



**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
P.O. Box 15
New Madison, Ohio 45346

To the Village Mayor and Council:

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2003, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of federal awards expenditures 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 and, in our opinion, 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

July 18, 2003

**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, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$23,427	\$58,600	\$26,121		\$108,148
Special Assessments				\$141,068	141,068
Intergovernmental Receipts	87,383	38,143	3,578	2,121,422	2,250,526
Charges for Services	50,802				50,802
Fines, Licenses, and Permits	337				337
Earnings on Investments	6,494	1,920		670	9,084
Miscellaneous	660	1,500		85	2,245
	<u>169,103</u>	<u>100,163</u>	<u>29,699</u>	<u>2,263,245</u>	<u>2,562,210</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	50,725	55,557			106,282
Public Health Services	3,210				3,210
Leisure Time Activities	3,292				3,292
Community Environment	17,664				17,664
Basic Utility Services	67,546				67,546
Transportation	9,990	41,754			51,744
General Government	17,601		370		17,971
Debt Service:					
Principal Payments	4,949	11,736	15,000		31,685
Interest Payments	157	1,348	52,853		54,358
Capital Outlay				2,276,435	2,276,435
	<u>175,134</u>	<u>110,395</u>	<u>68,223</u>	<u>2,276,435</u>	<u>2,630,187</u>
Total Receipts Over/(Under) Disbursements	<u>(6,031)</u>	<u>(10,232)</u>	<u>(38,524)</u>	<u>(13,190)</u>	<u>(67,977)</u>
Other Financing Receipts and (Disbursements):					
Other Financing Sources	9,983	1,180			11,163
Other Financing Uses	(1,568)				(1,568)
	<u>8,415</u>	<u>1,180</u>			<u>9,595</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	2,384	(9,052)	(38,524)	(13,190)	(58,382)
Fund Cash Balances, January 1	161,787	97,156	92,909	96,645	448,497
Fund Cash Balances, December 31	<u>\$164,171</u>	<u>\$88,104</u>	<u>\$54,385</u>	<u>\$83,455</u>	<u>\$390,115</u>
Reserves for Encumbrances, December 31	<u>\$6,819</u>	<u>\$9,020</u>	<u>\$0</u>	<u>\$16,293</u>	<u>\$32,132</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, 2002**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$80,511
Earnings on Investments	694
Miscellaneous	40
Total Operating Cash Receipts	81,245
Operating Cash Disbursements:	
Personal Services	27,573
Supplies and Materials	97,159
Total Operating Cash Disbursements	124,732
Operating Income/(Loss)	(43,487)
Non-Operating Revenues/(Disbursements)	
Other Non-operating Revenues	180
Net Receipts Over/(Under) Disbursements	(43,307)
Fund Cash Balances, January 1	59,753
Fund Cash Balances, December 31	\$16,446
Reserve for Encumbrances, December 31	\$6,023

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 - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property Tax and Other Local Taxes	\$21,830	\$55,494	\$70,955		\$148,279
Special Assessments				\$50,122	50,122
Intergovernmental Receipts	100,487	38,265	10,365		149,117
Charges for Services	51,773				51,773
Fines, Licenses, and Permits	344				344
Earnings on Investments	7,814	1,550		1,258	10,622
Miscellaneous	189	99			288
Total Cash Receipts	182,437	95,408	81,320	51,380	410,545
Cash Disbursements:					
Current:					
Security of Persons and Property	42,936	50,070			93,006
Public Health Services	3,290				3,290
Leisure Time Activities	10,156				10,156
Community Environment	24,728				24,728
Basic Utility Services	70,248				70,248
Transportation	9,360	28,283			37,643
General Government	19,633		1,825		21,458
Debt Service:					
Principal Payments	2,973	4,704	34,868		42,545
Interest Payments	302	1,731	15,408		17,441
Capital Outlay				354,167	354,167
Total Cash Disbursements	183,626	84,788	52,101	354,167	674,682
Total Receipts Over/(Under) Disbursements	(1,189)	10,620	29,219	(302,787)	(264,137)
Other Financing Receipts and (Disbursements):					
Other Financing Sources	12,771			250,000	262,771
Total Other Financing Receipts/(Disbursements)	12,771			250,000	262,771
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	11,582	10,620	29,219	(52,787)	(1,366)
Fund Cash Balances, January 1	150,205	86,536	63,690	149,432	449,863
Fund Cash Balances, December 31	\$161,787	\$97,156	\$92,909	\$96,645	\$448,497
Reserves for Encumbrances, December 31	\$5,721	\$1,787	\$0	\$6,376	\$13,884

