursements	<u>496,931</u>	<u>26,395</u>	<u>29,756</u>	<u>553,082</u>
Total Receipts Over/(Under) Disbursements	7,377	20,737	(29,756)	(1,642)
Other Financing Receipts and (Disbursements):				
Debt Proceeds	10,519		29,451	39,970
Total Other Financing Receipts/(Disbursements)	<u>10,519</u>	<u>0</u>	<u>29,451</u>	<u>39,970</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	17,896	20,737	(305)	38,328
Fund Cash Balances, January 1	166,257	42,280	4,783	213,320
Fund Cash Balances, December 31	<u>\$184,153</u>	<u>\$63,017</u>	<u>\$4,478</u>	<u>\$251,648</u>
Reserves for Encumbrances, December 31	<u>\$28,906</u>	<u>\$384</u>	<u>\$995</u>	<u>\$30,285</u>

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

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
PROPERIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$434,447
Miscellaneous	7,796
Total Operating Cash Receipts	442,243
Operating Cash Disbursements:	
Unclassified disbursements	463,378
Total Operating Cash Disbursements	463,378
Operating Income/(Loss)	(21,135)
Non-Operating Cash Receipts:	
Proceeds of Loan	125,651
Total Non-Operating Cash Receipts	125,651
Non-Operating Cash Disbursements:	
Debt Service	42,576
Total Non-Operating Cash Disbursements	42,576
Excess of Receipts Over Disbursements Before Interfund Transfers	61,940
Transfers-In	42,472
Transfers-Out	(42,472)
Net Receipts Over Disbursements	61,940
Fund Cash Balances, January 1	62,504
Fund Cash Balances, December 31	\$124,444
Reserve for Encumbrances, December 31	\$22,762

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

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property Tax and Other Local Taxes	\$385,453	\$3,156	\$0	\$388,609
Intergovernmental Receipts	104,120	41,537	177,677	323,334
Fines, Licenses, and Permits	1,879	125		2,004
Charges for services	25			25
Earnings on Investments	1,652	168		1,820
Miscellaneous	34,132			34,132
Total Cash Receipts	<u>527,261</u>	<u>44,986</u>	<u>177,677</u>	<u>749,924</u>
Cash Disbursements:				
Current:				
Unclassified disbursements	377,845	40,739	341,821	760,405
Debt Service	110,246			110,246
Total Cash Disbursements	<u>488,091</u>	<u>40,739</u>	<u>341,821</u>	<u>870,651</u>
Total Receipts Over/(Under) Disbursements	<u>39,170</u>	<u>4,247</u>	<u>(164,144)</u>	<u>(120,727)</u>
Other Financing Receipts and (Disbursements):				
Transfers out	(10,000)			(10,000)
Debt Proceeds			164,144	164,144
Total Other Financing Receipts/(Disbursements)	<u>(10,000)</u>	<u>0</u>	<u>164,144</u>	<u>154,144</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>29,170</u>	<u>4,247</u>	<u>0</u>	<u>33,417</u>
Fund Cash Balances, January 1	<u>137,087</u>	<u>38,033</u>	<u>4,783</u>	<u>179,903</u>
Fund Cash Balances, December 31	<u>\$166,257</u>	<u>\$42,280</u>	<u>\$4,783</u>	<u>\$213,320</u>
Reserves for Encumbrances, December 31	<u>\$24,715</u>	<u>\$0</u>	<u>\$0</u>	<u>\$24,715</u>

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

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$587,535
Miscellaneous	<u>4,794</u>
Total Operating Cash Receipts	<u>592,329</u>
Operating Cash Disbursements:	
Unclassified disbursements	557,437
Total Operating Cash Disbursements	<u>557,437</u>
Operating Income/(Loss)	<u>34,892</u>
Non-Operating Cash Disbursements:	
Debt Service	<u>97,431</u>
Total Non-Operating Cash Disbursements	<u>97,431</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(62,539)
Transfers-In	52,296
Transfers-Out	<u>(42,268)</u>
Net Receipts Over/(Under) Disbursements	(52,511)
Fund Cash Balances, January 1	<u>115,015</u>
Fund Cash Balances, December 31	<u>\$62,504</u>
Reserve for Encumbrances, December 31	<u><u>\$2,829</u></u>

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

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Leesburg, Highland 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 street maintenance, police protection, and water and sewer utilities.

