



**VILLAGE OF MELROSE
PAULDING COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007



Mary Taylor, CPA
Auditor of State

VILLAGE OF MELROSE
PAULDING COUNTY

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Mary Taylor, CPA Auditor of State

Village of Melrose
Paulding County
705 State Street, P.O. Box 101
Melrose, Ohio 45861-0101

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an 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 adverse 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 "Mary Taylor".

Mary Taylor, CPA
Auditor of State

May 29, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Melrose
Paulding County
705 State Street, P.O. Box 101
Melrose, Ohio 45861-0101

To the Village Council:

We have audited the accompanying financial statements of Village of Melrose, Paulding County, (the Village) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. 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, 2007 and 2006, 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, 2007 and 2006, 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 of the Village of Melrose, Paulding County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 29, 2008, 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.



Mary Taylor, CPA
Auditor of State

May 29, 2008

**VILLAGE OF MELROSE
PAULDING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$9,463	\$7,591		\$17,054
Intergovernmental	14,378	13,049		27,427
Charges for Services		237		237
Fines, Licenses and Permits	348			348
Earnings on Investments			\$1	1
Miscellaneous	4,340			4,340
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	28,529	20,877	1	49,407
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	7,812	8,242		16,054
Public Health Services	69			69
Leisure Time Activities	891			891
Basic Utility Service	1,000	3,472		4,472
Transportation		2,522		2,522
General Government	15,073		60	15,133
Debt Service:				
Redemption of Principal	3,334	2,788	845	6,967
Interest and Fiscal Charges	273	265		538
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	28,452	17,289	905	46,646
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	77	3,588	(904)	2,761
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	(16,691)	19,731	904	3,944
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>(\$16,614)</u>	<u>\$23,319</u>	<u>904</u>	<u>\$6,705</u>

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

**VILLAGE OF MELROSE
PAULDING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$7,336	\$6,138		\$13,474
Intergovernmental	14,672	12,647	\$47,872	75,191
Fines, Licenses and Permits	416			416
Miscellaneous	1,042	40	911	1,993
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	23,466	18,825	48,783	91,074
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
Security of Persons and Property	7,173	8,943		16,116
Public Health Services	139			139
Leisure Time Activities	3,452			3,452
Basic Utility Service		4,063		4,063
Transportation		3,106		3,106
General Government	23,801		63	23,864
Debt Service:				
Redemption of Principal	2,069	1,305	25,907	29,281
Interest and Fiscal Charges	621	373		994
Capital Outlay	4,650	4,200	22,117	30,967
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	41,905	21,990	48,087	111,982
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(18,439)	(3,165)	696	(20,908)
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Receipts				
Other Debt Proceeds	9,150	4,200		13,350
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(9,289)	1,035	696	(7,558)
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	(7,402)	18,696	208	11,502
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>(\$16,691)</u>	<u>\$19,731</u>	<u>\$904</u>	<u>\$3,944</u>

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

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Melrose, Paulding County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides park operations. The Village contracts with the Village of Oakwood to provide fire protection and emergency medical services.

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

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. 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. 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 private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

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

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

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 funds:

Street Improvement Fund – This fund receives proceeds from Ohio Public Works Commission Grant (OPWC) and Community Development Block Grant (CDBG) for the repair of a village street.

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and object level of control, and appropriations may not exceed estimated resources. The Village 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. In 2007 and 2006, the Village Council did not approve appropriations contrary to Ohio law.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 cancelled and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

A summary of 2007 and 2006 budgetary activity appears in Note 4.

