



Mary Taylor, CPA
Auditor of State

VILLAGE OF LUDLOW FALLS
MIAMI COUNTY

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Mary Taylor, CPA
Auditor of State

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

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 Village 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.

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Mary Taylor, CPA
Auditor of State

October 29, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Ludlow Falls, Miami County, (the Village) as of and for the years ended December 31, 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. 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 Ludlow Falls, Miami 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 October 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.

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

Mary Taylor, CPA
Auditor of State

October 29, 2008

**VILLAGE OF LUDLOW FALLS
MIAMI COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$6,947		\$6,947
Intergovernmental	18,560	\$12,467	31,027
Special Assessments		4,604	4,604
Charges for Services	1,108		1,108
Earnings on Investments	1,133		1,133
Miscellaneous	735		735
Total Cash Receipts	<u>28,483</u>	<u>17,071</u>	<u>45,554</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	3,198		3,198
Leisure Time Activities		158	158
Basic Utility Service	625	3,985	4,610
Transportation		2,029	2,029
General Government	10,534	240	10,774
Total Cash Disbursements	<u>14,357</u>	<u>6,412</u>	<u>20,769</u>
Other Financing Receipts / (Disbursements):			
Other Financing Sources	<u>500</u>		<u>500</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	14,626	10,659	25,285
Fund Cash Balances, January 1	<u>23,878</u>	<u>23,485</u>	<u>47,363</u>
Fund Cash Balances, December 31	<u><u>\$38,504</u></u>	<u><u>\$34,144</u></u>	<u><u>\$72,648</u></u>

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

**VILLAGE OF LUDLOW FALLS
MIAMI COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$7,027		\$7,027
Intergovernmental	18,462	\$12,745	31,207
Special Assessments		4,341	4,341
Charges for Services	896		896
Earnings on Investments	1,495		1,495
Miscellaneous	870		870
Total Cash Receipts	<u>28,750</u>	<u>17,086</u>	<u>45,836</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	2,650		2,650
Public Health Services	756		756
Leisure Time Activities		130	130
Basic Utility Service	427	3,986	4,413
Transportation	32,375	19,475	51,850
General Government	14,664	220	14,884
Total Cash Disbursements	<u>50,872</u>	<u>23,811</u>	<u>74,683</u>
Total Receipts Over/(Under) Disbursements	<u>(22,122)</u>	<u>(6,725)</u>	<u>(28,847)</u>
Fund Cash Balances, January 1	<u>46,000</u>	<u>30,210</u>	<u>76,210</u>
Fund Cash Balances, December 31	<u><u>\$23,878</u></u>	<u><u>\$23,485</u></u>	<u><u>\$47,363</u></u>

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

**VILLAGE OF LUDLOW FALLS
MIAMI COUNTY**

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

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 Ludlow Falls, Miami County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services. The Village contracts with Ludlow Falls Volunteer Fire Department to receive fire protection services.

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. Cash 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.

The Village values certificates of deposit at cost. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

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:

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

State Highway Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF LUDLOW FALLS
MIAMI COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Street Lighting Fund – This fund receives special assessments from the County Auditor to be used to pay for street lighting in the Village.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or 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.

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. The Village did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

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:

	<u>2007</u>	<u>2006</u>
Demand deposits	\$38,062	\$13,849
Certificates of deposit	16,433	16,252
Total deposits	<u>54,495</u>	<u>30,101</u>
STAR Ohio	18,153	17,262
Total deposits and investments	<u>\$72,648</u>	<u>\$47,363</u>

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

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

**VILLAGE OF LUDLOW FALLS
MIAMI COUNTY**

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

3. 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	\$28,967	\$28,983	\$16
Special Revenue	17,181	17,071	(110)
Total	\$46,148	\$46,054	(\$94)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$46,061	\$14,357	\$31,704
Special Revenue	37,390	6,412	30,978
Total	\$83,451	\$20,769	\$62,682

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$28,921	\$28,750	(\$171)
Special Revenue	16,930	17,086	156
Total	\$45,851	\$45,836	(\$15)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$81,722	\$50,872	\$30,850
Special Revenue	37,289	23,811	13,478
Total	\$119,011	\$74,683	\$44,328

Contrary to Ohio law, budgetary appropriations exceeded estimated resources in the General Fund by \$6,801 for the year ended December 31, 2006. Also contrary to Ohio law, funds were not properly certified as available in 2007 or 2006. Also, the Village did file or publish its annual reports as required.

4. 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.

**VILLAGE OF LUDLOW FALLS
MIAMI COUNTY**

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

4. PROPERTY TAX (Continued)

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. SOCIAL SECURITY

All Village officials contribute to Social Security.