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).

The Village did not classify current program disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A). This Administrative Code Section requires classifying disbursements.

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

C. Cash Deposits

The Village maintains all funds in an interest-bearing checking account and a certificate of deposit with a local financial institution. The certificate of deposit is valued at cost. The Village pools its cash deposits for investment purposes to capture the highest rate of return.

D. Fund Accounting

The Village uses fund accounting to segregate cash deposits 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 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 had the following significant Special Revenue Funds:

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

State Highway Fund - This fund receives gasoline tax and motor vehicle license tax money for constructing, maintaining, and repairing state highways within the Village.

Permissive Motor Vehicle License Tax Fund - This fund receives motor vehicle license tax money levied by the Village for constructing, maintaining, and repairing Village streets.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Water Tower/OPWC Project Fund - This fund is being used to account for the construction project of a new water tower in the Village. The fund is receiving grant monies and debt proceeds from the Ohio Public Works Commission (OPWC) to fund the majority of the project.

4. Enterprise Funds

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

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

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

Garbage Fund - This fund receives charges for services from residents to cover the cost of garbage collection in the Village.

Water Debt Service Fund – This fund is used to accumulate resources for retirement of mortgage revenue bonds issued to fund improvements to the Village’s water plant.

Water Project Fund – This fund is used to accumulate resources to finance debt service on the Village’s Ohio Public Works Commission and Ohio Water Development Authority loans and for future improvements to the Village’s water system.

Sewer Debt Service Fund – This fund is used to accumulate resources for retirement of mortgage revenue bonds issued to fund improvements to the Village’s wastewater treatment system.

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sewer Project Fund – This fund is used to accumulate resources to finance debt service on the Village's Ohio Public Works Commission and Ohio Water Development Authority loans and for future improvements to the Village's wastewater treatment system.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

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. Financial statements were adjusted to include encumbrances that should have been recorded at year-end.

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

F. Property, Plant and Equipment

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

G. Accumulated Leave

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

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

2. EQUITY IN POOLED CASH DEPOSITS

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

	2002	2001
Demand deposits	\$322,722	\$225,859
Certificate of deposit	53,370	49,965
Total deposits	\$376,092	\$275,824

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

3. BUDGETARY ACTIVITY

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

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$586,038	\$514,827	(\$71,211)
Special Revenue	50,850	47,132	(3,718)
Capital Projects	0	29,451	29,451
Enterprise	42,370	610,366	567,996
Total	\$679,258	\$1,201,776	\$522,518

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$604,798	\$525,837	\$78,961
Special Revenue	66,200	26,779	39,421
Capital Projects	4,782	30,751	(25,969)
Enterprise	573,907	571,188	2,719
Total	\$1,249,687	\$1,154,555	\$95,132

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$608,877	\$527,261	(\$81,616)
Special Revenue	49,000	44,986	(4,014)
Capital Projects	0	341,821	341,821
Enterprise	412,817	644,625	231,808
Total	\$1,070,694	\$1,558,693	\$487,999

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$798,294	\$522,806	\$275,488
Special Revenue	81,413	40,739	40,674
Capital Projects	4,782	341,821	(337,039)
Enterprise	544,764	699,965	(155,201)
Total	\$1,429,253	\$1,605,331	(\$176,078)

Contrary to Ohio Rev. Code, Section 5705.41(B), the Village had expenditures in excess of appropriations in the Water Tower/OPWC and Sewer Project Funds in 2002 and in the Water Tower/OPWC, Water Operating, and Sewer Operating Funds in 2001.

