

***VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Village Council
Village of Lafayette
225 Sugar Street
P.O. Box 7184
Lafayette, Ohio 45854

We have reviewed the *Report of Independent Accountants* of the Village of Lafayette, Allen County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2005. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 Lafayette is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 6, 2007

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**VILLAGE OF LAFAYETTE
ALLEN COUNTY
For the Years Ending December 31, 2005 and 2004**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Lafayette
Allen County
225 East Sugar Street
Lafayette, OH 45854

To the Village Council:

We have audited the accompanying financial statements of the Village of Lafayette, Allen County, (the Village) as 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. We believe that 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 the 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 or cash flows 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 of the Village of Lafayette, Allen 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 May 18, 2007, 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 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.

Charles E. Harris & Associates, Inc.

May 18, 2007

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
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>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$ 26,002	\$ 3,246	-	\$ 29,248
Intergovernmental	25,508	10,896	-	36,404
Fines, Licenses, and Permits	725	742	-	1,467
Earnings on Investments	312	4	-	316
Miscellaneous	1,801	-	-	1,801
Total Cash Receipts	<u>54,348</u>	<u>14,888</u>	<u>-</u>	<u>69,236</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	5,481	-	-	5,481
Public Health Service	475	-	-	475
Community Environment	1,860	-	-	1,860
Transportation	-	13,033	-	13,033
General Government	30,669	-	-	30,669
Capital Outlay	7,467	-	-	7,467
Debt Service:				
Principal Payments	9,902	-	-	9,902
Interest and Fiscal Charges	837	-	-	837
Total Cash Disbursements	<u>56,691</u>	<u>13,033</u>	<u>-</u>	<u>69,724</u>
Total Receipts Over / (Under) Disbursements	(2,343)	1,855	-	(488)
Other Financing Sources / (Uses):				
Transfer-In	-	4,700	-	4,700
Transfer-Out	(4,700)	-	-	(4,700)
Total Other Financing Sources / (Uses):	<u>(4,700)</u>	<u>4,700</u>	<u>-</u>	<u>-</u>
Excess of Cash Receipts and Other Financing Sources Over / (Under) Cash Disbursements and Other Financing Uses	(7,043)	6,555	-	(488)
Fund Cash Balance, January 1, 2004	<u>19,105</u>	<u>2,112</u>	<u>\$ 2,200</u>	<u>23,417</u>
Fund Cash Balance, December 31, 2004	\$ <u>12,062</u>	\$ <u>8,667</u>	\$ <u>2,200</u>	\$ <u>22,929</u>

See accompanying Notes to the Financial Statements.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - PROPRIETARY FUND TYPES
For the Year Ended December 31, 2004**

	Proprietary Fund Type	Total (Memorandum Only)
	Enterprise	
Operating Cash Receipts:		
Charges for Services	\$ 86,764	\$ 86,764
Total Operating Cash Receipts	86,764	86,764
Operating Cash Disbursements:		
Personal Services	20,207	20,207
Employee Fringe Benefits	1,129	1,129
Contractual Services	8,946	8,946
Supplies and Materials	18,346	18,346
Other	1,054	1,054
Total Operating Cash Disbursements	49,682	49,682
Operating Income / (Loss)	37,082	37,082
Non-Operating Receipts/Disbursements:		
Other Debt Proceeds-OWDA Loan	70,881	70,881
Capital Outlay	(70,881)	(70,881)
Redemption of Principal	(10,000)	(10,000)
Interest and Other Fiscal Charges	(12,025)	(12,025)
Total Non-Operating Receipts / (Disbursements):	(22,025)	(22,025)
Net Income / (Loss)	15,057	15,057
Fund Cash Balance, January 1, 2004	33,776	33,776
Fund Cash Balance, December 31, 2004	\$ 48,833	\$ 48,833

