



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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VILLAGE OF MALVERN
CARROLL COUNTY

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**Auditor of State
Betty Montgomery**

Village of Malvern
Carroll County
PO Box 384
Malvern, Ohio 44644

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.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 7, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Malvern
Carroll County
PO Box 384
Malvern, OH 44644

To the Village Council:

We have audited the accompanying financial statements of the Village of Malvern, Carroll County, (the Village) as of and for the years ended December 31, 2005 and 2004. 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 year ended December 31, 2004 and 2005. 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.

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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 or cash flows of its proprietary funds for the years then ended.

Also, 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 Malvern, Carroll 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 September 7, 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.



Betty Montgomery
Auditor of State

September 7, 2006

VILLAGE OF MALVERN
CARROLL COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$29,689	\$37,168	\$0	\$66,857
Municipal Income Tax	169,320			169,320
Intergovernmental Receipts	36,270	61,255		97,525
Charges for Services	7,853			7,853
Fines, Licenses, and Permits	34,042	1,653		35,695
Earnings on Investments	6			6
Miscellaneous	995	3,491		4,486
Total Cash Receipts	<u>278,175</u>	<u>103,567</u>	<u>0</u>	<u>381,742</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	129,486	13,185		142,671
Leisure Time Activities	32,026	2,131		34,157
Transportation		66,884		66,884
General Government	124,342	440		124,782
Debt Service:				
Principal Payments	7,106			7,106
Interest Payments	896			896
Total Cash Disbursements	<u>293,856</u>	<u>82,640</u>	<u>0</u>	<u>376,496</u>
Total Receipts Over/(Under) Disbursements	<u>(15,681)</u>	<u>20,927</u>	<u>0</u>	<u>5,246</u>
Other Financing Receipts and (Disbursements):				
Sale of Fixed Assets	36,000			36,000
Transfers-In	1,209			1,209
Advances-In	2,500	2,500		5,000
Transfers-Out		(1,209)	0	(1,209)
Advances-Out	(2,500)	(2,500)		(5,000)
Other Financing Sources	49	1,584		1,633
Other Financing Uses		(1,584)		(1,584)
Total Other Financing Receipts/(Disbursements)	<u>37,258</u>	<u>(1,209)</u>	<u>0</u>	<u>36,049</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	21,577	19,718	0	41,295
Fund Cash Balances, January 1	20,849	14,368	1	35,217
Fund Cash Balances, December 31	<u>\$42,426</u>	<u>\$34,086</u>	<u>\$1</u>	<u>\$76,513</u>
Reserves for Encumbrances, December 31	<u>\$24,813</u>	<u>\$5,102</u>	<u>\$0</u>	<u>\$29,916</u>

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

VILLAGE OF MALVERN
CARROLL COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$270,359	\$0	\$270,359
Miscellaneous	2,402		2,402
Total Operating Cash Receipts	<u>272,761</u>	<u>0</u>	<u>272,761</u>
Operating Cash Disbursements:			
Personal Services	67,756		67,756
Fringe Benefits	22,468		22,468
Contractual Services	29,304		29,304
Supplies and Materials	31,472		31,472
Other	8,985		8,985
Total Operating Cash Disbursements	<u>159,985</u>	<u>0</u>	<u>159,985</u>
Operating Income/(Loss)	<u>112,776</u>	<u>0</u>	<u>112,776</u>
Non-Operating Cash Receipts:			
Earnings on Investments	2,127		2,127
Miscellaneous Receipts	5,000		5,000
Total Non-Operating Cash Receipts	<u>7,127</u>	<u>0</u>	<u>7,127</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	17,600		17,600
Interet Payments	64,697		64,697
Total Non-Operating Cash Disbursements	<u>82,297</u>	<u>0</u>	<u>82,297</u>
Net Receipts Over/(Under) Disbursements	37,606	0	37,606
Fund Cash Balances, January 1	<u>219,208</u>	<u>5</u>	<u>219,213</u>
Fund Cash Balances, December 31	<u>\$256,814</u>	<u>\$5</u>	<u>\$256,819</u>
Reserve for Encumbrances, December 31	<u>\$6,167</u>	<u>\$0</u>	<u>\$6,167</u>

