



**Mary Taylor, CPA**  
Auditor of State



VILLAGE OF MELROSE  
PAULDING COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter .....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2008.....	6
Notes to the Financial Statements .....	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	15
Schedule of Findings .....	17
Schedule of Prior Audit Findings .....	19

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Mary Taylor, CPA  
Auditor of State

Village of Melrose  
Paulding County  
705 State Street  
PO 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.

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

May 27, 2010

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Melrose, Paulding County, (the Village) as of and for the years ended December 31, 2009 and 2008. 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. The Auditor of State served during the years ended December 31, 2009 and 2008 as the Village's financial supervisor under Ohio Rev. Code §118.05 (G). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to the audit the Village because the Auditor of State may assume broad management powers, duties and functions under Ohio Rev. Code. §118.04. 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 § 118.05 (G) requires the Auditor of State to provide these supervisory 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, 2009 and 2008 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, 2009 and 2008, 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 Melrose, Paulding County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Government has not fully paid the Auditor of State for services provided more than one year prior to our opinion date. AICPA Code of Professional Conduct, ET Section 191 considers this circumstance to impair an auditor's independence. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity because Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. Ohio Revised Code § 117.13 also includes provisions to collect unpaid audit fees including negotiating a schedule for payment of the amount due, seeking payment through the office of budget and management or through the county auditor of the county in which the local public office is located.

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 27, 2010, 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 27, 2010

**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, 2009**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$10,109	\$7,140		\$17,249
Intergovernmental	13,891	17,127	\$16,789	47,807
Special Assessments		6,222		6,222
Miscellaneous	430	25		455
Total Cash Receipts	<u>24,430</u>	<u>30,514</u>	<u>16,789</u>	<u>71,733</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	384	20,444		20,828
Public Health Services	100			100
Transportation		6,001		6,001
General Government	16,960	371		17,331
Debt Service:				
Redemption of Principal	2,174			2,174
Interest and Fiscal Charges		3,300		3,300
Capital Outlay		6,397	16,789	23,186
Total Cash Disbursements	<u>19,618</u>	<u>36,513</u>	<u>\$16,789</u>	<u>72,920</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>4,812</u>	<u>(5,999)</u>		<u>(1,187)</u>
<b>Other Financing Receipts:</b>				
Sale of Fixed Assets	30	6,651		6,681
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	4,842	652		5,494
Fund Cash Balances, January 1	<u>(12,891)</u>	<u>36,276</u>		<u>23,385</u>
<b>Fund Cash Balances, December 31</b>	<b><u>(\$8,049)</u></b>	<b><u>\$36,928</u></b>		<b><u>\$28,879</u></b>
Reserve for Encumbrances, December 31	<u>\$152</u>			<u>\$152</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, 2008**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Local Taxes	\$10,815	\$6,988	\$17,803
Intergovernmental	13,673	11,447	25,120
Special Assessments		5,913	5,913
Charges for Services	11		11
Fines, Licenses and Permits	710		710
Miscellaneous	1,729	1,000	2,729
	<u>26,938</u>	<u>25,348</u>	<u>52,286</u>
<b>Total Cash Receipts</b>			
	<u>26,938</u>	<u>25,348</u>	<u>52,286</u>
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	2,746	11,027	13,773
Public Health Services	134		134
Transportation		4,456	4,456
General Government	17,422	1,246	18,668
Debt Service:			
Redemption of Principal	2,289		2,289
Interest and Fiscal Charges	624	1,800	2,424
	<u>23,215</u>	<u>18,529</u>	<u>41,744</u>
<b>Total Cash Disbursements</b>			
	<u>23,215</u>	<u>18,529</u>	<u>41,744</u>
<b>Total Cash Receipts Over Cash Disbursements</b>	<u>3,723</u>	<u>6,819</u>	<u>10,542</u>
Fund Cash Balances, January 1	(16,614)	29,457	12,843
<b>Fund Cash Balances, December 31</b>	<u><b>(\$12,891)</b></u>	<u><b>\$36,276</b></u>	<u><b>\$23,385</b></u>
Reserve for Encumbrances, December 31	<u>\$175</u>	<u>\$10</u>	<u>\$185</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, 2009 AND 2008**

**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 Melrose, Paulding County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides sewer utilities and park operations. The Village contracts with the Village of Oakwood to provide fire protection and emergency medical services.