Expenditures exceeded appropriations in the Water Tower/OPWC Fund partly because the Village recorded, for financial reporting purposes only, expenditures for payments by the Ohio Public Works Commission directly to contractors on the Village's behalf. The Village did not formally establish a fund as required by Ohio Rev. Code, Section 5705.09(F), and therefore did not establish the required budgetary authority.

Contrary to Ohio Rev. Code, Section 5705.39, appropriations exceeded estimated resources in the General and COPS Grant Funds in 2002 and in the State Highway, Water Operating, Sewer Operating, Garbage, Water Project, and Sewer Project Funds in 2001.

Contrary to Ohio Rev. Code, Section 5705.10, the Village had a negative fund balance in the Water Project Fund in both 2002 and 2001.

Contrary to Ohio Rev. Code, Section 5705.41(D), the Village did not obtain prior certification of the fiscal officer for all purchases.

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 LEESBURG
HIGHLAND COUNTY**

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

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer Mortgage Revenue Bonds (FHA)	\$384,000	5.00%
Water Mortgage Revenue Bonds	97,100	6.00%
Ohio Public Works Commission (OPWC) Loan - 1996	221,125	0.00%
Ohio Water Development Authority (OWDA) Loan - 1996	165,406	6.56%
Ohio Public Works Commission (OPWC) Loan - 2002	193,595	0.00%
Ohio Water Development Authority (OWDA) Loan - 2002	125,651	5.70%
Fifth Third Bank Note - Cruiser	8,614	5.80%
Total	<u>\$1,195,491</u>	

The Sewer Mortgage Revenue Bonds through the Farmers Home Administration (FHA) were issued in 1982 to finance an improvement project on the Village's wastewater treatment plant. The bonds are being retired over a period of 38 years, paid from sewer system revenues.

The Water Mortgage Revenue Bonds were issued in 1986 to finance an improvement project to the Village's water plant. The bonds are being retired over a period of 40 years, payable from water system revenues.

During 1996, the Village received an OPWC Loan and an OWDA Loan for \$305,000 and \$246,724, respectively, to finance water system and wastewater treatment system improvements. These loans are being repaid over a period of 20 years and 15 years, respectively, payable from water system and sewer system revenues.

During 2001, the Village received an OPWC Loan for \$222,500 to finance a water tower replacement project. The loan will be repaid from water system revenues, over a period of 20 years. As of December 31, 2002, the Village has borrowed \$193,595 against the loan. The amortization schedule below assumes the full amount will be borrowed.

During 2002, the Village received an OWDA Loan for \$295,000 to finance the planning phase of a wastewater improvement project. The loan will be repaid with a balloon payment in 2007, when the Village is expected to obtain permanent financing. As of December 31, 2002, the Village has borrowed \$125,651 against the loan. The amortization schedule below assumes the full amount will be borrowed.

During 2002, the Village obtained a \$10,519 note from Fifth Third Bank to purchase a police cruiser. The loan is being repaid over a period of three years, payable from the Village's general revenues.

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

5. DEBT (Continued)

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

Year ending December 31:	Sewer Mortgage Revenue Bonds (FHA)	Water Mortgage Revenue Bonds	OPWC Loans	OWDA Loans	Fifth Third Bank Note - Cruiser	Total
2003	\$34,250	\$7,708	\$15,250	\$11,134	\$3,510	\$71,852
2004	34,500	7,694	26,375	26,341	3,829	\$98,739
2005	33,700	7,674	26,375	26,341	1,914	\$96,004
2006	33,900	7,748	26,375	26,341	0	\$94,364
2007	34,000	7,710	26,375	405,416	0	\$473,501
Subsequent	409,250	146,913	322,875	105,364	0	\$984,402
Total	<u>\$579,600</u>	<u>\$185,447</u>	<u>\$443,625</u>	<u>\$600,937</u>	<u>\$9,253</u>	<u>\$1,818,862</u>

6. 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 Public Employees Retirement System (PERS) of Ohio. OP&F and PERS 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.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of participant wages. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries. As of December 31, 2002 the Village owes approximately \$5,000 to PERS and \$5,000 to OP&F. As of the date of this report, the Village has not fully remitted these amounts.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

8. CONTINGENT LIABILITIES

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.