See accompanying Notes to the Financial Statements.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
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>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$ 25,866	\$ 2,890	-	\$ 28,756
Intergovernmental	19,101	39,769	-	58,870
Earnings on Investments	549	-	-	549
Donations	-	7,000	-	7,000
Miscellaneous	4,258	1,225	-	5,483
Total Cash Receipts	<u>49,774</u>	<u>50,884</u>	<u>-</u>	<u>100,658</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	6,162	-	-	6,162
Public Health Service	481	-	-	481
Leisure Time Activities	-	3,580	\$ 406	3,986
Community Environment	4,500	6,000	-	10,500
Transportation	-	12,336	-	12,336
General Government	31,635	-	-	31,635
Capital Outlay	-	24,539	-	24,539
Debt Service:				
Principal Payments	7,379	-	-	7,379
Interest and Fiscal Charges	161	-	-	161
Total Cash Disbursements	<u>50,318</u>	<u>46,455</u>	<u>406</u>	<u>97,179</u>
Total Receipts Over / (Under) Disbursements	(544)	4,429	(406)	3,479
Other Financing Sources / (Uses):				
Advances-In	3,150	-	-	3,150
Advances-Out	(3,150)	-	-	(3,150)
Total Other Financing Sources / (Uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Cash Receipts and Other Financing Sources Over / (Under) Cash Disbursements and Other Financing Uses	(544)	4,429	(406)	3,479
Fund Cash Balance, January 1, 2005	<u>12,062</u>	<u>8,667</u>	<u>2,200</u>	<u>22,929</u>
Fund Cash Balance, December 31, 2005	<u>\$ 11,518</u>	<u>\$ 13,096</u>	<u>\$ 1,794</u>	<u>\$ 26,408</u>

See accompanying Notes to the Financial Statements.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - PROPRIETARY FUND TYPES
For the Year Ended December 31, 2005**

	<u>Proprietary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	
Operating Cash Receipts:		
Charges for Services	\$ 82,796	\$ 82,796
Total Operating Cash Receipts	<u>82,796</u>	<u>82,796</u>
Operating Cash Disbursements:		
Personal Services	18,967	18,967
Employee Fringe Benefits	1,743	1,743
Contractual Services	13,418	13,418
Supplies and Materials	25,469	25,469
Total Operating Cash Disbursements	<u>59,597</u>	<u>59,597</u>
Operating Income / (Loss)	23,199	23,199
Non-Operating Receipts/Disbursements:		
Other Debt Proceeds-OWDA	20,268	20,268
Special Assessments	5,959	5,959
Capital Outlay	(25,643)	(25,643)
Redemption of Principal	(17,144)	(17,144)
Interest and Other Fiscal Charges	(21,117)	(21,117)
Total Non-Operating Receipts / (Disbursements):	<u>(37,677)</u>	<u>(37,677)</u>
Net Income / (Loss) Before Advances	(14,478)	(14,478)
Advances-In	3,650	3,650
Advances-Out	(3,650)	(3,650)
Net Income/(Loss)	(14,478)	(14,478)
Fund Cash Balance, January 1, 2005	<u>48,833</u>	<u>48,833</u>
Fund Cash Balance, December 31, 2005	<u>\$ 34,355</u>	<u>\$ 34,355</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Lafayette, Allen 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 general government services, including sewer utilities, and park operations (leisure time activities). The Village has a mutual aid agreement with the Allen County Sheriff's department to provide security of persons and property. The Lafayette Jackson Volunteer Fire Department provides fire protection and emergency medical services.

In 1985, the Village of Lafayette and Jackson Township entered into an agreement for the construction of a community hall. The Village provided the land and Jackson Township was responsible for the cost of the construction of the building. The Township pays an annual fee of \$1 and provides an office for the Village for the lease of the ground. Jackson Township provides all maintenance and utilities for the community building and pays a monthly sewer charge to the Village.

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

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. CASH AND INVESTMENTS

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost.

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

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:

General Fund: The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Fund: This fund is used to account for proceeds from specific sources that are restricted to expenditures for specific purposes. The Village had the following significant Special Revenue Fund:

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

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

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

Bond Retirement Fund: This fund is used for the accumulation of resources for retirement of the 1980 sewer improvement bond issue.

Bond Reserve Fund: This fund is a mandatory reserve fund to help assure prompt and complete payment of the sewer improvement bond issue.

E. BUDGETARY PROCESS

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

- **Appropriations**

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

- **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.

- **Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances are closed at the year-end and are re-appropriated in the subsequent year.

A summary of 2004 and 2005 budgetary activity appears in Note 4.

F. PROPERTY, PLANT, AND EQUIPMENT

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

		<u>2005</u>		<u>2004</u>
Demand Deposits	\$	26,229	\$	37,762
Certificates of Deposit		34,534		34,000
Total Deposits	\$	<u>60,763</u>	\$	<u>71,762</u>

Deposits are insured by the Federal Depository Insurance Corporation.

3. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

Public utilities are also taxed on personal and real property located within the Village. Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

4. BUDGETARY ACTIVITY

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

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 59,265	\$ 52,924	\$ (6,341)
Special Revenue	51,997	50,884	(1,113)
Capital Projects	-	-	-
Enterprise	95,500	112,673	17,173
Total	\$ 206,762	\$ 216,481	\$ 9,719

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 71,327	\$ 53,468	\$ 17,859
Special Revenue	55,963	46,455	9,508
Capital Projects	2,200	406	1,794
Enterprise	174,360	127,151	47,209
Total	\$ 303,850	\$ 227,480	\$ 76,370

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 45,665	\$ 54,348	\$ 8,683
Special Revenue	13,090	19,588	6,498
Enterprise	98,451	157,645	59,194
Total	\$ 157,206	\$ 231,581	\$ 74,375

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 64,769	\$ 61,391	\$ 3,378
Special Revenue	15,202	13,033	2,169
Capital Projects	2,200	-	2,200
Enterprise	117,227	142,588	(25,361)
Total	\$ <u>199,398</u>	\$ <u>217,012</u>	\$ <u>(17,614)</u>

The Village did not budget appropriately for OWDA payments made directly to contractors in 2005 and 2004. As a result, the appropriations exceeded estimated resources in 2004 for certain Enterprise Funds and actual expenditures exceeded appropriations for certain Enterprise Funds in 2005 and 2004.

5. DEBT

Debt outstanding at December 31, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer Mortgage Revenue Bonds-	\$ 220,000	5.00%
OWDA Waterline	85,004	5.00%
Total	\$ <u>305,004</u>	

The First Mortgage Revenue Bonds were issued for the construction of the Sanitary Sewer system. Property and revenue of the utility have been pledged to repay these debts. As required by the mortgage revenue bond covenant, the Village has established and funded an enterprise reserve fund. At December 31, 2005, the balance was \$ 23,728.

During 2004, OWDA has approved loan #4143 in the amount of \$135,500 for the wastewater treatment plan. The loan will be repaid in semiannual installments starting in January 2005. As of December 2005, the OWDA disbursed \$91,149 to the contractors directly. The remaining balance \$ 44,351 will be disbursed fully after the OWDA Chief Engineer officially closes this project. At present, the Village is repaying the loan based on the total loan amount instead of the disbursed amount. As a result, the following amortization schedule for OWDA loan are calculated based on total loan amount \$135,500 instead of the disbursed amount \$91,149.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

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

<u>Year ending December 31:</u>	<u>Sewer System Revenue Bonds</u>	<u>OWDA Waste Water Plant Improvements</u>
2006	\$ 22,000	\$ 10,850
2007	22,450	10,850
2008	21,850	10,850
2009	22,250	10,850
2010	22,600	10,850
2011-2015	111,000	54,251
2016-2020	89,200	54,233
2021-2024		37,976
Total	<u>\$ 311,350</u>	<u>\$ 200,710</u>

An Operation and Maintenance Fund had not been established; an annual budget had not been prepared; an annual audit was not conducted and the report filed with the bondholder; nor was monthly payments made into the Debt Service Fund to cover the next interest payment, as required by the debt covenant.

6. RETIREMENT SYSTEM

Village officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. PERS members were required to contribute 8.5 percent of their gross salaries, and the Village was required to contribute an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

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.

The Village 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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

governments pay annual contributions to fund PEP. PEP pays judgments, settlements, and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including loss 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 from 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 reinsures 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 member's 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 village.

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 LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

Financial Position

The Pool's financial statements (audited by other auditors) conform with Generally Accepted Accounting Principles, and reported the following assets, liabilities, and retained earnings at December 31, 2005 and 2004:

Casualty Coverage	2005	2004
Assets	\$ 29,719,675	\$ 27,437,169
Liabilities	(15,994,168)	(13,880,038)
Retained Earnings	\$ 13,725,507	\$ 13,557,131

Property Coverage	2005	2004
Assets	\$ 4,443,332	\$ 3,648,272
Liabilities	(1,068,245)	(540,073)
Retained Earnings	\$ 3,375,087	\$ 3,108,199

The casualty coverage assets and retained earning 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 Village's share of these unpaid claims collectible in future years is approximately \$7,800. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph on page 13.

Based on discussion 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 detail 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.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of Lafayette, Allen County
225 East Sugar Street
Lafayette, OH 45854

To the Village Council:

We have audited the financial statements of the Village of Lafayette, Allen County, Ohio (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated May 18, 2007, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-005 and 2005-006.