The Village participates in the Public Entities Pool of Ohio, a public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

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. Deposits and Investments**

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

**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 private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

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) Fund – This fund receives local tax revenue for the purpose of providing EMS services.

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.

Street Lighting Assignment Fund – This fund receives special assessments on residents of the Village for the cost of street lights.

**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:

Street Improvement Fund – This fund receives proceeds from Paulding County and Community Development Block Grant (CDBG) for the repair of a village street.

**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 Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over and need not be reappropriated.

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

A summary of 2009 and 2008 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 Change**

The Village cancelled a check issued in December 2007 to the Village of Oakwood for emergency medical and fire services. The amount of the issued check was added back to the beginning balances of the respective funds. This change had the following effect on the January 1, 2008 Special Revenue Fund balances:

	Special Revenue Funds
Cash Fund balance as previously reported, December 31, 2007	\$23,319
Amounts added back to the Funds for voided and reissued check	6,138
Cash Fund balance, as restated at January 1, 2008	\$29,457

**3. Equity in Pooled Deposits**

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

	2009	2008
Demand deposits	\$28,879	\$23,385

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

**4. Budgetary Activity**

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**4. Budgetary Activity (Continued)**

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$25,220	\$24,460	(\$760)
Special Revenue	47,300	37,165	(10,135)
Capital Projects	16,789	16,789	
Total	<u>\$89,309</u>	<u>\$78,414</u>	<u>(\$10,895)</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$20,400	\$19,770	\$630
Special Revenue	54,518	36,513	18,005
Capital Projects	16,789	16,789	
Total	<u>\$91,707</u>	<u>\$73,072</u>	<u>\$18,635</u>

2008 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,349	\$26,938	\$589
Special Revenue	25,990	25,348	(642)
Total	<u>\$52,339</u>	<u>\$52,286</u>	<u>(\$53)</u>

2008 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$27,090	\$23,390	\$3,700
Special Revenue	31,318	18,539	12,779
Total	<u>\$58,408</u>	<u>\$41,929</u>	<u>\$16,479</u>

Contrary to the Ohio law, assessments received for street lighting, permissive tax monies and Community Development Block Grant monies were paid into incorrect special funds and certain expenditures not related to streets were paid from the Street Construction Maintenance and Repair fund.

**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

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**5. Property Tax (Continued)**

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, 2009 was as follows:

Line of Credit	<u>Principal</u>	<u>Interest Rate</u>
	<u>\$5,604</u>	<u>4.95%</u>

The Village of Melrose 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 4.95%. 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.

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 28.99% would be charged on the unpaid balance of the credit card account. The Village remitted payments at various dates throughout the audit period. As a result the Village credit card balance Yard Card Plus was \$15,190 as of December 31, 2009.

The Village retired two loans with a local bank. The first loan was used to purchase land. It was retired in 2008. The second loan was used to purchase playground equipment for a park. It was retired in 2009.

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

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

Year ending December 31:	Line of Credit Loan
2010	\$1,964
2011	1,964
2012	1,964
2013	164
Total	\$6,055

**7. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008 OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2009.

**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, 2009, all Council members have elected Social Security. Council's liability is 7.5 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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 and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2008, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**8. Risk Management (Continued)**

The aforementioned casualty and property reinsurance agreement does 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, 2008 and 2007 (the latest information available):

	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	(15,310,206)	(17,340,825)
Net Assets	<u>\$20,459,329</u>	<u>\$20,219,246</u>

At December 31, 2008 and 2007, respectively, the liabilities above include approximately \$13.8 million and \$15.9 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008, and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$4,000.

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.

<u>Contributions to PEP</u>	
2008	\$4,090
2009	\$4,385

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. 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.

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2009 AND 2008  
(Continued)**

**9. FISCAL EMERGENCY**

On December 17, 2008, the Auditor of State declared the Village of Melrose to be in a state of fiscal emergency in accordance with Section 118.03 of the Ohio Revised Code. The declaration resulted in the establishment of a financial planning and supervision commission. The Commission is comprised of a representative of the Office of Budget and Management, a representative of the Treasurer of State, the president of Village council, and three individuals appointed by the Governor who are residents of the Village and meet certain criteria.