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. ACCOUNTING AND COMPLIANCE

Accounting Change

The Village previously omitted its ball association monies from the financial statements and incorrectly allocated revenues to the various Village funds. These changes had the following effect on the January 1, 2006 fund balances:

	General Fund	Special Revenue Funds
Cash Fund balance as previously reported, December 31, 2005	\$6,570	\$4,579
Funds omitted		145
Funds incorrectly allocated	(13,972)	13,972
Cash Fund balance, as restated at January 1, 2006	(\$7,402)	\$18,696

Compliance

Contrary to Ohio law, the following occurred:

- The Village did not adopt appropriations for 2007 and 2006; as a result, no expenditures were appropriated.
- Gasoline excise tax and motor vehicle tax fees of \$2,876 in 2006 and \$2,018 in 2007 were allocated to the State Highway Improvement Fund that should have been allocated to the Street Construction, Maintenance and Repair Fund.
- Homestead and rollback amounts of \$883 in 2006 were allocated to the General fund, rather than the Fire Fund (\$555) and the Emergency Medical Services Fund (\$328).
- Certain expenditures in 2006 were allocated to the State Highway Improvement Fund in the amount of \$1,273 and Street Construction, Maintenance and Repair Fund in the amount of \$753. These expenditures should have been allocated to the General Fund.
- The General and State Highway Improvement Funds had negative cash fund balances of \$16,614 and \$8,866 at December 31, 2007, and \$16,691 and \$5,845 at December 31, 2006. The Village has no plan in place to eliminate these negative cash fund balances.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. EQUITY IN POOLED CASH

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

	2007	2006
Demand deposits	\$6,705	\$3,944

Deposits are insured by the Federal Depository Insurance Corporation.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$28,529	\$28,529
Special Revenue		20,877	20,877
Capital Projects		1	1
Total		\$49,407	\$49,407

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General		\$28,452	(\$28,452)
Special Revenue		17,289	(17,289)
Capital Projects		905	(905)
Total		\$46,646	(\$46,646)

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$32,616	\$32,616
Special Revenue		23,025	23,025
Capital Projects		48,783	48,783
Total		\$104,424	\$104,424

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

4. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General		\$41,905	(\$41,905)
Special Revenue		21,990	(21,990)
Capital Projects		48,087	(48,087)
Total		\$111,982	(\$111,982)

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The 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.

6. DEBT

Debt outstanding at December 31, 2007, was as follows:

	Principal	Interest Rate
Line of Credit	\$5,100	7.40%
Park Playground Equipment Loan	3,595	4.95%
Village Land Loan	205	7.75%
Total	\$8,900	

The Village of Melrose also has a \$15,000 line of credit available with a local financial institution to cover operating expenses incurred during the year. The interest rate for the line of credit is 7.40%. They had a \$5,100 outstanding balance as of December 31, 2007. The line of credit is rolled-over once a year into a new line of credit.

The Park Playground Equipment Loan was established on August 25, 2007 for a period of two years. The loan is to be used for the purchase of park playground equipment. The Village is to remit monthly payments from the General Fund towards the payment of the loan with the loan balance outstanding due on August 22, 2009.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. DEBT – (CONTINUED)

On January 31, 2008, the Village combined the Line of Credit loan and the Park Playground Equipment loan into one loan. The original loan principal amount was for \$8,681 with an annual interest rate of 4.95% for a period of five years.

The Village Land Loan was established on January 19, 2006 for a period of two years. The loan is to be used for the purchase of lot of land within the Village corporation limits. The Village remits monthly payments from the General Fund towards the payment of the loan with the balance of the loan being due on January 19, 2008.

On April 3, 2006, the Village approved to purchase a lawn mower from Homier and Sons for the amount of \$11,250. The Village financed the purchase through a credit card account with Yard Card Plus. Terms of the purchase were the same as cash for the first nine months after the purchase, and then an annual interest rate of 14.90% would be charged on the unpaid balance of the credit card account. The Village remitted one payment of \$112 towards the mower in 2006 and did not make any payments in 2007. As a result the Village credit card balance Yard Card Plus was \$14,253 as of December 31, 2007.