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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 18, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings items 2005-001 through 2005-004.

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

Charles E. Harris and Associates, Inc.
May 18, 2007

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings
December 31, 2004 and 2005**

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

Finding Number 2005-001

Appropriations and Estimated Resources

Ohio Revised Code Section 5705.39 states, in part, that "... The total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission..." This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources. Contrary to this requirement, the following funds had total appropriations in excess of estimated resources plus carryover balances in 2005:

<u>2005</u>	<u>Estimated Resources</u>	<u>Appropriation</u>	<u>Variance</u>
Enterprise Fund:			
Sewer Bond Retirement Fund	\$ 53,442	\$ 79,069	\$ (25,627)
Sewer Improvement	-	4,400	(4,400)
Total	<u>\$ 53,442</u>	<u>\$ 83,469</u>	<u>\$ (30,027)</u>

A similar matter was communicated to the Village Council as an audit finding in the audit report for the 2 years ended December 31, 2003.

Management agrees and will monitor estimated resources compared to appropriations.

Finding Number 2005-002

Expenditures Limited by Appropriations

Ohio Revised Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

During our audit, we noted the following fund that have total expenditures and contract commitments exceeding appropriations.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings – (continued)
December 31, 2004 and 2005**

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

**Finding Number 2005-002
(Continued)**

Funds	Total Appropriations	Total Expenditures	Variances
Enterprise Funds:			
<u>2004</u>			
Sewage Bond Retirement Fund	\$ 37,948	\$ 77,951	\$ (40,003)
<u>2005</u>			
Sewer Operating Fund	90,891	109,444	(18,553)
Total	\$ 128,839	\$ 187,395	\$ (58,556)

A similar matter was communicated to the Village Council as an audit finding in the audit report for the 2 years ended December 31, 2003.

Management agrees and will monitor expenditures compared to appropriations.

Finding Number 2005-003

Issuing 1099 Form to Independent Contractors for services rendered over \$600

Internal Revenue Regulation 26 CFR, Section 1.6041-1 requires governments to report on Form 1099 salaries, wages, commissions, fees and other forms of compensation for services rendered aggregating \$600 or more. Several independent contractors performed services in excess of the \$600, and there was no evidence that the required 1099 forms were issued.

At year end, all payments made to independent vendors should be reviewed to determine if the issuance of a 1099 form is required.

A similar matter was communicated to the Village Council as an audit finding in the audit report for the 2 years ended December 31, 2003.

Management agrees and will issue 1099 forms to the independent contractors for services rendered aggregating \$600 or more.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings – (continued)
December 31, 2004 and 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2005-004

Bond Ordinance Compliance

Bond Ordinance 1979-4 Section 8© states that as long as the authorized bonds remain unpaid, that complete books and records will be maintained relating to the operation of the system and its financial affairs (a sewage plant was built with the monies provided by the bond sale). Such books and records are to be audited annually at the end of each fiscal year and an audit report shall be prepared and shall be submitted to the Farmers Home Administration as long as it is holder of any of the bonds without request, and shall be furnished to any other holder of the Bonds upon written request.

Section 8(f) states that prior to the beginning of each fiscal year the Village will prepare an annual budget of said system for the ensuring fiscal year itemized on the basis of monthly requirements and a copy of such budget shall be mailed without request to the Farmers Home Administration as long as the government is holder of any of the bonds and upon written request of any other bondholder.

In addition, a transfer of funds is required each month from the Sewer Revenue Fund Account to an Operation and Maintenance Fund Account. The amount of the transfers should be sufficient to pay reasonable and necessary current expenses for operating and maintaining a sanitary sewer system.

Also, transfers equal to 1/12 of the next interest payment are required to be made into the Sewer Debt Service Fund in order to cover the interest payment.

There was no evidence that an annual audit was performed of the sewer accounts and an audit report submitted to the proper agency, or that an annual budget was prepared and sent to the applicable agency. In addition, an Operation and Maintenance Fund has not been established, nor had funds been transferred, to pay current expenses of operating and maintaining the Village's sanitary sewer system. During 2004 and 2005, the required monthly payments were not made into the Debt Service Fund to cover the next interest payment.