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, 2001**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$82,927
Earnings on Investments	808
Miscellaneous	645
Total Operating Cash Receipts	84,380
Operating Cash Disbursements:	
Personal Services	26,388
Supplies and Materials	57,271
Total Operating Cash Disbursements	83,659
Operating Income/(Loss)	721
Fund Cash Balances, January 1	59,032
Fund Cash Balances, December 31	\$59,753
Reserve for Encumbrances, December 31	\$17,329

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, 2002 AND 2001**

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 water utilities, park operations, and police services. The Village contracts with New Madison Fire Department to provide fire protection 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

The Village maintains an interest bearing checking and certificates of deposit which 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 gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Road Construction Levy Fund – The fund receives the proceeds of a property tax levy to improve streets and alleys in the Village.

Fire Levy Fund – This fund receives the proceeds of a property tax levy for fire protection.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Police Levy Fund – This fund receives the proceeds of a property tax levy 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 funds:

Bond Retirement Fund – This fund is used to retire the principal and interest of the Village note and loan issue.

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 funds:

Sewer Capital Improvement Fund – This fund is used for the planning and construction activity of the new Village 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 had the following significant Enterprise Funds:

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

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

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

The Village did not encumber all appropriation commitments as required by Ohio Rev. Code Section 5705.41(D).

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.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$385,422	\$487,786
Certificates of deposit	21,139	20,464
Total deposits and investments	\$406,561	\$508,250

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

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	\$176,335	\$179,086	\$2,751
Special Revenue	92,340	101,343	9,003
Debt Service	84,330	29,699	(54,631)
Capital Projects	2,159,854	2,263,245	103,391
Enterprise	81,500	81,425	(75)
Total	\$2,594,359	\$2,654,798	\$60,439

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$200,367	\$183,521	\$16,846
Special Revenue	127,750	119,415	8,335
Debt Service	85,000	68,223	16,777
Capital Projects	2,270,854	2,292,728	(21,874)
Enterprise	129,200	130,755	(1,555)
Total	<u>\$2,813,171</u>	<u>\$2,794,642</u>	<u>\$18,529</u>

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$178,835	\$195,208	\$16,373
Special Revenue	110,040	95,408	(14,632)
Debt Service	85,000	81,320	(3,680)
Capital Projects	435,500	301,380	(134,120)
Enterprise	87,450	84,380	(3,070)
Total	<u>\$896,825</u>	<u>\$757,696</u>	<u>(\$139,129)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$203,665	\$189,347	\$14,318
Special Revenue	107,613	86,575	21,038
Debt Service	85,000	52,101	32,899
Capital Projects	446,500	360,543	85,957
Enterprise	97,200	100,988	(3,788)
Total	<u>\$939,978</u>	<u>\$789,554</u>	<u>\$150,424</u>

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, 2002 AND 2001
(Continued)**

5. DEBT

Debt outstanding at December 31, 2002 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	535,000	2.20%
Farmers State Bank Loan	1,615	4.75%
Total	<u><u>\$2,476,615</u></u>	

The Sewer System Temporary Mortgage Revenue Bonds and Bond Anticipation Note loan relates to a sewer plant construction project. The United States Department of Agriculture has approved \$1,940,000 in loans to the Village for this project. The loan will be retired in September 2004. The debt will be reissued as a general obligation long term bond. The loan will be collateralized by utility receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

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

	<u>Temporary Mortgage Revenue Bonds</u>	<u>Bond Anticipation Noted</u>	<u>Farmers State Bank Loan</u>
Year ending December 31:			
2003	56,846	546,770	1,637
2004	1,999,959	0	0
Total	<u><u>\$2,056,805</u></u>	<u><u>\$546,770</u></u>	<u><u>\$1,637</u></u>

6. CAPITAL LEASES

In addition, the Village entered into several lease-purchase agreements. The payment schedule, including interest, is as follows:

	<u>Police Cruiser Lease</u>	<u>Street Maintenance Truck Lease</u>	<u>Copier Lease</u>
Year ending December 31:			
2003	6,650	6,435	1,831
2004	6,649	6,434	1,831
2005	6,650	0	1,831
Total	<u><u>\$19,949</u></u>	<u><u>\$12,869</u></u>	<u><u>\$5,493</u></u>

7. RETIREMENT SYSTEMS

The Village officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS 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.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

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

7. RETIREMENT SYSTEMS (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries from January 1, 2001 through December 31, 2002. The Village has paid all contributions required through December 31, 2002.

