



Mary Taylor, CPA
Auditor of State

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2004	3
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type For the Year Ended December 31, 2004	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2003	5
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type For the Year Ended December 31, 2003	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings.....	39

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lakemore
Summit County
P.O. Box 455
1400 Main Street
Lakemore, Ohio 44250-0455

To the Village Council:

We have selectively tested certain accounts, financial records, files, and reports of the Village of Lakemore, Summit County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003 following Ohio Admin. Code Section 117-4-02.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 21, 2007

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**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

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

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Taxes	\$97,607	\$9,715			\$107,322
Income Taxes	437,019			\$230,442	667,461
Intergovernmental Receipts	378,264	86,624			464,888
Charges for Services	146,413	125,656			272,069
Fines, Licenses, and Permits	46,704	4,010			50,714
Earnings on Investments	18,865	126			18,991
Miscellaneous	7,014				7,014
Total Cash Receipts	<u>1,131,886</u>	<u>226,131</u>		<u>230,442</u>	<u>1,588,459</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	602,013	62,604			664,617
Public Health Services		218,044			218,044
Leisure Time Activities	19,614				19,614
Transportation	95,480	107,444			202,924
General Government	811,195			6,537	817,732
Capital Outlay				33,517	33,517
Debt Service:					
Interest Payments			\$32,615		32,615
Total Cash Disbursements	<u>1,528,302</u>	<u>388,092</u>	<u>32,615</u>	<u>40,054</u>	<u>1,989,063</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements	(396,416)	(161,961)	(32,615)	190,388	(400,604)
Fund Cash Balance (Deficit), January 1	468,663	508,493	(26,744)	410,416	1,360,828
Fund Cash Balance (Deficit), December 31	<u>\$72,247</u>	<u>\$346,532</u>	<u>(\$59,359)</u>	<u>\$600,804</u>	<u>\$960,224</u>

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

VILLAGE OF LAKEMORE
SUMMIT COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004
(UNAUDITED)

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$700,578
Operating Cash Disbursements:	
Personal Services	105,863
Fringe Benefits	14,521
Contractual Services	554,913
Supplies and Materials	18,298
Miscellaneous	12
	<u>693,607</u>
Total Operating Cash Disbursements	<u>693,607</u>
Operating Income	<u>6,971</u>
Fund Cash Balance, January 1	<u>531,627</u>
Fund Cash Balance, December 31	<u><u>\$538,598</u></u>

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

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

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Taxes	\$89,643	\$9,053			\$98,696
Income Taxes	427,027			\$238,545	665,572
Intergovernmental Receipts	373,223	193,996			567,219
Charges for Services	54,807	80,603			135,410
Fines, Licenses, and Permits	33,446	1,467			34,913
Earnings on Investments	17,181	101			17,282
Miscellaneous	13,550				13,550
	<u>1,008,877</u>	<u>285,220</u>		<u>238,545</u>	<u>1,532,642</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
Security of Persons and Property	649,734	148			649,882
Public Health Services	10,128	100,303			110,431
Leisure Time Activities	41,784				41,784
Transportation	75,542	83,848			159,390
General Government	334,583			9,223	343,806
Capital Outlay				40,716	40,716
Debt Service:					
Principal Payments			\$44,803		44,803
Interest Payments			20,426		20,426
	<u>1,111,771</u>	<u>184,299</u>	<u>65,229</u>	<u>49,939</u>	<u>1,411,238</u>
Total Cash Disbursements					
Excess of Cash Receipts Over/(Under) Cash Disbursements	(102,894)	100,921	(65,229)	188,606	121,404
Fund Cash Balance, January 1	571,557	407,572	38,485	221,810	1,239,424
Fund Cash Balance (Deficit), December 31	<u>\$468,663</u>	<u>\$508,493</u>	<u>(\$26,744)</u>	<u>\$410,416</u>	<u>\$1,360,828</u>

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

VILLAGE OF LAKEMORE
SUMMIT COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$663,837
Operating Cash Disbursements:	
Personal Services	172,071
Fringe Benefits	23,332
Contractual Services	507,790
Supplies and Materials	67,298
Miscellaneous	<u>500</u>
Total Operating Cash Disbursements	<u>770,991</u>
Operating Loss	<u>(107,154)</u>
Fund Cash Balance, January 1	<u>638,781</u>
Fund Cash Balance, December 31	<u><u>\$531,627</u></u>

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
Unaudited**

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 Lakemore, Summit County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water, sewer, and trash collection utilities, park operations, police and emergency medical services. The Village appropriates general fund money to support a volunteer fire department.

