



**VILLAGE OF MELROSE
PAULDING COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005



**Auditor of State
Betty Montgomery**

VILLAGE OF MELROSE
PAULDING COUNTY

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**Auditor of State
Betty Montgomery**

Village of Melrose
Paulding County
705 State Street, PO Box 101
Melrose, Ohio 45861-0101

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005, interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Betty Montgomery
Auditor of State

August 10, 2006

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Melrose
Paulding County
705 State Street, PO Box 101
Melrose, Ohio 45861-0101

To the Village Council:

We have audited the accompanying financial statements of the Village of Melrose, Paulding County, (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 10, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004.

While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position for the years then ended.

During the years ended December 31, 2005 and 2004, real estate tax amounts derived from levies to provide for fire protection and emergency medical services were incorrectly allocated to the General fund. Also, proceeds from the gasoline excise tax and motor vehicle tax fees were incorrectly allocated to the General fund, State Highway Improvement fund and Permissive Motor Vehicle License fund. Had these amounts been properly allocated, the effect would be to increase cash fund balances and revenues of the Street Construction Maintenance & Repair Fund by \$7,777, the Fire Levy fund by \$7,429 and the Emergency Medical Services Levy fund by \$4,576 and decrease the cash fund balances and revenues of the General fund by \$13,972, State Highway Improvement fund by \$5,447 and Permissive Motor Vehicle License fund by \$363 as of and for the years ended December 31, 2005 and 2004.

Also, in our opinion, except for the matter referred to the preceding paragraph, 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 Melrose, Paulding County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2006, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

Betty Montgomery
Auditor of State

August 10, 2006

**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, 2005**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$10,483	\$2,852		\$13,335
Intergovernmental Receipts	30,160	12,209		42,369
Fines, Licenses, and Permits	498			498
Earnings on Investments			\$3	3
Miscellaneous	61		615	676
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	41,202	15,061	618	56,881
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	3,787	10,360		14,147
Public Health Services	69			69
Leisure Time Activities	4,875			4,875
Basic Utility Services		4,100		4,100
Transportation		7,075		7,075
General Government	21,891			21,891
Miscellaneous			42	42
Debt Service:				
Principal Payments	650			650
Interest Payments			638	638
Capital Outlay	11,453		34,340	45,793
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	42,725	21,535	35,020	99,280
	<hr/>	<hr/>	<hr/>	<hr/>
Total Receipts Under Disbursements	(1,523)	(6,474)	(34,402)	(42,399)
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Receipts:				
Sale of Notes			31,215	31,215
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements	(1,523)	(6,474)	(3,187)	(11,184)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	8,093	11,053	3,395	22,541
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$6,570</u>	<u>\$4,579</u>	<u>\$208</u>	<u>\$11,357</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, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$16,539	\$539		\$17,078
Intergovernmental Receipts	14,506	12,230		26,736
Fines, Licenses, and Permits	531			531
Earnings on Investments	3	2	\$1	6
Miscellaneous	1,318		3,400	4,718
Total Cash Receipts	<u>32,897</u>	<u>12,771</u>	<u>3,401</u>	<u>49,069</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	5,105			5,105
Public Health Services	69			69
Leisure Time Activities	2,647			2,647
Transportation		17,131		17,131
General Government	17,489			17,489
Miscellaneous			6	6
Debt Service:				
Principal Payments	650			650
Capital Outlay	532			532
Total Cash Disbursements	<u>26,492</u>	<u>17,131</u>	<u>6</u>	<u>43,629</u>
Total Receipts Over/(Under) Disbursements	<u>6,405</u>	<u>(4,360)</u>	<u>3,395</u>	<u>5,440</u>
Fund Cash Balances, January 1	<u>1,688</u>	<u>15,413</u>		<u>17,101</u>
Fund Cash Balances, December 31	<u>\$8,093</u>	<u>\$11,053</u>	<u>\$3,395</u>	<u>\$22,541</u>
Reserves for Encumbrances, December 31	<u>\$318</u>	<u>\$2</u>		<u>\$320</u>

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

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**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Melrose, Paulding 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 park operations. The Village contracts with the Village of Oakwood to provide fire protection and emergency medical 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 accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds 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.