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, 2002

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Program Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant (Grant Entitlements)	C-W-01-266-1	14.228	\$494,431
Total U.S. Department of Housing and Urban Development			<u>494,431</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<i>Direct receipt from US Department of Agriculture</i>			
Water and Waste Disposal System for Rural Communities	N/A	10.760	1,205,456
Total U.S. Department of Agriculture			<u>1,205,456</u>
TOTAL FEDERAL ASSISTANCE			<u><u>\$1,699,887</u></u>

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

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEARS ENDED DECEMBER 30, 2002 AND 2001**

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.



**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
P.O. Box 15
New Madison, Ohio 45346

To the Village Mayor and Council:

We have audited the accompanying financial statements of the Village of New Madison, Darke County (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated July 18, 2003. We conducted our audit in accordance with auditing standards generally accepted by 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 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated July 18, 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 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 the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-002.

**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.

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

July 18, 2003



**Auditor of State
Betty Montgomery**

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

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

To the Village Mayor and 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 each of its major federal programs for the year ended December 31, 2002. The Village's major federal programs are 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 each of its major federal programs 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 each of its major federal programs for the year ended December 31, 2002.

Internal Control Over Compliance

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

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 2002-002.

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 to be a material weakness.

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

July 18, 2003

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF AUDITOR'S RESULTS
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<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 Programs (list):	Community Development Block Grant (CFDA 14.228) 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 NUMBER 2002-001

Ohio Rev. Code Section 5705.41 (D), provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money without attaching thereto the certificate of the fiscal officer of the subdivision that the amount required to meet the same in the fiscal year in which the contract is made 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. Contracts and orders for expenditures lacking prior certification should be null and void.

This section also provides an exception to this requirement:

If no certificate is issued at the time the contract or order is entered into, the fiscal officer may later certify that these funds were properly appropriated and in the treasury or in the process of collection and such funds are free from previous encumbrance both at the time the contract or order was entered into and at the time of payment. After certifying this, the fiscal officer may proceed to pay for such order or contract. If the amount involved is over \$1,000 the taxing authority must approve of such payment within 30 days of the date of the fiscal officer's certification.

Ten percent of the disbursements transactions tested for the period January 1, 2001, through December 31, 2002 were not certified prior to incurring the obligation and the above exception was not utilized. The failure to certify obligations prior to incurring the obligation could result in negative fund balances and/or deficit spending by the Village.

See (federal) finding # 2002-002 below; this finding is also required to be reported in accordance with GAGAS.

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2002-002
CFDA Title and Number	1. Community Development Block Grant (Entitlement Grants) 14.228 2. Water and Waste Disposal Systems for Rural Communities 10.760
Federal Award Number / Year	1. C-W-01-266-1 2. N/A
Federal Agency	1. US Department of Housing and Urban Development 2. US Department of Agriculture
Pass-Through Agency	1. Ohio Department of Development

**3. FINDINGS FOR FEDERAL AWARDS
(Continued)**

REPORTABLE CONDITION/MATERIAL WEAKNESS:

Federal and State Revenue Posting

OMB Circular A-133 requires federal recipients and subrecipients 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.

The Village's chart of accounts provided by the Uniform Accounting System (UAN), provides a logical sequence by fund, revenue source, and expenditure classification. During 2002 the Village received \$500,000 in Community Development Block Grant (CDBG) funds, \$1,205,456 in United States Department of Agriculture (USDA) RDA grants and loans, and \$415,398 in Ohio Public Works Commission (OPWC) grant funds toward a Village sewer project. The Village did not post any 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 in their annual financial report for 2002. In addition, the Village did not prepare the required schedule of federal awards expenditures for 2002. The accompanying financial statements include the required adjustments to disclose the CDBG, USDA, and OPWC funds received and expended during the period.

In order for the Village to be able to prepare an accurate schedule of federal awards expenditures and annual financial reports, the Clerk should post all federal and state revenue and expenditure activity to the Village's accounting system. All revenue received for the Village to expend on its' own behalf as well as on behalf of expenditures by other agencies should be posted to system as revenue and expenditures of the Village.

**VILLAGE OF NEW MADISON
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30319-001	Revised Code 5705.41(d), failure to encumber funds	No	Not corrected. Re-issued as finding 2002-001.



**Auditor of State
Betty Montgomery**

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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
SEPTEMBER 18, 2003**