B. Basis of Accounting

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. This basis 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

The Village invests in an overnight repurchase agreement through a local bank. The investments in the repurchase agreement are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
Unaudited
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

2. Special Revenue Funds – (Continued)

EMS Ambulance Fund – This fund receives grants and charges for services revenue to provide emergency medical service to Village residents.

Community Development Block Grant – This fund receives grant monies through Summit County for various projects that primarily benefit lower income areas of the Village.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

Police Facility Note – This fund receives local government monies, from the General Fund, to repay the note debt.

4. Capital Project Funds

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

Capital Improvement Fund - This fund receives a portion of the Village income tax and proceeds of debt issuance to construct various facilities and infrastructure in the Village.

5. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

Trash Fund - This fund receives charges for services from residents to cover trash collection service costs.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
Unaudited
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. Budgetary Process

The Ohio Revised Code requires each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the legal level of control adopted by Council and appropriations may not exceed estimated resources. 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. During 2004 and 2003, Council did not approve permanent appropriation resolutions.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not use the encumbrance method of accounting.

A summary of 2004 and 2003 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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
Unaudited
(Continued)**

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:

	2004	2003
Demand deposits	(\$141,178)	(\$12,545)
Repurchase agreement	1,640,000	1,905,000
Total deposits and investments	\$1,498,822	\$1,892,455

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments: The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

3. BUDGETARY ACTIVITY AND NONCOMPLIANCE

The Village did not maintain accounting records of budgetary activity, nor did they comply with other laws which the Village deems material. As a result, the following noncompliance citations have been issued:

- Contrary to Ohio Rev. Code Section 149.351, the Village was unable to provide certain records during the audit because they had been lost or destroyed.
- Contrary to C.F.R. Section 1.6041-1, the Village failed to file required internal revenue service forms for 2004 and 2003.
- Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify any expenditure prior to the financial obligation.
- Contrary to Ohio Rev. Code Section 5705.28, the Village did not adopt an annual tax budget for the years 2004 and 2003.
- Contrary to Ohio Rev. Code Section 5705.34, the Village did not pass a resolution authorizing the necessary tax levies and to certify the levies to the County Fiscal Officer for the year 2003.
- Contrary to Ohio Rev. Code Section 5705.36(A)(1), the Village did not certify to the County Fiscal Officer the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year for the years 2004 and 2003.
- Contrary to Ohio Rev. Code Section 5705.38, the Village did not adopt a permanent appropriation measure for the years 2004 and 2003. As a result, expenditures of \$2,682,670 and \$2,182,229 for the years 2004 and 2003, respectively, were never appropriated.
- Contrary to Ohio Rev. Code Section 5705.10, the Village had negative fund balances at both December 31, 2004 and 2003.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
Unaudited
(Continued)**

3. BUDGETARY ACTIVITY AND NONCOMPLIANCE – (Continued)

- Contrary to Ohio Rev. Code Section 733.28B and Ohio Admin. Code Sections 117-2-02(A), (D) and 117-9-01, the Village did not maintain accurate records.
- Contrary to Ohio Rev. Code Section 135.14(O)(1), the Village did not file their investment policy with Auditor of State and they did not have their financial institution sign the policy to indicate their adherence to the policy.
- Contrary to Ohio Rev. Code Section 135.22, the Clerk-Treasurer did not attend any investment training even though the Village invested in repurchase agreements.
- Contrary to Ohio Rev. Code Section 9.38, the Village did not deposit all receipts timely to either the Clerk-Treasurer or the designated depository.
- Contrary to Ohio Rev. Code Section 5705.09, the Village has not established a Permissive Motor Vehicle License Fund on their books, and as a result, have not posted the Motor Vehicle License Fund revenue to the fund.
- Contrary to Ohio Rev. Code Section 117.38, the Village did not file their annual report within 60 days of year end and did not publish a notice that the annual report was available for review for 2004 and 2003.
- Contrary to Ohio Rev. Code Section 731.17(A), the Village Council did not have three readings before passing ordinances.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 2 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. Residents of the Village are granted 100 percent credit for taxes paid to other municipalities. Income taxes are collected by the Regional Income Tax Agency (RITA).