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

**VILLAGE OF MALVERN
CARROLL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - GOVERNMENTAL AND SIMILAR FIDUCIARY 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>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$29,313	\$37,855	\$0	\$67,168
Municipal Income Tax	175,631			175,631
Intergovernmental Receipts	54,352	57,175		111,527
Charges for Services	13,697			13,697
Fines, Licenses, and Permits	37,479	197		37,676
Earnings on Investments	896			896
Miscellaneous	1,235	5,092		6,327
	<u>312,601</u>	<u>100,319</u>	<u>0</u>	<u>412,921</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	139,941	9,813		149,754
Leisure Time Activities	23,714	1,532		25,246
Transportation		105,644		105,644
General Government	135,526	2,540		138,066
Debt Service:				
Principal Payments	13,087	19,432		32,518
Interest Payments	1,171	764		1,935
	<u>313,438</u>	<u>139,725</u>	<u>0</u>	<u>453,163</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(837)</u>	<u>(39,406)</u>	<u>0</u>	<u>(40,243)</u>
Other Financing Receipts and (Disbursements):				
Sale of Fixed Assets	22,500			22,500
Transfers-In	1,850	33,861		35,711
Advances-In	8,700	8,700		17,400
Transfers-Out	(29,500)	(6,211)		(35,711)
Advances-Out	(8,700)	(8,700)		(17,400)
	<u>(5,150)</u>	<u>27,650</u>	<u>0</u>	<u>22,500</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(5,987)</u>	<u>(11,756)</u>	<u>0</u>	<u>(17,743)</u>
Fund Cash Balances, January 1	<u>26,836</u>	<u>26,124</u>	<u>1</u>	<u>52,961</u>
Fund Cash Balances, December 31	<u>\$20,849</u>	<u>\$14,368</u>	<u>\$1</u>	<u>\$35,218</u>
Reserves for Encumbrances, December 31	<u>\$8,836</u>	<u>\$2,912</u>	<u>\$0</u>	<u>\$11,748</u>

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

VILLAGE OF MALVERN
CARROLL COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$241,732	\$0	\$241,732
Miscellaneous	356		356
Total Operating Cash Receipts	<u>242,088</u>	<u>0</u>	<u>242,088</u>
Operating Cash Disbursements:			
Personal Services	72,024		72,024
Fringe Benefits	24,316		24,316
Contractual Services	30,757		30,757
Supplies and Materials	35,312		35,312
Other	2,488	8,000	10,488
Total Operating Cash Disbursements	<u>164,897</u>	<u>8,000</u>	<u>172,897</u>
Operating Income/(Loss)	<u>77,191</u>	<u>(8,000)</u>	<u>69,191</u>
Non-Operating Cash Receipts:			
Earnings on Investments	800		800
Miscellaneous Receipts	5,080		5,080
Total Non-Operating Cash Receipts	<u>5,880</u>	<u>0</u>	<u>5,880</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	16,900		16,900
Interest and Other Fiscal Charges	65,457		65,457
Total Non-Operating Cash Disbursements	<u>82,357</u>	<u>0</u>	<u>82,357</u>
Net Receipts Over/(Under) Disbursements	715	(8,000)	(7,285)
Fund Cash Balances, January 1	<u>218,493</u>	<u>8,005</u>	<u>226,498</u>
Fund Cash Balances, December 31	<u>\$219,208</u>	<u>\$5</u>	<u>\$219,213</u>
Reserve for Encumbrances, December 31	<u>\$3,901</u>	<u>\$0</u>	<u>\$3,901</u>

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

**VILLAGE OF MALVERN
CARROLL COUNTY**

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

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 Malvern, Carroll County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

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. Cash and Investments

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

The Village maintains an interest bearing checking account used by all funds. No other investments are held by the Village.

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 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 Fund:

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

**VILLAGE OF MALVERN
CARROLL COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

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

Water Operating Fund - This fund receives charges for services from residents to cover water service costs.

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 or function 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.

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.

