



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

www.bhscpas.com

VILLAGE OF MELROSE
PAULDING COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2013 and 2012
Fiscal Years Audited Under GAGAS: 2013 and 2012



Dave Yost • Auditor of State

Village Council
Village of Melrose
705 State Street, P.O. Box 101
Melrose, Ohio 45861-0101

We have reviewed the *Independent Auditor's Report* of the Village of Melrose, Paulding County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2012 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Melrose is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

August 14, 2014

This page intentionally left blank.

VILLAGE OF MELROSE
PAULDING COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2013	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2012	4
Notes to the Financial Statements	5
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	13
Schedule of Findings.....	15

This page intentionally left blank.



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

www.bhscpas.com

Independent Auditor's Report

Village of Melrose
Paulding County
705 State Street, P.O. Box 101
Melrose, Ohio 45861-0101

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Melrose, Paulding County, (the Village) as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriations of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

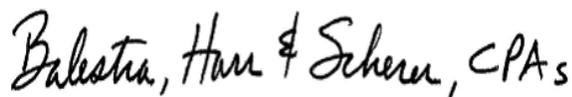
In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Melrose, Paulding County as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
April 11, 2014

**VILLAGE OF MELROSE
PAULDING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Taxes	\$ 5,504	\$ 5,917	\$ 11,421
Municipal Income Tax	16,696	-	16,696
Intergovernmental	12,794	11,677	24,471
Special Assessments	-	148	148
Fines, Licenses, and Permits	305	-	305
Miscellaneous	3,013	479	3,492
	<u>38,312</u>	<u>18,221</u>	<u>56,533</u>
Total Cash Receipts			
	<u>38,312</u>	<u>18,221</u>	<u>56,533</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	5,079	7,108	12,187
Leisure Time Activities	-	451	451
Transportation	-	3,782	3,782
General Government	20,196	259	20,455
	<u>25,275</u>	<u>11,600</u>	<u>36,875</u>
Total Cash Disbursements			
	<u>25,275</u>	<u>11,600</u>	<u>36,875</u>
Total Cash Receipts Over/(Under) Cash Disbursements	13,037	6,621	19,658
Fund Cash Balances, January 1	<u>31,743</u>	<u>32,529</u>	<u>64,272</u>
Restricted	-	39,150	39,150
Assigned	142	-	142
Unassigned	44,638	-	44,638
	<u>44,780</u>	<u>39,150</u>	<u>83,930</u>
Fund Cash Balances, December 31	<u>\$ 44,780</u>	<u>\$ 39,150</u>	<u>\$ 83,930</u>

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

**VILLAGE OF MELROSE
PAULDING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Taxes	\$ 5,147	\$ 6,083	\$ 11,230
Municipal Income Tax	18,214	-	18,214
Intergovernmental	13,415	11,798	25,213
Special Assessments	-	344	344
Fines, Licenses, and Permits	294	-	294
Miscellaneous	819	-	819
	<u>37,889</u>	<u>18,225</u>	<u>56,114</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	1,430	11,539	12,969
Transportation	-	9,658	9,658
General Government	21,554	261	21,815
	<u>22,984</u>	<u>21,458</u>	<u>44,442</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	14,905	(3,233)	11,672
Fund Cash Balances, January 1	<u>16,838</u>	<u>35,762</u>	<u>52,600</u>
Restricted	-	32,529	32,529
Assigned	140	-	140
Unassigned	31,603	-	31,603
	<u>31,743</u>	<u>32,529</u>	<u>64,272</u>
Fund Cash Balances, December 31			

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

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Melrose, Paulding County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services and park operations. The Village contracts with the Village of Oakwood to provide fire protection and emergency medical services.

The Village participates in the Public Entities Pool of Ohio (PEP), a public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

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

The Village values certificates of deposit 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 accounts for and reports all financial resources not accounted for and reported in another fund.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for maintaining and repairing State Highways within the boundary of the Village.

Emergency Medical Services (EMS) Fund - This fund receives local tax revenue for the purpose of providing EMS services.

Fire Levy Fund - This fund receives local tax revenue for the purpose of providing fire protection services.

Street Lighting Assessment Fund - This fund receives special assessments on residents of the Village for the cost of street lights.