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
Unaudited
(Continued)**

5. LOCAL INCOME TAX – (Continued)

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
General Obligation Loan	\$355,327	5.5%
Capital Lease	13,362	5.9%
Total	\$368,689	

The General Obligation Loan relates to a bank loan obtained to construct a police facility. The original amount of this loan was \$500,000. The loan will be repaid in semiannual installments of \$32,615 including interest, over 10 years. The General Obligation Loan is collateralized by the Village's taxing authority.

The Capital Lease relates to the purchase of police radio equipment. The original amount of the capital lease was \$55,969. The capital lease had a \$30,000 down payment and will be repaid in annual installments of \$14,162 including interest over 2 years. The capital lease is collateralized by the related equipment.

Amortization of the above debt, including interest, follows:

Year ending December 31:	Loan	Capital Lease
2005	\$65,230	\$14,162
2006	65,230	
2007	65,230	
2008	65,230	
2009	65,230	
2010-2011	97,845	
Total	\$423,995	\$14,162

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
Unaudited
(Continued)**

7. RETIREMENT SYSTEMS – (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

8. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 of casualty losses and the lesser of 5% or \$50,000 of property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Assets	\$6,685,522	\$5,402,167
Liabilities	<u>2,227,808</u>	<u>1,871,123</u>
Members' Equity	<u>\$4,457,714</u>	<u>\$3,531,044</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

9. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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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

Village of Lakemore
Summit County
P.O. Box 455
1400 Main Street
Lakemore, Ohio 44250-0455

To the Village Council:

We have selectively tested certain accounts, financial records, files, and reports of the Village of Lakemore, Summit County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003, following Ohio Admin. Code Section 117-4-02. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinion on these matters.

Internal Control Over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the Schedule of Findings as items 2004-001 through 2004-013.

Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contract, and grant agreements, applicable to the Village. Noncompliance with these requirements could impact the Village's ability to determine financial statement amounts. The results of our tests disclosed instances of noncompliance or other matters that are reported in the accompanying Schedule of Findings as items 2004-014 through 2004-028.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 21, 2007

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**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2004-001

Cash Reconciliation

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records.

For each month of 2004 and 2003, the Village did not resolve various differences between the bank balance and the balance reflected within the Village's accounting records. Since the Village did not provide reconciled financial statements or evidence to support the material reconciling items, the Village was declared unauditible by the Auditor of State on September 30, 2005. Subsequently, the Village contracted with Local Government Services (LGS), a division of the Auditor of State's Office to reconstruct the Village's bank to book reconciliations for 2004 and 2003 and to adjust the Village's financial statements and underlying accounting records as deemed necessary. *Government Auditing Standards* considers these services to impair the independence of the Auditor of State to audit the Village because the Auditor of State (LGS) is performing management functions and making management decisions. Consequently, our lack of independence prohibited us to express an opinion on the financial statements. In addition, lack of certain financial documents and ledgers precluded us from performing an audit in accordance with *Government Auditing Standards* and also prohibited us to express an opinion on the financial statements.

Without complete and accurate monthly bank reconciliations, the Village's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by management.

The Village should perform complete monthly bank reconciliations in a timely manner. A copy of the monthly bank reconciliation and listing of outstanding checks and other reconciling items should be provided to the Village Council each month for review. All unreconciled differences should be resolved as quickly as possible so they are not carried forward month-to-month and all reconciling matters should be appropriately documented.

Officials' Response: All of these weaknesses have been discovered and are currently being addressed. Adjustments are being made in the recording of revenues and expenses to post them to the correct accounts. The change to the UAN network will greatly help in rectifying these problems.