G. 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.

**VILLAGE OF MALVERN
CARROLL COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2005	2004
Demand deposits	\$333,332	\$254,431

Deposits: 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, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$333,438	\$315,433	(\$18,005)
Special Revenue	85,604	105,151	19,547
Enterprise	250,111	279,888	29,777
Total	\$669,153	\$700,472	\$31,319

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$358,000	\$318,669	\$39,331
Special Revenue	98,272	90,535	7,737
Enterprise	281,901	248,449	33,452
Total	\$738,173	\$657,653	\$80,520

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$325,216	\$336,951	\$11,735
Special Revenue	93,586	134,180	40,594
Enterprise	246,864	247,968	1,104
Total	\$665,666	\$719,099	\$53,433

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$361,004	\$351,774	\$9,230
Special Revenue	179,477	148,848	30,629
Enterprise	274,517	251,155	23,362
Total	\$814,998	\$751,777	\$63,221

Contrary to Ohio law, funds were not always certified prior to commitment.

**VILLAGE OF MALVERN
CARROLL COUNTY**

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

4. 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.

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

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.

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.

6. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Income Tax Software Note	\$4,050	3.85%
Water Fund to General Fund Note	30,000	2.00%
Water System Mortgage Revenue Bond	1,422,200	4.50%
Total	\$1,456,250	

The Income Tax Software Note was issued for \$8,500 at an interest rate of 3.85% for new income tax software for the Village. The note was entered into on September 4, 2003 for a period of 4 years. The note will be repaid from the General Fund revenues in monthly installments of \$191.87, which includes interest, over the 4 year period.

The Water Fund issued a note to the General Fund in 2002 for \$60,000 at an interest rate of 2.0% to be repaid with General Fund revenues. The Loan was entered into in December 2002 for a period of 9 years with the first payment of \$20,000 made in 2003 and 8 annual payments of \$5,000 made for the years 2004 thru 2011.

The Water System Revenue Bond was issued for \$1,501,000 at an interest rate of 4.50% for the repayment of an Ohio Water Development Authority Loan. The bond was entered into on March 15, 1999 for a period of 40 years. The repayment of this Bond will be made with funds from user fees.

**VILLAGE OF MALVERN
CARROLL COUNTY**

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

6. DEBT (Continued)

Amortization of the above debt, including interest, follows:

Year ending December 31:	Income Tax Software Note	Water Fund to General Fund Note	Water System Revenue Bond
2006	\$2,296	\$5,600	\$82,405
2007	1,914	5,500	82,272
2008		5,400	82,408
2009		5,300	82,299
2010		5,200	82,354
2011-2015		5,100	411,703
2016-2020			411,671
2021-2025			411,714
2026-2030			411,664
2031-2035			411,687
2036-2040			329,362
Total	\$4,210	\$32,100	\$2,799,539

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. 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.

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.

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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 Malvern
Carroll County
PO Box 384
Malvern, OH 44644

To the Village Council:

We have audited the financial statements of the Village of Malvern (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 7, 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. 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 to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated September 7, 2006, we reported other matters involving internal control over financial reporting 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Village's management dated September 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

September 7, 2006

VILLAGE OF MALVERN
CARROLL 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 Rev. Code Section 5705.41(D) states, in part, that no orders or contracts involving the expenditure of money are to be made unless a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certification shall be null and void and no warrant shall be issued in payment of any amount

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 both at the time that the contract or order was made (then) 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 encumbrances, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the (then and now) certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 (\$1,000 prior to April 7, 2003) 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.

The Village did not always certify funds at the time of the commitment. We noted 27 out of the 60 expenditures tested were not properly certified by the fiscal officer. Incurring obligations prior to the fiscal officer's certification could result in the Village spending more than appropriated.

Unless the exceptions noted above are used, prior certification in the form of purchase orders or "blanket" purchase orders is not only required by statute but is 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 Section 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 Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code in order to reduce the available appropriation.

VILLAGE OF MALVERN
CARROLL 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; <i>Explain</i>
2003-001	Revised Code 5705.41(D), failure to certify funds	Not Corrected	See Finding #2005-001



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VILLAGE OF MALVERN

CARROLL COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 16, 2007**