A copy of the bond covenant and Village Ordinance 1979-4 should be maintained on file and the requirements added to a tickler file in order to comply with all requirements set forth therein. In addition, the required operation and maintenance costs for the sanitary sewer system determined and transferred.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings – (continued)
December 31, 2004 and 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**Finding Number 2005-004
(Continued)**

A similar matter was communicated to the Village Council as an audit finding in the audit report for the 2 years ended December 31, 2003.

Management agrees and will comply with requirements stated in bond ordinance in the future.

Finding Number 2005-005

Monitoring of Monthly Financial Reports

The estimated revenue amounts from the certificate of estimated resources were not accurately posted to the accounting system. The amounts posted were incorrect and therefore the status reports did not provide accurate information. Receiving incomplete and/or inaccurate financial information could result in the Council and/or the BPA obligating funds that are not available, or making decisions based on inaccurate data. Also, the failure by Council and BPA to properly monitor the revenue and expenditure status reports on a monthly basis could result in misappropriation of revenues and unauthorized expenditures without timely detection. Lack of proper and correct financial information impedes the ability of officials to act responsibly in conducting Village affairs.

Council should monitor the monthly revenue and expenditures status reports (budgets versus actual) timely to ensure the Village is operating effectively. Council should also verify that these reports and the related budgetary documents approved by Council are in agreement. Council and BPA should initial and date the reports as proof of their review. Council should be aware on a continuing basis of the financial position of the Village in order to make informed decision.

A similar matter was communicated to the Village Council as an audit finding in the audit report for the 2 years ended December 31, 2003.

Management agrees and will monitor monthly financial reports in the future.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings – (continued)
December 31, 2004 and 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2005-006

Segregation of Duties and Maintenance of Sewer Records

A policy should be adopted establishing adequate accounting and administrative control procedures, including the requirement of a periodic review to determine that the adopted procedures are being followed: The policy should require that a hard copy of the monthly utility registers be generated and maintained in chronological order. This will allow the status of each account to be followed from one month to the next. Sewer collections should be reconciled with the utility stubs and timely deposits made. The stubs that comprise each deposit should be bound and marked with the date collected and deposited. The copies of the deposit slips and the utility stubs should then be filed together to support the dates the amounts were posted the utility registers. This will allow reconciliations to be performed and deposits to be agreed to a specific period. A monthly reconciliation should be performed between the cash/receipt journals and the sewer payment register. Periodically, a review should be performed of the account categories to ensure billings and receipts are accumulating into the correct category.

The Board of Public Affairs should review the reports generated at the monthly meetings to verify the accuracy of the amounts posted to the receipts journal, and to determine that the monthly amounts collected and deposited are consistent, and if not, variances should be investigated.

A similar matter was communicated to the Village Council as an audit finding in the audit report for the 2 years ended December 31, 2003.

Management agrees and will establish a policy for adequate accounting and administrative control procedures for sewer operations.

VILLAGE OF LAFAYETTE
 ALLEN COUNTY, OHIO
 For the Years Ended December 31, 2005 and 2004

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2003-001	Findings for Recovery	No	Not corrected. Amount not repaid.
2003-002	Records Destruction	Yes	Fully corrected. Finding not longer valid.
2003-003	Ordinances and Resolutions	Yes	Fully corrected. Finding not longer valid.
2003-004	Appropriations and Estimated Resources	No	Not corrected. Reissued as finding number 2005-001
2003-005	Expenditures Limited by Appropriations	No	Not corrected. Reissued as finding number 2005-002
2003-006	Certification of Expenditures	Yes	Fully corrected. Finding not longer valid.
2003-007	State Income Tax	Yes	Fully corrected. Finding not longer valid.
2003-008	W-2 Forms	Yes	Fully corrected. Finding not longer valid.
2003-009	Remittance of Federal and Medicare Taxes	Yes	Fully corrected. Finding not longer valid.
2003-010	Form 1099	No	Not corrected. Reissued as finding number 2005-003

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
For the Years Ended December 31, 2005 and 2004

SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)

2003-011	Bond Ordinance Compliance	No	Not corrected. Reissued as finding number 2005-004
2003-012	Monitoring of Monthly Financial Reports	No	Not corrected. Reissued as finding number 2005-005
2003-013	Segregation of Duties and Maintenance of Sewer Records	No	Not corrected. Reissued as finding number 2005-006



Mary Taylor, CPA
Auditor of State

VILLAGE OF LAFAYETTE

ALLEN 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
JUNE 19, 2007**