**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

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

9. SUBSEQUENT EVENTS

In 2003, the Village has been approved by the Ohio Public Works Commission for financial assistance in the form of grants and loans totaling \$740,000 for a wastewater treatment plant renovation/expansion project. The total estimated cost of the project is \$3,142,000. The Village is anticipating the remaining cost to be funded through Ohio Water Development Authority and Community Development Block Grant assistance, and local funds.



**Auditor of State
Betty Montgomery**

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

Village of Leesburg
Highland County
57 South Fairfield Street
P.O. Box 305
Leesburg, Ohio 45135

To the Village Council:

We have audited the accompanying financial statements of the Village of Leesburg, Highland County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated September 15, 2003, which was qualified since the Village did not classify disbursements in its financial statements. 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 2002-005, and 2002-011 through 2002-014. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated September 15, 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 2002-001, and 2002-005 through 2002-010.

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, of the reportable conditions described, we believe finding 2002-001 to be 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 September 15, 2003.

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

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

Betty Montgomery
Auditor of State

September 15, 2003

**VILLAGE OF LEESBURG
HIGHLAND COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation – Material Weakness

Ohio Rev. Code, Section 733.28, requires the Village Clerk to maintain the books of the Village and exhibit accurate statements of all monies received and expended. The Village’s fiscal officer maintained the accounting records on the Uniform Accounting Network during 2002 and 2001; however, receipts and disbursements were consistently misposted to the accounting system. The Village was therefore unable to monitor compliance with its appropriation resolution. The Village was also unable to properly classify disbursements by purpose in its annual report, contrary to Ohio Rev. Code Section 117.38.

Ohio Administrative Code, Section 117-9-01, provides suggested account classifications for posting of transactions. These accounts classify disbursements by program (security of persons and property, for example) or object (personal services, for example). Posting transactions properly to these classifications will provide the Village with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Rev. Code, Section 5705.39, states that the total appropriation from each fund should not exceed the total estimated revenue. Contrary to this section, the Village had total appropriations in excess of estimated resources in the following funds:

Date	Fund	Total Appropriations	Total Estimated Resources	Variance
December 31, 2002	General	\$797,267	\$762,241	(\$35,026)
	COPS Grant	\$29,700	\$0	(\$29,700)
December 31, 2001	State Highway	\$12,000	\$8,239	(\$3,761)
	Water Operating	\$161,839	\$38,473	(\$123,366)
	Sewer Operating	\$216,239	\$40,045	(\$176,194)
	Garbage	\$78,000	\$9,527	(\$68,473)
	Water Project	\$30,000	\$2,364	(\$27,636)
	Sewer Project	\$30,000	\$1,975	(\$28,025)

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Rev. Code, Section 5705.41(B), states that no subdivision shall make any expenditure of money unless it has been appropriated. Expenditures exceeded appropriations in the following funds, contrary to this section.

Date	Fund	Total Appropriations	Total Budgetary Expenditures	Variance
December 31, 2002	OPWC Water Tower Project	0	\$30,446	(\$30,446)
	Sewer Project	\$30,000	\$125,651	(\$95,651)
December 31, 2001	OPWC Water Tower Project	0	\$341,821	(\$341,821)
	Water Operating	\$119,005	\$337,332	(\$218,327)
	Sewer Operating	\$187,482	\$212,711	(\$25,229)

The Clerk-Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk-Treasurer may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2002-004

Noncompliance Citation

Ohio Rev. Code, Section 5705.09(F), requires the Village to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure, and anticipated expenditures should be included in the Village's appropriations, as required by Ohio Rev. Code, Sections 5705.36 and 5705.41(B), respectively. The Ohio Public Works Commission (OPWC) made payments totaling \$371,272 for the new water tower project to contractors on behalf of the Village. The Village did not formally establish the required fund to account for these monies. Guidance on the accounting treatment for these types of transactions is set forth in Auditor of State Bulletin 2000-08.