Emergency Medical Services (EMS) Levy Fund – This fund receives tax monies assessed and levied on the general assessed valuation of real and personal property taxes for providing emergency medical services.

Fire Levy Fund – This fund receives tax monies assessed and levied on the general assessed valuation of real and personal property taxes for providing fire protection services.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Park Playground Equipment Fund - This fund receives proceeds from grants and fundraisers. The proceeds are being used to construct new playground equipment.

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 level of control, and appropriations may not exceed estimated resources. Village 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. In 2005, the Village Council did not approve appropriations, contrary to Ohio law.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. 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.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. EQUITY IN POOLED CASH

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

	2005	2004
Demand deposits	\$11,306	\$22,490
Cash on Hand	51	51
Total deposits and cash on hand	11,357	22,541

Deposits are insured by the Federal Depository Insurance Corporation

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$41,202	\$41,202
Special Revenue		15,061	15,061
Capital Projects		31,833	31,833
Total	\$88,096	\$88,096	\$88,096

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$318	\$42,725	(\$42,407)
Special Revenue	2	21,535	(21,533)
Capital Projects		35,020	(35,020)
Total	\$320	\$99,280	(\$98,960)

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,592	\$32,897	\$6,305
Special Revenue	16,310	12,771	(3,539)
Capital Projects		3,401	3,401
Total	\$42,902	\$49,069	\$6,167

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY – (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$28,216	\$26,810	\$1,406
Special Revenue	23,836	17,133	6,703
Capital Projects		6	(6)
Total	\$52,052	\$43,949	\$8,103

4. COMPLIANCE

Contrary to Ohio law the following occurred:

Budgetary expenditures exceeded appropriation authority in the Street Construction, Maintenance, and Repair Fund by \$556 for the year ended December 31, 2004, and in all funds for the year ended December 31, 2005.

In 2004, the Permissive Motor Vehicle License Tax fund had appropriations (\$6,577) in excess of the total estimated resources available (\$2,334). In 2005, the estimated resources available for expenditures were not certified and no appropriation measure was approved therefore no amended certificate of estimated resources was obtained.

Incorrect fund unencumbered balances were certified to the County Auditor for the General Fund \$9,065, the Street Construction, Maintenance & Repair Fund \$3,183, the Permissive Motor Vehicle License Tax Fund, \$0, Emergency Medical Services Levy Fund, \$0 and Fire Levy Fund, \$0 at January 1, 2004. No certification of fund balances was made in 2005.

Real estate tax amounts derived from levies to provide for fire protection and emergency medical services (\$12,005) were credited to the General fund in 2005 and 2004.

Proceeds from the gasoline excise tax and motor vehicle tax fees were incorrectly allocated to the General fund (\$1,967), State Highway Improvement fund (\$5,447) and Permissive Motor Vehicle License fund (\$363) in 2005 and 2004.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Park Playground Equipment Loan	\$31,340	3.75%

The Park Playground Equipment Loan was established on June 25, 2005 for a period of one year. This loan is to be used for the purchase of park playground equipment. The term of the loan is one year with interest paid three times quarterly in the average amount of \$297 and a final payment of \$31,640 due on June 25, 2006, to be repaid from the Park Playground Equipment Fund.

Amortization of the above debt, including interest, follows:

Year ending December 31:	Park Loan
2006	\$31,937

7. RETIREMENT SYSTEM

Part-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

Social Security

Effective July 1, 1991, all officials and employees not otherwise covered by OPERS have an option to become a member of the Social Security System. As of December 31, 2005, all Council members and one employee have elected Social Security. Council's liability is 6.2 percent of wages.

8. RISK MANAGEMENT

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

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

The Government belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT – (Continued)

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT – (Continued)

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, 2005 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	<u>(15,994,168)</u>	<u>(13,880,038)</u>
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Government's share of these unpaid claims is approximately \$7,786.

