



**Auditor of State  
Betty Montgomery**



VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Ludlow Falls  
Miami County  
P. O. Box 159  
Ludlow Falls, OH 45339

To the Village Council:

We have audited the accompanying financial statements of the Village of Ludlow Falls, Miami County, (the Village), as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserve for encumbrances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2004, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of Ludlow Falls  
Miami County  
Independent Accountants' Report  
Page 2

This report is intended solely for the information and use of management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

October 29, 2004

**VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$7,037		\$7,037
Special Assessments		\$3,585	3,585
Intergovernmental Receipts	17,776	11,741	29,517
Fines, Licenses, and Permits	100		100
Earnings on Investments	461		461
Miscellaneous	984		984
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	26,358	15,326	41,684
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	3,430		3,430
Basic Utility Services	338	4,016	4,354
Transportation	8,200	11,793	19,993
General Government	8,305		8,305
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	20,273	15,809	36,082
Total Receipts Over/(Under) Disbursements	6,085	(483)	5,602
Fund Cash Balances, January 1	<hr/> \$29,405	<hr/> \$28,740	<hr/> 58,145
<b>Fund Cash Balances, December 31</b>	<hr/> <b>\$35,490</b> <hr/>	<hr/> <b>\$28,257</b> <hr/>	<hr/> <b>\$63,747</b> <hr/>
Reserves for Encumbrances, December 31	<hr/> \$0	<hr/> \$4,180	<hr/> \$4,180

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

**VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$8,148		\$8,148
Special Assessments		\$3,853	3,853
Intergovernmental Receipts	17,529	10,990	28,519
Fines, Licenses and Permits	20		20
Earnings on Investments	829		829
Miscellaneous	1,487		1,487
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	28,013	14,843	42,856
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	2,755		2,755
Leisure Time Activities	131		131
Basic Utility Services	347	4,016	4,363
Transportation	29,304	814	30,118
General Government	12,515		12,515
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	45,052	4,830	49,882
Total Receipts Over/(Under) Disbursements	(17,039)	10,013	(7,026)
Fund Cash Balances, January 1	46,444	18,727	65,171
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b><u>\$29,405</u></b>	<b><u>\$28,740</u></b>	<b><u>\$58,145</u></b>

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



**VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Ludlow Falls, Miami 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 governmental services including police protection. The Village contracts with Ludlow Falls Volunteer Fire Department to provide fire protection services.

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

**B. Basis of Accounting**

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

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

**C. Cash and Investments**

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. Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

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

**2. Special Revenue Fund**

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

**VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**State Highway Fund** - This fund receives gasoline tax and motor vehicle tax registration money for constructing, maintaining and repairing the State highways through the Village.

**Street Lighting Fund** - This fund received special assessments from the County Auditor to be used to pay for street lighting for the Village.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, 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. 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. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	<b>2003</b>	<b>2002</b>
Demand deposits	\$32,839	\$27,648
Certificates of deposit	15,164	14,926
Total deposits	48,003	42,574
 STAR Ohio	 15,744	 15,571
Total deposits and investments	\$63,747	\$58,145

**VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**Investments:** Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 follows:

**2003 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$29,476	\$26,358	(\$3,118)
Special Revenue	15,000	15,326	326
Total	<u>\$44,476</u>	<u>\$41,684</u>	<u>(\$2,792)</u>

**2003 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$63,803	\$20,273	\$43,530
Special Revenue	36,604	19,989	16,615
Total	<u>\$100,407</u>	<u>\$40,262</u>	<u>\$60,145</u>

**2002 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$37,279	\$28,013	(\$9,266)
Special Revenue	15,000	14,843	(157)
Total	<u>\$52,279</u>	<u>\$42,856</u>	<u>(\$9,423)</u>

**2002 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$88,126	\$45,052	\$43,074
Special Revenue	27,343	4,830	22,513
Total	<u>\$115,469</u>	<u>\$49,882</u>	<u>\$65,587</u>

Contrary to Ohio Rev. Code Section 5705.41 (D) the Village did not always certify the availability of funds prior to purchase commitments during the audit period.

**VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. PROPERTY TAX**

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

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.

**5. RETIREMENT SYSTEMS**

The Village's elected officials belong to the Social Security System. For 2003 and 2002, members of the Social Security System contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

**6. RISK MANAGEMENT**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**7. Prior Period Adjustment**

The January 1, 2002 beginning fund balances have been restated due to the following reasons. A \$13,087 audit adjustment from the Special Revenue Fund to the General Fund was made to the Village's financial statements but was not posted to the Village's general ledger in prior audit periods. The adjustment was later determined to be not applicable.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND  
ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Ludlow Falls  
Miami County  
P. O. Box 159  
Ludlow Falls, OH 45339

To the Village Council:

We have audited the accompanying financial statements of the Village of Ludlow Falls, Miami County, (the Village), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated October 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001. We also noted immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated October 29, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted 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 2003-002 and 2003-003.

**Internal Control Over Financial Reporting  
(Continued)**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are 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 October 29, 2004.

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



**Betty Montgomery**  
Auditor of State

October 29, 2004

VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

**Ohio Rev. Code Section 5705.41(D)** 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 \$1,000 (\$3,000, effective 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 not exceeding \$5,000 (an amount established by resolution or ordinance adopted by the legislative authority, effective September 26, 2003) against any specific line item account over a period not exceeding three months (three month limitation was eliminated effective September 26, 2003) or running beyond the current 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 one line item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for any 2002 or 2003 expenditures and Village Council did not approve payment of expenditures over \$1,000 (\$3,000 after April 7, 2003) by ordinance or resolution. Failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

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 Village's Fiscal Officer certify that the funds are or will be available prior to the 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.

#### **FINDING NUMBER 2003-002**

##### **Monthly Reconciliations**

The Village's accounting records should be reconciled monthly to the bank statements. The Clerk does not reconcile the book balance to the bank balance. The Clerk does not use the monthly balances per the bank statements when reconciling nor is interest posted when earned. This has caused the books to be out-of-balance and the financial statement fund balances to be overstated. The clerk should use the monthly bank balances when reconciling; any variances between bank and book should be investigated and corrected each month. Interest should be posted when received.

#### **FINDING NUMBER 2003-003**

##### **Reconciliation of Accounting Records**

The cashbook should be reconciled monthly to the Appropriation and Receipt Ledgers. When verifying revenues and disbursements on the financial statements to the Village's accounting records, the following weaknesses were noted:

- The cashbook does not have month or year-to-date totals.
- Adjustments were made to the cashbook without explanation or support documentation.
- Revenue and expenditures were posted to the cashbook but not to the corresponding ledger.
- The cashbook was not being reconciled to the receipt or appropriation ledger each month.

The above weaknesses caused posting errors to go unnoticed and the financial statements to be misstated. The Clerk should total revenue and expenditures in the cashbook each month and reconcile the cashbook to the respective ledger. Any variances should be investigated and corrected as necessary. The Clerk should retain all supporting documentation, if any, and a notation should be made in the cashbook for all adjustments. The accompanying financial statements have been adjusted for these misstatements.



**VILLAGE OF LUDLOW FALLS  
MIAMI COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2001-30355-001	Ohio Rev. Code Section 5705.41 (D) failure to certify funds	No	Not Corrected; reissued as finding 2003-001.
2001-30355-002	Ohio Rev. Code Section 5747.06 failure to withhold State Income Tax	Yes	
2001-30355-003	Ohio Rev. Code Section 145.47 and 145.48 failure to deduct PERS payments	Yes	
2001-30355-004	26 C.F.R. Section 1.6041-2 failure to report gross wages on a W-2 or 1099	No	Partially corrected, reported in a separate letter to management of the Village.
2001-30355-005	26 U.S.C. Section 3102 (A) failure to withhold Social Security Medicare Tax from employees	Yes	
2001-30355-006	26 U.S.C. Section 3402 failure to withhold Federal Income Tax	Yes	





**Auditor of State  
Betty Montgomery**

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**VILLAGE OF LUDLOW FALLS**

**MIAMI 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  
DECEMBER 7, 2004**