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

<u>Year Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$1,655	\$436	\$2,091
2009	1,642	322	1,964
2010	1,725	239	1,964
2011	1,812	151	1,963
2012	1,904	59	1,963
2013	<u>162</u>	<u>1</u>	<u>163</u>
Total	<u>\$8,900</u>	<u>\$1,208</u>	<u>\$10,108</u>

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 and 9 percent respectively of their gross salaries. The Village contributed an amount equal to 13.85 and 13.7 percent, respectively of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. RETIREMENT SYSTEM – (CONTINUED)

Social Security

Effective July 1, 1991, all officials and employees not otherwise covered by OPERS have an option to become a member of the Social Security System. As of December 31, 2007, all Council members have elected Social Security. Council's liability is 6.2 percent of wages.

8. 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 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

For an occurrence prior to January 1, 2006, PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. 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 2006 was \$1,901,127.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

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 government.

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005 (the latest information available):

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$8,040. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on discussions 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 detailed 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.

VILLAGE OF MELROSE
PAULDING COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)

8. RISK MANAGEMENT – (CONTINUED)

<u>Contributions to PEP</u>	
2005	\$3,893
2006	\$3,948
2007	\$4,020

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they give 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 contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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Mary Taylor, CPA

Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Melrose, Paulding County, (the Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated May 29, 2008, 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 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting items 2007-003 through 2007-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, we believe the significant deficiencies described above are also material weaknesses.

We also noted certain matters that we reported to the Village's management in a separate letter dated May 29, 2008.

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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 to 2007-004

We also noted certain noncompliance matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated May 29, 2008.

We intend this report solely for the information and use of the finance committee, management, and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 29, 2008

VILLAGE OF MELROSE
PAULDING COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006

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

FINDING NUMBER 2007-001

Noncompliance Citation

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

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

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

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

**FINDING NUMBER 2007-001
(Continued)**

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

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

FINDING NUMBER 2007-002

Noncompliance Citation

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

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

The Village did not pass an appropriations measure in 2006 or 2007. As a result, all expenditures made during 2006 and 2007 were not appropriated.

The Village should approve appropriations for each office, department, and division, and, within each, the amount appropriated for personal services each year authorizing the expenditure of money at the legal level of control. Appropriations, once approved by Council, serve as the Village's spending plan. Without such a plan, management has no means of tracking anticipated expenditures in relation to actual amounts available. Appropriations should be adopted by the first day of the fiscal year and should not exceed the amount of the official estimate (estimated receipts and unencumbered fund balances) certified by the County Auditor.

FINDING NUMBER 2007-003

Noncompliance Citation - Material Weakness

Ohio Revised Code §5705.10 (D) requires all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. The Village incorrectly allocated certain monies to special funds as discussed below. This results in these restricted monies being used for purposes other than prescribed by law.

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

Proceeds from the gasoline excise tax and motor vehicle tax fees were incorrectly allocated to the State Highway Improvement fund in 2006, \$2,876 and in 2007, \$2,018. These monies should have been allocated to the Street Construction, Maintenance and Repair Fund.

In addition, certain expenditures in 2006 were allocated to the State Highway Improvement fund, \$1,273, and Street Construction, Maintenance and Repair fund, \$753. These expenditures did not pertain to construct, reconstruct, repave, widen, maintain, and repair such highways, to purchase, erect, and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways. The expenditures should have been allocated to the General Fund.

2. Amounts received for homestead and rollback reimbursements were also allocated incorrectly. These amounts should have been apportioned to General, Fire and Emergency Medical Services funds, in relation to the amount of property tax monies collected and recorded in these funds. In 2006, these monies were allocated entirely to the General fund. The Fire Fund and the Emergency Medical Services Fund should have received \$555 and \$328, respectively.

Adjustments were included in the accompanying financial statements to correct these allocations.