9. Subsequent Events

The Village entered into four debt agreements in 2006. A loan for a plot of land was executed on January 19, 2006, in the amount of \$4,650. A loan for dump truck was executed on March 9, 2006, in the amount of \$4,360. A loan for a lawn tractor was executed on April 3, 2006 in the amount of \$11,250. A line of credit was established in January 2006, in the amount of \$15,000 in case of an emergency. \$4,500 of this line of credit was executed in May 2006, for general operating expenses.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' 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, PO Box 101
Melrose, Ohio 45861-0101

To the Village Council:

We have audited the financial statements of the Village of Melrose, Paulding County (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated August 10, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and the Village incorrectly allocated its real estate amounts and proceeds from gasoline excise tax and motor vehicle tax fees. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A Reportable condition is described in the accompanying schedule of findings as item 2005-008.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. We consider reportable condition 2005-008 listed above to be a material weakness. In a separate letter to the Village's management dated August 10, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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, providing an opinion 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 to 2005-007. In a separate letter to the Village's management dated August 10, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the finance committee, management, and Village Council. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

August 10, 2006

VILLAGE OF MELROSE
PAULDING COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Seventy percent (70%) of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2005-001
 (Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response

Management will attempt to certify its expenditures at the time the Village incurs the commitment.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated as provided in such chapter.

	<u>Appropriations</u>	<u>Actual Expenditures</u>	<u>Variance</u>
FY 2005			
General Fund	\$318	\$42,725	(\$42,407)
Street Construction, Maintenance, and Repair	\$2	\$9,330	(\$9,328)
State Highway		\$7,491	(\$7,491)
Emergency Medical Services Fund		\$1,715	(\$1,715)
Fire Fund		\$2,999	(\$2,999)
Park Playground Equipment Fund		\$35,020	(\$35,020)
FY 2004			
Street Construction, Maintenance, and Repair	\$10,000	\$10,556	(\$556)

Management was advised that the failure to have adequate appropriations in place at the time of the expenditures are being made could result in expenditures exceeding available resources, further resulting in deficit spending practices.

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

Officials' Response

Management did not respond to this finding.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Revised Code § 5705.36 (A) (2) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the deficiency or excess.

Ohio Revised Code § 5705.36 (A) (4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Ohio Revised Code § 5705.39 states in part that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures as certified by the budget commission or in case of appeal, by the board of tax appeals.

In 2004, the Permissive Motor Vehicle License Tax fund had appropriations (\$6,577) in excess of the total estimated resources available (\$2,334). There were sufficient actual resources to increase the estimated resources. The fiscal officer should have requested an amended certificate of estimated resources from the commission to increase the estimated resources to the current level of appropriations.

In 2005, the estimated resources available for expenditures were not certified and no appropriation measure was approved therefore no amended certificate of estimated resources was obtained.

We recommend that Clerk compare appropriations with the actual revenues and with the estimated revenues during the year and make changes when necessary.

Officials' Response

Management did not respond to this finding.

FINDING NUMBER 2005-004

Noncompliance Citation

Ohio Revised Code § 5705.36 (A) (1) requires that on or about the first day of each fiscal year, the fiscal officer of each subdivision shall certify to the county auditor, the total amount from all sources available for expenditures from each fund. The amount certified shall include any unencumbered balances that existed at the end of the preceding year. The balances for the following funds certified to the county auditor by the Village were incorrect:

**FINDING NUMBER 2005-004
 (Continued)**

	<u>Amounts Certified</u>	<u>Actual Balances</u>	<u>Difference</u>
At January 1, 2004			
General Fund	\$ 9,065	\$ 1,688	\$ 7,377
Street Construction, Maintenance, and Repair Fund	3,183	8,854	(5,671)
Permissive Motor Vehicle License Tax Fund		2,334	(2,334)
Emergency Medical Services Fund		627	(627)
Fire Fund		1,047	(1,047)

In addition, the certificate for fiscal 2005 was not submitted.

These amounts are carried forward to the original amended certificate of estimated resources which is used to base annual appropriations. As a result, the annual appropriations could be overstated and allowing deficit spending. For fiscal 2005, no amended certificate of estimated resources was obtained.

We recommend that the Village Fiscal Officer complete this certification after the general ledger is closed for the year and include accurate fund balances.

Officials' Response

Management did not respond to this finding.