FINDING NUMBER 2002-005

Noncompliance Citation – Reportable Condition

Ohio Rev. Code, Section 5705.41(D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation 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. This certificate need be signed only by the fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

**FINDING NUMBER 2002-005
Continued)**

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, the Village Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 dollars, the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Village Council, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, prior certification was not obtained for 77% of the vouchers reviewed for the audit period and neither of the two exceptions provided for above were utilized. This resulted in the Village having material unrecorded encumbrances at year end. The financial statements have been adjusted to properly reflect these encumbrances. As a result of these adjustments, the Garbage fund in 2002 had encumbrances greater than the fund's balance. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. Therefore, we recommend the Village obtain approved purchase orders, which contain the Clerk's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2002-006

Reportable Condition

Monthly reconciliations were not performed accurately and in a timely manner during the audit period. The Village's inability to get the books in balance with the bank resulted from several mispostings in the Uniform Accounting Network system. Failure to post all transactions and to perform monthly reconciliations could lead to unauthorized or inaccurate transactions occurring and going undetected.

Additionally, financial information is provided periodically to Village Council by the Clerk-Treasurer; however, monthly financial reports and reconciliations are not consistently provided to Council by the Clerk-Treasurer and documented in the minutes. The lack of effective monitoring by Village Council also could lead to unauthorized or inaccurate transactions occurring and going undetected.

We recommend that monthly reconciliations be performed accurately and in a timely manner. Monthly reconciliations and monthly financial reports should be provided to Village Council by the Clerk-Treasurer at each regular meeting to facilitate effective monitoring of Village financial activity. Village Council's review of monthly reconciliations and financial reports should be documented in the minutes.

FINDING NUMBER 2002-007

Reportable Condition

We noted the following weaknesses in the controls over Village disbursements:

- The proper program and object codes were not always used in posting to the UAN system or were incorrect.
- Purchase orders were not always signed as approved by two Village Council members.
- Disbursements were not consistently certified as available for expenditure in advance of purchase commitments being made.
- There is no consistent documentation on invoices that a review was performed by individuals who received the goods or services to determine that amounts billed were for items actually received by the Village.
- Small expenditures made by employees were reimbursed with cash through a check written to petty cash rather than accumulating expenditures and issuing checks to the employees.
- Check numbers and amounts for expenditures posted on the UAN system did not always agree with the actual checks (manual checks). This resulted in errors on the bank reconciliations.

Lack of an effective control system over the Village's expenditures could result in overspending of funds or unauthorized or inaccurate expenditures occurring. We recommend that the Village take appropriate steps to correct the above-mentioned control weaknesses.

FINDING NUMBER 2002-008

Reportable Condition

We noted the following weaknesses in the controls over Village payroll transactions:

- Salaries and hourly wage rates were not always formally approved in advance by Village Council.
- Time sheets were not always used to document hours worked for employees.
- Time sheets completed did not consistently show evidence of supervisory approval.
- Deductions for Federal, State and Local taxes and PERS/Ohio Police and Fire Pension were not submitted for November and December 2002. Differences in withholding amounts noted on UAN payroll reports and checks issued were also noted for other months during the audit period. This resulted from checks written which were not written for the full amount of the withholdings.