E. Budgetary Process

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

1. Appropriations

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

VILLAGE OF MELROSE
PAULDING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2013 and 2012 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources as required by the revised fund classification guidance in Governmental Accounting Standard Board (GASB) Statement No. 54. The classifications are as follows:

1. Nonspendable

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the General Fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State statute.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

5. Unassigned

Unassigned fund balance is the residual classification for the General Fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Deposits

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

	2013	2012
Demand deposits	\$83,930	\$64,272
Total deposits	\$83,930	\$64,272

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$25,100	\$38,312	\$13,212
Special Revenue	17,780	18,221	441
Total	\$42,880	\$56,533	\$13,653

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

3. Budgetary Activity (Continued)

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$36,508	\$25,417	\$11,091
Special Revenue	17,890	11,600	6,290
Total	\$54,398	\$37,017	\$17,381

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,870	\$37,889	\$5,019
Special Revenue	19,220	18,225	(995)
Total	\$52,090	\$56,114	\$4,024

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$31,636	\$23,124	\$8,512
Special Revenue	24,030	21,458	2,572
Total	\$55,666	\$44,582	\$11,084

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, 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.

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

5. Local Income Tax

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

6. Retirement System

The Village's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

7. Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local Villages. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member Villages pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011 (the latest information available):

	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>(14,208,353)</u>	<u>(14,187,273)</u>
Net Position	<u>\$20,181,216</u>	<u>\$19,175,131</u>

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

7. Risk Management (Continued)

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Government's share of these unpaid claims collectible in future years is approximately \$2,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
<u>2013</u>	<u>2012</u>
\$2,632	\$1,295

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. Fiscal Emergency

On December 17, 2008, the Auditor of State declared the Village of Melrose to be in a state of fiscal emergency in accordance with Section 118.03 of the Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the president of Village council, and three individuals appointed by the Governor who are residents of the Village and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the Village is required to submit to the Commission a financial recovery plan for the Village which outlines the measures to be taken to eliminate the fiscal emergency conditions. The Village adopted its initial financial recovery plan on June 15, 2009, and subsequently amended it on September 21 and November 16, 2010.

The more significant steps taken by the Village to alleviate the fiscal emergency conditions include approving 1 percent income tax, and selling equipment (mower tractor, van and coins) to use the proceeds to settle a debt obligation on the mower tractor of \$15,190. This settlement was finalized January 25, 2010.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

8. Fiscal Emergency (Continued)

Based on the analysis, the Auditor of State certifies, as required by Section 118.27 of the Revised Code, that the Village of Melrose no longer meets the fiscal emergency conditions set forth in Section 118.03 of the Revised Code, that the objectives of the financial recovery plan are being met, that an effective financial accounting and reporting system in accordance with Section 118.10 of the Revised Code has been implemented, and that Management has prepared a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State and an opinion has been rendered by the Auditor of State that the financial forecast is considered to be nonadverse. Therefore, the existence of the Financial Planning and Supervision Commission of the Village of Melrose and its role in the operation of the Village of Melrose was terminated as of May 9, 2013.



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

www.bhscpas.com

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Village of Melrose
Paulding County
705 State Street, P.O. Box 101
Melrose, Ohio 45861-0101

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Melrose, Paulding County, (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated April 11, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001, described in the accompanying schedule of findings, to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

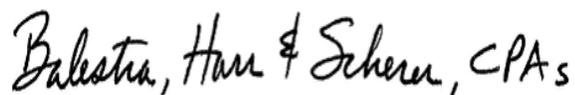
We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 11, 2014.

Entity's Response to Findings

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
April 11, 2014

**VILLAGE OF MELROSE
PAULDING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDING NUMBER 2013-001

Material Weakness – Segregation of Duties

There is insufficient segregation of duties in the Village. Due to the size of the Village and the number of employees, the Clerk prepares checks, reconciles the bank account, records receipts, prepares deposits, and opens the mail for the Village.

Proper internal control procedures require the various duties be segregated among different employees. The duties of collecting, recording, depositing, reconciling, and disbursing of Village monies should be separated. Failure to maintain sufficient segregation of duties could allow errors and/or irregularities to go undetected without the knowledge of the Village Council.

In a small operation, such as the Village of Melrose, it is not always possible to have enough staff to properly segregate duties. Understanding this, we recommend the Mayor or Council take a more active role in monitoring transactions, such as examining cancelled checks and reviewing bank reconciliations. We recommend these reviews be random and sporadic, rather than scheduled. Such reviews would act as a deterrent to irregularities and would allow the Village an opportunity to timely detect and correct any errors that may occur.

Officials Response:

The Village will make every effort to comply with this recommendation.

This page intentionally left blank.



Dave Yost • Auditor of State

VILLAGE OF MELROSE

PAULDING 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
AUGUST 28, 2014**