For 2007 and 2006, members of the Social Security System contributed 6.2% of their gross salaries. The Village contributed an amount equal to 6.2% of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

6. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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



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 Ludlow Falls
Miami County
P.O. Box 159
Ludlow Falls, Ohio 45339

To the Village Council:

We have audited the financial statements of the Village of Ludlow Falls, Miami County, (the Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated October 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: 2007-001 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.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings number 2007-001 through 2007-004 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated October 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 or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-006 through 2007-008.

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

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



Mary Taylor, CPA
Auditor of State

October 29, 2008

**VILLAGE OF LUDLOW FALLS
MIAMI COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness - Bank Reconciliations

The Village prepared bank reconciliations each month during 2006 and 2007 in which the cash journal was reconciled to the bank balances. The following problems were noted with the Village's monthly bank reconciliations:

- The Village did not have any documentation to support the certificate of deposit balance shown on the monthly reconciliations. At year-end 2006 and 2007, the certificate of deposit balance was understated on the monthly reconciliation by approximately \$249.
- The fund cash balance according to the December 2006 and 2007 bank reconciliations did not agree to the fund cash balance according to the annual financial reports provided for 2006 and 2007.
- The outstanding check list included on the monthly bank reconciliations did not list check numbers for the outstanding checks; only individual check amounts were shown.

Failure to prepare accurate and complete bank reconciliations and to determine that the fund cash balance according to the bank reconciliations agree to the annual reports could lead to errors or fraud occurring and not being detected in a timely manner.

The Village should adopt and implement controls to prepare accurate and complete bank reconciliations that agree to the monthly cash journal and year-end annual financial reports. The certificate of deposit balance should be supported by information provided from the bank showing the value of the certificate at the certificate purchase date.

FINDING NUMBER 2007-002

Material Weakness – Financial Records and Reports

The Village tracked fund cash balances in a manual cash journal. Transactions from the cash journal were manually posted to the appropriation ledger or revenue ledger based on the transaction type. The appropriation ledger and revenue ledger were then used to create annual reports that were provided for audit. The following errors led to deficient annual reports:

- Prior period fund balance audit adjustments were not posted to the cash journal or appropriation/revenue ledger in the amounts of \$645 in the general fund and \$396 in the special revenue funds.
- Beginning or ending fund cash balances were not entered to the annual reports for 2006 and 2007. Fund cash balances shown on the year-end cash reconciliations did not agree to the fund cash balances on the annual reports if beginning and ending balances had been inserted to the annual reports. The variances in the reconciliations were \$249 in both 2007 and 2006.
- Transactions that were entered to the cash journal were not always correctly posted, or posted at all to the appropriation/revenue ledger.
- The individual revenue/appropriation ledger accounts were not in agreement for all accounts with the amounts shown on the annual reports.

Failure to post fund balance audit adjustments and all cash transactions to the cash journal and financial ledgers and reconcile these reports to the annual report and cash reconciliation could lead to problems in creating an accurate annual financial report. This, in turn, could lead to the readers of the financial statements being misled and Council not being able to make informed decisions.

**FINDING NUMBER 2007-002
(Continued)**

The Village should verify that all fund balance audit adjustments and cash transactions for a particular year are entered to the cash journal and appropriation/revenue ledger. The appropriation/revenue ledger can then be relied upon to create the annual report. The annual report should be complete and fund balances shown on the annual report should agree to the cash journal and year-end bank reconciliation.

FINDING NUMBER 2007-003

Material Weakness – Village Council Monitoring of Financial Activity

The Village Council was provided a monthly Statement of Balances by Fund at each Council meeting. This was a manual report that included beginning fund balance, receipts, expenditures, and ending fund balance for each fund. Council did not, however, review budget versus actual information, bank reconciliations, or bank statements.

Failure to review and approve such financial activity on a monthly basis could lead to errors or fraud occurring and not being detected in a timely manner.

The Village Council should review budget versus actual information on a monthly basis as this would serve as an important monitoring tool in detecting and preventing fraud and/or error. The Village Council should also review monthly bank reconciliations and bank statements to determine if the financial records are reconciled to the bank. The review and approval of this information should be documented in the Council minutes.

