



**VILLAGE OF KIPTON
LORAIN COUNTY**

REGUALR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004



**Auditor of State
Betty Montgomery**

VILLAGE OF KIPTON
LORAIN COUNTY

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**Auditor of State
Betty Montgomery**

Village of Kipton
Lorain County
299 State Street
P.O. Box 177
Kipton, Ohio 44049

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

October 11, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Kipton
Lorain County
299 State Street
P.O. Box 177
Kipton, Ohio 44049

To the Village Council:

We have audited the accompanying financial statements of the Village of Kipton, Lorain County, Ohio, (the Village) as of and for the years ended December 31, 2005 and December 31, 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. 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 December 31, 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 December 31, 2004, or its changes in financial position 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 Kipton, Lorain County, Ohio, as of December 31, 2005 and December 31, 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 December 31, 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 October 11, 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

October 11, 2006

**VILLAGE OF KIPTON
LORAIN COUNTY**

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

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$17,778	\$6,968	\$0	\$24,746
Intergovernmental	21,981	11,206	41,359	74,546
Charges for Services	14,440	0	0	14,440
Fines, Licenses, and Permits	11,365	0	0	11,365
Miscellaneous	1,998	0	0	1,998
	<u>67,562</u>	<u>18,174</u>	<u>41,359</u>	<u>127,095</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	7,029	3,039	0	10,068
Leisure Time Activities	3,670	0	0	3,670
Basic Utility Services	18,312	0	0	18,312
Transportation		12,422	0	12,422
General Government	25,203	151	0	25,354
Debt Service:				
Redemption of Principal	1,636	0	0	1,636
Interest and Other Fiscal Charges	682	0	0	682
Capital Outlay	0	0	41,359	41,359
	<u>56,532</u>	<u>15,612</u>	<u>41,359</u>	<u>113,503</u>
Total Cash Disbursements				
Total Receipts Over Disbursements	<u>11,030</u>	<u>2,562</u>	<u>0</u>	<u>13,592</u>
Other Financing Receipts and (Disbursements):				
Transfers-In	0	1,000	0	1,000
Transfers-Out	(1,000)	0	0	(1,000)
	<u>(1,000)</u>	<u>1,000</u>	<u>0</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	<u>10,030</u>	<u>3,562</u>	<u>0</u>	<u>13,592</u>
Fund Cash Balances, January 1, 2005	<u>9,120</u>	<u>11,890</u>	<u>0</u>	<u>21,010</u>
Fund Cash Balances, December 31, 2005	<u>\$19,150</u>	<u>\$15,452</u>	<u>\$0</u>	<u>\$34,602</u>
Reserve for Encumbrances, December 31, 2005	<u>\$329</u>	<u>\$102</u>	<u>\$0</u>	<u>\$431</u>

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

**VILLAGE OF KIPTON
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$14,520	\$4,881	\$19,401
Intergovernmental	22,058	10,436	32,494
Charges for Services	9,695	0	9,695
Fines, Licenses and Permits	10,401	0	10,401
	<u>56,674</u>	<u>15,317</u>	<u>71,991</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	9,747	3,804	13,551
Public Health Services	0	191	191
Leisure Time Activities	2,555	0	2,555
Basic Utility Services	17,985	0	17,985
Transportation	0	6,814	6,814
General Government	30,439	100	30,539
Debt Service:			
Redemption of Principal	1,545	0	1,545
Interest and Other Fiscal Charges	774	0	774
	<u>63,045</u>	<u>10,909</u>	<u>73,954</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>(6,371)</u>	<u>4,408</u>	<u>(1,963)</u>
Fund Cash Balances, January 1, 2004	<u>15,491</u>	<u>7,482</u>	<u>22,973</u>
Fund Cash Balances, December 31, 2004	<u>\$9,120</u>	<u>\$11,890</u>	<u>\$21,010</u>

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

**VILLAGE OF KIPTON
LORAIN 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 Kipton, Lorain County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, including park operation (recreation), street maintenance, and police services. The Village contracts with Camden Township to provide fire protection services. Emergency medical services are provided by the Central Lorain County Joint Ambulance District.

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

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

C. Cash and Investments

The Village maintains a checking account which is reported at book value.

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 Funds:

**VILLAGE OF KIPTON
LORAIN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

Police Protection Fund – This fund receives property tax money to provide police protection to Village residents.

Sewer Fund – This fund receives property tax money for maintaining and repairing Village sewers.

3. Capital Project Funds

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

Capital Improvement Fund – This fund accounts for Issue II grants received from the State of Ohio for Village street improvement projects.

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 and function 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 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 individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

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

**VILLAGE OF KIPTON
LORAIN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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	\$34,602	\$21,010
Total deposits	34,602	21,010

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 December 31, 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$54,315	\$67,562	\$13,247
Special Revenue	15,075	19,174	4,099
Capital Projects	0	41,359	41,359
Total	\$69,390	\$128,095	\$58,705

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$73,736	\$57,861	\$15,875
Special Revenue	26,964	15,714	11,250
Capital Projects	0	41,359	(41,359)
Total	\$100,700	\$114,934	(\$14,234)

**VILLAGE OF KIPTON
LORAIN COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$50,919	\$56,674	\$5,755
Special Revenue	14,176	15,317	1,141
Total	\$65,095	\$71,991	\$6,896

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$66,411	\$63,045	\$3,366
Special Revenue	21,330	10,909	10,421
Total	\$87,741	\$73,954	\$13,787

Contrary to Ohio Rev. Code Section 5705.09(F), the Village did not establish a fund, nor did it account for Issue II Program Grants during 2005. Additionally, the Village did not budget for these revenues or appropriate for the expenditures paid on behalf of the Village which is contrary to Ohio Rev. Code Sections 5705.39 and 5705.41(B), respectively. Also, the Village is in noncompliance of Ohio Rev. Code Section 5705.41(B).