In accordance with Section 118.06 of the Ohio Revised Code, the Village is required to submit to the Commission a financial recovery plan for the Village which outlines the measures to be taken to eliminate the fiscal emergency conditions. The Village adopted its initial financial recovery plan on June 15, 2009. This plan was subsequently updated on July 20, 2009.

The more significant steps taken by the Village to alleviate the fiscal emergency conditions include approving 1 percent income tax, and selling equipment (mower tractor, van and coins) to use the proceeds to settle a debt obligation on the mower tractor of \$15,190. This settlement was finalized January 25, 2010. As of December 31, 2009, the Village was still in fiscal emergency and has not determined when this situation will be resolved.

For 2008 and 2009, the Village was able to prepare a budget in which current year expenditures were within current year revenues; however, a number of funds continue to carry deficit fund balances due to carryover deficits.



**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, 2009 and 2008, and have issued our report thereon dated May 27, 2010 wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America and that the Village is in arrears for audit services billed for prior years' services. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions and the Village was placed into fiscal emergency and the AOS served as the Village's financial supervisor. *Government Auditing Standards* considers these services to impair the Auditor of State's independence to audit the Village; however, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 through 2009-003 described in the accompanying schedule of findings to be material weaknesses.

### **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 no instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 and 2009-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated May 27, 2010.

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



**Mary Taylor, CPA**  
Auditor of State

May 27, 2010

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2009 AND 2008**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2009-001**

**Material Noncompliance – 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 following monies were paid into incorrect funds:

1. In 2008 assessments received from Paulding County for street lighting in the amount of \$2,580 were paid into the Emergency Medical Services Fund instead of the Street Lighting Assignment Fund.
2. In 2009 Permissive Tax monies received from Paulding County in the amount of \$6,396 were paid into the Street Construction Maintenance and Repair Fund instead of the Permissive Tax Fund.
3. In 2009 Community Development Block Grant monies received on behalf of the Village in the amount of \$16,789 were paid into the Street Construction Maintenance and Repair Fund instead of the Capital Projects Fund.

Adjustments were recorded to the Village's financial statements and accounting records to reflect these changes.

We recommend the Village fiscal officer review the supporting documentation that is received with payments to verify that the amounts are paid into the proper funds

**FINDING NUMBER 2009-002**

**Material Noncompliance – 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.

In 2008 expenditures for architectural drawings for a new Council building (\$1,906) and insurance for law enforcement (\$411) were paid from the Street Construction Maintenance and Repair Fund instead of being paid from the General Fund.

Adjustments were recorded to the Village's financial statements and accounting records to reflect these changes.

Also the following negative fund balances existed at December 31, 2009 and 2008:

Fund balances	<u>December 31, 2009</u>	<u>December 31, 2008</u>
General Fund	(\$8,049)	(\$12,891)
Special Revenue Funds:		
State Highway Improvements Fund	(6,830)	(5,845)

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

**FINDING NUMBER 2009-003**

**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. In 2008 principal amounts paid from the General Fund in the amount of \$2,289 toward the loan from State Bank and Trust Company were posted as “Interest and other fiscal charges”.
2. In 2009 interest and other fiscal charges paid from the General Fund in the amount of \$2,700 toward the tractor loan was posted as “Principal” payments.

The accompanying financial statements have been adjusted to correct these errors.

Sound financial reporting is the responsibility of the financial 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 Finance Officer and the audit committee, to identify and correct errors and omissions. In addition, the Finance Officer 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 did not receive a response from Officials to the findings reported above.

**VILLAGE OF MELROSE  
PAULDING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2009 AND 2008**

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>
2007-001	Ohio Revised Code § 5705.41(B), Expenditures greater than appropriations	No	Partially corrected, reissued in the Management Letter
2007-002	Ohio Revised Code § 5705.38(A), Appropriations were not passed	Yes	Corrected
2007-003	Ohio Revised Code §5705.10 (D), restricted funds posted to wrong funds	No	Not Corrected. Reissued as Finding 2009-001 in this report.
2007-004	Ohio Revised Code §5705.10 (H), negative fund balances	No	Not Corrected. Reissued as Finding 2009-002 in this report.
2007-005	Material Weakness- Financial Reporting, incorrect fund postings	No	Not Corrected. Reissued as Finding 2009-003 in this report.





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  
JULY 1, 2010