FINDING NUMBER 2007-004

Material Weakness - Posting of Receipts and Disbursements

The proper classification of receipts and disbursements are essential for the annual financial reports to accurately reflect the financial activity of the Village. During testing the following receipt and disbursement posting errors were noted:

- Tax Settlements from the Miami County Auditor were posted at net rather than gross on several occasions thus resulting in the General Fund General Government expenses for Auditor and Treasurer Fees for 2006 and 2007 being understated by \$87 and \$61, respectively.
- Auditor and Treasurer Fees, in the amount of \$134, relating to the 2006 Special Revenue Fund Special Assessment receipts, from the Miami County Auditor, were not posted.
- Homestead and Rollback, Personal Property Reimbursement and Public Utility Gas and Electric Reimbursement monies were posted as Property Tax receipts in 2006 and 2007, in the amounts of \$1,169 and \$1,309, respectively, rather than Intergovernmental receipts.
- Mobile Home Tax, in the amount of \$12, was posted as a Miscellaneous receipt in 2006 and posted as an Intergovernmental receipt, in the amount of \$16, in 2007.
- Franchise Fees from Time Warner Cable for 2006 and 2007, in the amounts of \$896 and \$1,108, respectively, were incorrectly posted as Charges for Service instead of Fines, Licenses and Permits.
- Excess IRP Compensation receipts for 2006 and 2007, in the amounts of \$33 and \$24, respectively, were incorrectly posted as Property Taxes in the General Fund instead of Intergovernmental receipts in the Street Fund and State Highway Fund.
- Miami County Municipal Court fines for 2007, in the amount of \$735, were incorrectly posted as Miscellaneous receipts instead of Fines, Licenses and Permits.

The Village should perform necessary procedures to properly code and post receipts and expenditures so that all Village activity is properly reflected on its records and annual financial statements.

FINDING NUMBER 2007-005

Significant Deficiency – Earnings on Investment

During 2006 and 2007 the Village posted all earnings on investment to the General Fund and did not distribute any earnings to the Street Fund or the State Highway Fund. The following unadjusted errors were noted:

- For 2006, the General Fund earnings on investments was overstated by \$698 and the Street Fund and State Highway Fund earnings on investment were understated by \$342 and \$356, respectively.
- For 2007, the General Fund earnings on investments was overstated by \$509 and the Street Fund and State Highway Funds earnings on investment were understated by \$320 and \$189, respectively.

Failure to credit interest earned to the appropriate funds could lead to the Village's individual fund balances being misstated.

The Village should distribute interest earned to the Street Fund and State Highway Fund based on the funds' balances at the end of each month. The section of code requiring interest to be allocated to the above funds is cited in a separate letter to management as noncompliance finding number 3.

FINDING NUMBER 2007-006

Non-Compliance

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

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

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

Amounts of less than \$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 not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account over a period not running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

FINDING NUMBER 2007-006
Non-Compliance
(Continued)

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

The Village did not properly certify the availability of funds prior to purchase commitment for 100% of expenditures tested in 2007 and 93% of the expenditures tested in 2006, and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds could result in overspending and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Village's Fiscal Officer certify that the funds are available prior to the obligation being incurred 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 2007-007

Non-Compliance

Ohio Rev. Code Section 117.38 states, in part, that each public office shall file a financial report for each fiscal year with the Auditor of State (AOS) within 60 days of the fiscal year end. The Auditor of State may prescribe by rule or guidelines the forms for these reports. Any public office not filing the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled after the filing date, not to exceed seven hundred fifty dollars. Also, the public office must publish notice in local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer.

The Village did not file the 2006 and 2007 annual reports with the Auditor of State. The Village paid a \$750 fine to the Auditor of State in October 2007 for not filing the 2006 annual report. The Village also did not publish notice in the local newspaper that the financial reports were available for public inspection for 2006 or 2007.

The Village should adopt appropriate procedures and practices to comply with these requirements so the Village does not incur unnecessary fines and so the public is aware that the annual report is available for review.

FINDING NUMBER 2007-008

Non-Compliance

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund shall not exceed the total estimated resources for that respective fund. Further, no appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The following funds had appropriations in excess of estimated resources at December 31, 2006 and 2007:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<u>2006</u>			
General Fund	74,921	81,722	(6,801)
<u>2007</u>			
State Highway Fund	11,677	11,760	(83)

The Village should develop and implement procedures to properly monitor its budgetary expectations relating to appropriations and available resources. This would enable the Village to comply with budgetary requirements while limiting the risk of spending more than is available. When additional money becomes available, the Village should amend its certificate and appropriations accordingly if the money is intended to be spent.

VILLAGE OF LUDLOW FALLS
MIAMI 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; Explain
2005-001	Ohio Rev. Code Section 5705.41(D) failure to certify funds.	No	Not corrected; reissued as finding Number 2007-006.



Mary Taylor, CPA
Auditor of State

VILLAGE OF LUDLOW FALLS

MIAMI COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 11, 2008**