We recommend that seven and one-half per cent of all gasoline excise tax and motor vehicle license tax monies be allocated to the State Highway Improvement fund. The remaining amounts should be placed into the Street Construction, Maintenance and Repair Fund. Expenditures relating to construction, reconstruction, repaving, widening, maintaining, and repairing such highways, to purchase, erect, and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways should only be allocated to the State Highway Improvement and Street Construction Maintenance and Repair funds. Further, homestead and rollback reimbursements should be apportioned and recorded in relation to the amount of property tax monies collected. Finally, management should monitor these funds closely to ensure that revenues and expenditures are recorded in a manner that complies with Ohio law.

FINDING NUMBER 2007-004

Noncompliance Citation - Material Weakness

Ohio Revised Code §5705.10 (H) requires that money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following negative fund balances existed at December 31, 2007 and 2006:

Fund balances	December 31, 2007	December 31, 2006
General Fund	(\$16,614)	(\$16,691)
Special Revenue Funds:		
State Highway Improvements Fund	(8,866)	(5,845)

We recommend that management monitor these funds closely throughout the year and restrict expenditures until a positive fund balance exists.

FINDING NUMBER 2007-005

Material Weakness - Financial Reporting

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments:

1. Tangible personal property tax reimbursements and local government monies in the General fund, \$1,903, were recorded as property tax instead of intergovernmental revenues.
2. Two loans of \$4,650 and \$4,200 were entered into by the Village in order to purchase to purchase real estate and dump truck. These loans were not recorded in the Village's financial statements as loan proceeds and capital outlay in the General, Street Construction, Maintenance and Repair and State Highway Improvement funds. The Village also utilized an additional \$4,500 from a line of credit obtained through a local bank. This transaction was recorded as miscellaneous revenues instead of loan proceeds.
3. The Village maintains money in various bank accounts for the Baseball Association and Playground Equipment funds which are not included in the cashbook balances or reported on the Village's annual report. The activity in these accounts was adjusted onto the financial statements.

Sound financial reporting is the responsibility of the fiscal officer and the governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Clerk/Treasurer and the audit committee, to identify and correct errors and omissions. In addition, the Clerk/Treasurer should also review the Uniform Accounting Network's chart of accounts to ensure that all accounts are being properly posted to the financial statements.

Officials Response:

We received no response from Official's to the above findings.

**VILLAGE OF MELROSE
PAULDING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code § 5705.41(D)(1) Certification of funds	No	Not Corrected. This finding is repeated in this report as finding number 2007-001.
2005-002	Ohio Revised Code § 5705.41(B) Expenditures in excess of appropriations	No	Not Corrected. This finding was combined with Ohio Revised Code § 5705.38(A) and repeated in this report as finding number 2007-002.
2005-003	Ohio Revised Code § 5705.36(A) (2), (4) appropriations in excess of total estimated resources.	N/A	Since the Village did not approve any appropriations this citation would not apply.
2005-004	Ohio Revised Code § 5705.36 (A) (1) Fiscal Officer certification of total amount from all sources available for expenditures from each fund.	No	Not Corrected. This finding was issued as a management letter citation.
2005-005	Ohio Revised Code § 5705.38(A). Passage of annual appropriation resolution.	No	Not Corrected. This finding was combined with Ohio Revised Code 5705.41(B) and repeated in this report as finding number 2007-002.
2005-006	Ohio Revised Code §5705.10. Property Taxes due to Emergency Medical Services Fund and Fire Fund recorded in General Fund.	No	Not Corrected. This finding was included in this report as part of finding number 2007-003.
2005-007	Ohio Revised Code §5705.10, § 5735.27 and §4501.04 Miss allocation of gasoline excise tax and motor vehicle tax fees.	No	Not Corrected. This finding was included in this report as part of finding number 2007-003.
2005-008	<u>Accounts Not Included on Village Books</u> Ball Association and Playground Equipment Fund not on Village books.	No	Not Corrected. This finding is repeated in this report as part of finding number 2007-005.



Mary Taylor, CPA
Auditor of State

VILLAGE OF MELROSE

PAULDING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 19, 2008**