FINDING NUMBER 2005-005

Noncompliance Citation

Ohio Revised Code § 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

The Village did not approve appropriations in 2005.

Not approving appropriations could lead to deficit spending and expenditures being made without approval. The Village should approve appropriations for each office, department, and division, and, within each, the amount appropriated for personal services each year authorizing the expenditure of money at the legal level of control.

Officials' Response

Management did not respond to this finding.

FINDING NUMBER 2005-006

Finding for Adjustment

Ohio Revised Code §5705.10 requires that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

Real estate tax amounts derived from levies to provide for fire protection and emergency medical services (\$12,005) were credited to the General fund in 2005 and 2004. These monies should have been allocated to the Fire Levy fund (\$7,429) and Emergency Medical Services (EMS) Levy fund (\$4,576) in accordance with the property tax apportionment sheets received from the County Auditor with each payment.

In accordance with the foregoing facts, a finding for adjustment is hereby issued against the General fund for \$12,005 in favor of the Fire Levy fund in the amount of \$7,429 and in favor of the EMS Levy fund in the amount of \$4,576.

Officials' Response

Management intends to record the adjustments when funds are available.

FINDING NUMBER 2005-007

Finding for Adjustment

Ohio Revised Code §5705.10 requires all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

Ohio Revised Code §§ 5735.27 and 4501.04 restrict the purpose for which the gasoline excise tax and motor vehicle license tax monies may be expended. In addition, Ohio Revised Code § 5735.28 states wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half per cent of the amount paid to any municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code shall be used by it only to construct, reconstruct, repave, widen, maintain, and repair such highways, to purchase, erect, and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways, or to pay principal, interest, and charges on bonds and other obligations issued pursuant to Chapter 133. of the Revised Code or incurred pursuant to section 5531.09 of the Revised Code for such purposes.

Proceeds from the gasoline excise tax and motor vehicle tax fees were incorrectly allocated to the General fund (\$1,967), State Highway Improvement fund (\$5,447) and Permissive Motor Vehicle License fund (\$363) in 2005 and 2004. These monies should have been credited to the Street Construction Maintenance & Repair Fund in the total amount of (\$7,777). The correct allocation of the proceeds from the gasoline excise tax and motor vehicle tax fees is ninety-two and a half percent (92.5%) to the Street Construction, Maintenance & Repair Fund and seven and a half percent (7.5%) to the State Highway Improvement Fund.

In accordance with the foregoing facts, a finding for adjustment is hereby issued against the General fund for \$1,967, the State Highway Improvement fund for \$5,447 and Permissive Motor Vehicle License fund for \$363 in favor of the Street Construction Maintenance & Repair fund \$7,777.

**FINDING NUMBER 2005-007
(Continued)**

Officials' Response

Management intends to record the adjustments when funds are available.

FINDING NUMBER 2005-008

Material Weakness

Accounts Not Included on Village Books

The Village maintains money in various bank accounts for the Ball Association and the Playground Equipment which are not included in the cashbook balances or reported on the Village's annual financial report. This results in the cash fund balances of the being understated at December 31, 2005, by \$208 and at December 31, 2004, by \$3,395.

Excluding bank accounts from the cashbook balance and annual report could allow errors of irregularities to occur and not be detected by officials during the regular course of operations. In order to strengthen controls and accountability over Village finances, the Village should include all bank accounts, under the control of the Village, in the cashbook balances and on the annual report. The accompanying financial statements have been adjusted to include this activity.

Officials' Response

Management intends to record these monies on its financial statements in 2006.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 and 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	State ex rel. McClure v. Hagerman	Yes	
2003-002	Ohio Construction Art XII Sec 5a	Yes	
2003-003	ORC 5705.39	No	Not Corrected. This finding is repeated in this report as finding # 2005-003.
2003-004	ORC § 5705.41(B) Expenditures in excess of appropriation	No	Not Corrected. This finding is repeated in this report as finding # 2005-002.
2003-005	ORC § 5705.41(D) Certification of funds	No	Not Corrected. This finding is repeated in this report as finding # 2005-001.



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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
SEPTEMBER 5, 2006**