FINDING NUMBER 2004-002

Cash Receipts

Our testing revealed numerous weaknesses with respect to the posting and reporting of revenue transactions. These weaknesses included, but were not limited to, revenues being posted to incorrect funds and/or accounts, duplicate postings, numerous adjustment entries to reverse previous transactions, not posting transactions timely, using the same receipt number more than once, and lack of sufficient supporting documentation. These weaknesses could lead to inefficient operation of the Village's finance functions, and financial statement errors. In addition, these weaknesses may compromise management's ability to effectively monitor the finances and make appropriate decisions for the Village.

FINDING NUMBER 2004-002 (Continued)

Specific errors included, but were not limited to, the following:

- \$228,084 of income tax revenue posted as Local Government Assistance within the General Fund which should have been posted as Income Tax in the General Fund and Capital Improvement Funds in the amounts of \$159,659 and \$68,425, respectively;
- \$405,052 and \$172,515 of duplicate income tax receipts posted within the General Fund and Capital Improvement Fund, respectively;
- \$646,317 and \$163,662 of receipts posted to incorrect funds for 2004 and 2003, respectively, of which, a total of \$152,632 of various receipts were posted to the General Fund rather than other restricted funds of the Village;
- \$20,764 of receipts in which the only supporting documentation was a Police Property Sheet stating "Box containing \$16,231 cash and 2 checks", and "Envelope containing \$4,533.35 in cash and checks";
- \$38,949 of Charges for Services receipts, ambulance receipts, building permits and intergovernmental receipts which had no supporting documentation;
- \$60,679 of sewer disposal receipts posted to the General Fund rather than the Sewer Fund;
- \$115,811 of utility receipts were correctly allocated to the water, sewer, and trash funds and accounts on January 30, 2004, reversed off of the books on January 30, 2004, and then posted the entire \$115,811 to the water fund on February 5, 2004 without allocating any of the receipt to the sewer or trash funds and accounts.

The Village should take the necessary steps to ensure receipts are accounted for and properly classified when posted to the Village's accounting system. To achieve this, the Clerk-Treasurer should review the Village Officer's Handbook and maintain a fund/account sheet which documents the specific accounts where each type of revenue should be posted.

The receipt posting errors resulting in a net change in individual fund cash fund balances were made in connection with our procedures. The following table summarizes the adjusted financial statement activity and ending fund balances of the Village after consideration of these adjustments. The Village should adjust its financial records to reflect the December 31, 2004 cash fund balances as its beginning 2005 fund balances and continue its operations thereafter based on these amounts.

FINDING NUMBER 2004-002 (Continued)

Fund	Original Cash Fund Balance January 1, 2003	Net Change in Fund Balance 2003	Adjusted Cash Fund Balance December 31, 2003	Net Change in Fund Balance 2004	Adjusted Cash Fund Balance December 31, 2004
General Fund	\$571,557	\$(102,894)	\$468,663	\$(396,416)	\$72,247
Street Construction					
Maintenance and Repair	3,058	(25,290)	(22,232)	(37,392)	(59,624)
Juvenile Youth Program	68,142	34,572	102,714	(8,255)	94,459
Bryn Crime Prevention					
Grant	70	-	70	-	70
Police Disability and					
Pension	5,605	10,618	16,223	(50,108)	(33,885)
Drug Enforcement	7,740	540	8,280	3,470	11,750
Nuisance Abatement	532	(19)	513	-	513
Law Enforcement Trust	10,489	386	10,875	-	10,875
EMS Ambulance	195,049	(13,274)	181,775	(74,650)	107,125
Police Immobilization	4,768	-	4,768	(990)	3,778
Local DUI/Enforcement	1,180	-	1,180	505	1,685
COPS FAST Grant	38,968	-	38,968	-	38,968
Safe and Sober Grant	83	-	83	-	83
Permissive Motor Vehicle					
License	10,577	4,888	15,465	5,459	20,924
Community Development					
Block Grant	61,311	88,500	149,811	-	149,811
Bond Retirement	5,870	-	5,870	-	5,870
Note Principal on Police					
Facility	32,615	(65,229)	(32,614)	(32,615)	(65,229)
Issue II Sewer	2,697	(3)	2,694	-	2,694
Capital Improvement	219,113	188,609	407,722	190,388	598,110
Trash	(39,025)	(1,350)	(40,375)	14,809	(25,566)
Water	41,775	(65,013)	(23,238)	(5,612)	(28,850)
Sewer	599,640	(40,791)	558,849	(2,226)	556,623
Utility	36,391	-	36,391	-	36,391
Total All Funds	\$1,878,205	\$14,250	\$1,892,455	\$(393,633)	\$1,498,822

Officials' Response: All of these weaknesses have been discovered and are currently being addressed. Adjustments are being made in the recording of revenues and expenses to post them to the correct accounts. The change to the UAN network will greatly help in rectifying these problems.