4. PROPERTY TAX

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

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

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. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$10,988	5.76%
Total	\$10,988	

**VILLAGE OF KIPTON
LORAIN COUNTY**

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

5. DEBT (Continued)

The Village issued general obligation bonds to finance the purchase of a village hall. The Village's taxing authority collateralized the bonds.

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

Year ending December 31:	General Obligation Bonds
2006	\$2,319
2007	\$2,319
2008	\$2,319
2009	\$2,319
2010	\$2,319
2011	1,509
Total	\$13,104

6. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, members of OPERS contributed 8.5 percent of their gross salaries. The Village contributed an amount equaling 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

All members of the Village Council participate in the Federal Income Contributions Act and must contribute to Social Security. The Village's liability is 6.2 percent of wages paid.

7. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Plan is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Plan pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes certain premiums to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer be unable to meet its reinsurance obligations.

VILLAGE OF KIPTON
LORAIN COUNTY

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

7. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained deficit at December 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Assets	\$ 2,241,661	\$2,309,178
Liabilities	<u>(3,457,720)</u>	<u>(3,343,299)</u>
Accumulated deficit	<u>(\$1,216,059)</u>	<u>(\$1,034,121)</u>



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 Kipton
Lorain County
299 State Street
P.O. Box 177
Kipton, Ohio 44049

To the Village Council:

We have audited the financial statements of the Village of Kipton, Lorain County, Ohio, (the Village) as of and for the years ended December 31, 2005 and December 31, 2004, and have issued our report thereon dated October 11, 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 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 October 11, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable a condition.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 and 2005-002. In a separate letter to the Village's management dated October 11, 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 the 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

October 11, 2006

**VILLAGE OF KIPTON
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2005- 001
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Expenditures Exceeding Appropriations

Ohio Revised Code Sections 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by Council may not exceed appropriations at the legal level for all funds. The following fund had expenditures plus encumbrances in excess of appropriations at the legal level of control as of December 31, 2004:

<u>Fund - Expenditure Account</u>	<u>Appropriation</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General – Other – Personal Services	\$1,500	\$2,427	\$927
General – Other – Repairs & Maintenance	500	924	424
General – Other – Supplies & Materials	3,500	4,242	742
General – Other – Contractual Services	2,000	2,400	400
General – Telephone	2,000	2,459	459
General – Printing & Reproduction	100	425	325
General – Liability Insurance Premiums	2,500	3,587	1,087
General – Other – Other	1,500	3,057	1,557

The following funds had expenditures plus encumbrances in excess of appropriations as of December 31, 2005 at the legal level of control:

<u>Fund - Expenditure Account</u>	<u>Appropriation</u>	<u>Expenditures Plus Encumbrances</u>	<u>Variance</u>
General – Other – Personal Services	\$1,500	\$1,783	\$283
General – Other – Other Contractual Service	2,000	2,400	400
General – Telephone	3,000	3,402	402
General – Liability Insurance Premiums	3,320	4,936	1,616
Police Protection – Property Tax Collection Fees	50	75	25

We recommend the Council verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirements.

Official's Response:

We did not receive a response from the Officials to this finding.

VILLAGE OF KIPTON
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2005- 002
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Issue II Project Accounting

Ohio Revised Code Section 5709.09 states that each subdivision is required to establish a special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Ohio Revised Code Section 5705.36 allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.40 states that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them.

During 2005, the Ohio Public Works Commission expended \$41,359 for an Issue II grant project on behalf of the Village. The grant activity was not included on the Village's records or annual financial report for 2005. In accordance with Auditor of State Bulletins 2000-008 and 2002-004, both the revenue and expenditure activity of the grant should have been included. In addition, contrary to Ohio Revised Code, the Village failed to establish the necessary Capital Project Fund, certify available resources to the County Budget Commission, and appropriate the funds spent on their behalf as required by Auditor of State Bulletins 2000-008 and 2002-004. This resulted in the understatement of budgetary revenue and expenditure activity for the Issue II project. The accompanying financial statements have been adjusted to reflect the grant activity for 2005.

When the Village receives notice that they have been approved for funding by a state or federal agency, they should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, create the required fund(s), certify the available resources to the County Budget Commission, appropriate the grant funds, and when notified that funds have been expended on their behalf make memo entries to post the revenues and expenditures to the Village's books.

Official's Response:

We did not receive a response from the Officials to this finding.

VILLAGE OF KIPTON
LORAIN 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	Issue II Project Accounting	No	Reissued as finding number 2005-002



**Auditor of State
Betty Montgomery**

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VILLAGE OF KIPTON

LORAIN 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 21, 2006**