Lack of an effective control system over Village payroll transactions could result in salaries or wages being paid for work not actually performed, or employees could be compensated for incorrect salary or hourly rates. To improve the controls over Village payroll, we recommend the following:

- Village Council should approve by resolution all salaries and hourly wage rates in advance.
- Time sheets be used to document hours worked for employees.
- Time sheets be signed by appropriate supervisors.

FINDING NUMBER 2002-009

- Review of payroll records to determine amount of liabilities related to deductions mentioned above and contact the proper agencies to resolve any issues of underpayment.

Reportable Condition

Monitoring controls over budgetary compliance have not been placed in operation. The Village Council is not receiving and reviewing monthly financial reports detailing monthly and year-to-date budgetary and actual receipts and expenditures totals. Additionally, budgeted receipts and appropriations passed throughout the audit period were not properly posted to the UAN system. Failure to properly post budgeted receipts and appropriations and a lack of Village Council monitoring could result in spending of funds in excess of resources. We recommend that the Clerk-Treasurer properly post budgeted receipts and appropriations to the UAN system and that monthly reports detailing budgetary status be provided to Village Council for review.

FINDING NUMBER 2002-010

Reportable Condition

The Village should maintain a debt ledger for any outstanding debt. Updates on relevant transactions, identification numbers, interest rates paid on the debt, maturity dates and any updates to the principal and interest payments should be included in the debt ledger. Failure to maintain a debt ledger could result in a misstatement of the amount of debt outstanding and paid. We recommend that the Village maintain a debt ledger for all outstanding debt.

FINDING NUMBER 2002 -011

Noncompliance Citation

Ohio Rev. Code, Section 5705.10, provides that monies paid into any fund shall be used for the purpose for which such fund is established. Negative fund balances indicate the monies from one fund were used to cover the expenditures of another fund. The following fund had negative fund balances in 2001 and 2002 as follows:

2001 Fund	Year End Balance	2002 Fund	Year End Balance
Water Project Fund	(\$10,026)	Water Project Fund	(\$10,158)

FINDING NUMBER 2002 -012

Noncompliance Citation

Leesburg, Ordinance 79-8 Authorizing the Issuance of First Mortgage Sanitary Sewerage System Revenue Bonds (1979), requires that debt payments on the bonds be made from the Sewer Debt Fund (the Sinking Fund). The payments in 2002 and 2001 were made from the General Fund, contrary to this ordinance. Adjustments have been posted to the financial statements to pay the debt from the Sewer Debt Fund. Additionally, Ordinance 79-8 requires that monthly transfers be made from the Sewer Operating Fund to the Sewer Debt Fund to provide for the debt service on the bonds and that periodic transfers be made from the Sewer Operating Fund to the Sewer Reserve Fund to provide for repairs and maintenance or future debt service. The Village did not make these transfers throughout the audit period, contrary to this ordinance. The Village should review their debt covenants and ensure that monthly transfers are made from the Sewer Operating Fund to the Sewer Debt Fund to provide for debt service and that debt payments are made from the Sewer Debt Fund. Additionally, the Village should periodically transfer excess monies in the Sewer Operating Fund to the Sewer Project Fund.

This ordinance also provides that the Village, acting through its Council, covenants that it will fix and revise rates and charges for services and facilities of its sanitary sewerage system and collect and account for income and revenues therefrom sufficient to promptly pay all expenses incident to the operation of the system and the payments for principal and interest on the bonds. We recommend that the Village Council document a review annually to determine that rates and charges for services will be sufficient to pay the operating expenses of the sewer system and provide for the annual debt service requirements.

FINDING NUMBER 2002 -013

Noncompliance Citation

Leesburg, Ordinance 86-19 Authorizing the Issuance of First Mortgage Water System Revenue Bonds (1986), requires that debt payments on the bonds be made from the Water Debt Service Fund (the Sinking Fund). The payments in 2002 and 2001 were made from the Sewer Operating Fund and the General Fund, respectively, contrary to the ordinance. Adjustments have been posted to the financial statements to pay the debt from the Water Debt Fund. Additionally, Ordinance 86-19 requires that the Village make monthly transfers from the Water Operating Fund to the Water Debt Fund to provide for the debt service on the bonds and that periodic transfers be made of excess monies from the Water Operating Fund to the Reserve Account (the Water Project Fund). The Village did not make these transfers, as required by the Ordinance. The Village should review their debt covenants and ensure that monthly transfers are made from the Water Operating Fund to the Water Debt Fund to provide for debt service and that debt payments are made from the Water Debt Fund. Additionally, the Village should periodically transfer excess monies in the Water Operating Fund to the Water Project Fund.

This ordinance also provides that the Village, acting through its Council, covenants that it will fix and revise rates and charges for services and facilities of its water system and collect and account for income and revenues therefrom sufficient to promptly pay all expenses incident to the operation of the system and the payments for principal and interest on the bonds. We recommend that the Village Council document a review annually to determine that rates and charges for services will be sufficient to pay the operating expenses of the water system and provide for the annual debt service requirements.

FINDING NUMBER 2002 -014

Noncompliance Citation – Finding for Recovery Repaid Under Audit

Leesburg, Ordinance 98-2 Establishing Benefits For Employees of the Village Water Department, provides for the Village water department employees to receive sick and vacation leave. Leesburg, Resolution 99-8 Establishing a Conversion System for Village Employees, permits employees to annually cash in unused sick and vacation leave. A Village employee, Richard Zachman, exercised this option at the end of 2002, receiving payment for 200 hours of unused vacation leave and 120 hours of unused sick leave. The Village’s leave records in 2002 were not updated to reflect these hours being converted to cash. In 2003, the Village has not maintained sick and vacation leave records.

Mr. Zachman retired at the end of June 2003 and received a final paycheck in July 2003, which included payout of unused vacation and sick leave. The amounts paid for unused vacation and sick leave erroneously included amounts that had been converted to cash in 2002. Additionally, PERS was withheld from the leave payout and should not have been. These errors resulted in an overpayment of \$1,049.50 to Mr. Zachman.

	Actual	Correct	
	Amount Paid	Amount	Difference
Gross Pay - Vacation	\$ 1,782.75	\$ 891.38	\$ 891.37
Gross Pay - Sick	\$ 548.00	\$ 191.76	\$ 356.24
Subtotal	\$ 2,330.75	\$ 1,083.14	\$ 1,247.61
Less - PERS withheld			\$ (198.11)
Total Overpayment			<u>\$ 1,049.50</u>

Former Village employee Richard Zachman repaid this amount to the Village on October 1, 2003.

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**VILLAGE OF LEESBURG
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30436-001	Appropriations exceeded estimated resources, contrary to Ohio Rev. Code, Section 5705.39.	No	See Finding #2002-002.
2000-30436-002	Disbursements exceeded appropriations, contrary to Ohio Rev. Code, Section 5705.41(B).	No	See Finding #2002-003.
2000-30436-003	Village failed to establish a fund for OPWC Water Tower Project, as required by ORC 5705.09(F).	No	See Finding #2002-004.
2000-30436-004	Expenditures not certified as available prior to purchase commitment and unencumbered purchase commitments, contrary to ORC 5705.41(D).	No	See Finding #2002-005
2000-30436-005	Monthly reconciliations not performed and financial activity not monitored by Village Council.	No	See Finding #2002-006.
2000-30436-006	Control weaknesses over the Village's expenditures.	No	See Finding #2002-007.
2000-30436-007	Control weaknesses over the Village's payroll transactions.	No	See Finding #2002-008.
2000-30436-008	Monitoring controls over budgetary compliance not placed in operation.	No	See Finding #2002-009.
2000-30436-009	Misposting of receipts and disbursements.	No	See Finding #2002-001.



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VILLAGE OF LEESBURG

HIGHLAND 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
OCTOBER 16, 2003**