FINDING NUMBER 2004-003

Utility Operations

Our review of the Utility Department procedures noted the following weaknesses:

- The Village does not have a separate Agency Fund to account for utility customer deposits. Utility customer deposits required for new customers are commingled with utility charges in the utility system's monthly cash journal resulting in an overstatement of water utility revenue; or are omitted entirely from the utility cash receipts journal. No record was kept to track those customers who have made a deposit with the Village or the amount paid. In addition, the utility deposits are refundable after two years, if the customer account is current. Because the Village has no record of who has made security deposits and the amounts, deposits due to the customers are unable to be tracked.

FINDING NUMBER 2004-003 (Continued)

The Village should create an Agency Fund for utility customer deposits and maintain records of who has paid deposits and the amount. When a customer is due a refund of a deposit, the Village would then have adequate records to ensure the correct amount is paid.

- The current utility accounting system is unable to produce prior year reports or records except a customer history report. For example, a cash receipt report for January of 2004 cannot be produced nor may the information be viewed. Prior year information may not be exported into another program or obtained in any other manner. This is a significant weakness in the system because management may be unable to review and monitor customer accounts to ensure the Village receipts are accurate and complete. As a result, 10 of the 24 quarterly utility reports could not be located and could not be reproduced.

The Village should ensure that all quarterly utility reports are printed and maintained in an organized manner.

- A monthly Utility Receipts Journal was not always produced, nor was the Utility Receipt Journal reconciled to the bank deposits or to the general ledger accounts.

Formal reconciliations should be performed on a monthly basis to reconcile the Utility Cash Receipts Journal to the bank deposit and general ledger accounts. Further, on at least a quarterly basis, the billing report should be reconciled to the Utility Cash Receipts Journal and the delinquent accounts.

- The Utility Cash Receipts Journal contained various adjustments to customer accounts with no support for the adjustments made. In addition, there were handwritten adjustments at month end to the Utility Cash Receipts Journal with no support for the adjustments made.

The Utility Clerk should maintain supporting documentation for all adjustments made to the Utility Receipts Journal.

Officials' Response: We are currently searching for a new system for utility accounting. The present system does not allow us to do many of these findings. The Fiscal Officer will be looking at implementing a new system with the Utility Clerk once the conversion to UAN is completed.

A utility deposit account has been set up and adjusted to track resident utility deposits.

FINDING NUMBER 2004-004

Expenditures

Our testing revealed numerous weaknesses with the processing of non-payroll related expenditures. These weaknesses included, but were not limited to, inconsistent check numbering, inconsistent check dating, unsupported payments, and inconsistent account posting. These weaknesses could lead to inefficient operation of the Village's finance functions and financial statement errors. In addition, these weaknesses may compromise management's ability to effectively monitor the finances and make appropriate decisions for the Village.

Of the 127 expenditures tested, the following was noted:

- 3 expenditures tested were voided by the Village, but never removed from the appropriation ledger and subsequent outstanding check listings;

The Village should remove voided checks from its appropriation ledger by posting an adjusting entry that is the inverse of the transaction initially recorded. This will help to ensure accurate cash and expenditure balances are being reported.

FINDING NUMBER 2004-004 (Continued)

- 6 expenditures tested had no invoices attached to support the payments;

The Village should require sufficient approved supporting documentation for all expenditures. Further, the officials receiving the goods/services should initial the invoice(s) to indicate all of the merchandise/goods billed were received. If an invoice is received which does not include such approval, some type of assurance of receipt should be received by the Clerk-Treasurer prior to processing the payment. This practice would help ensure the vendors are paid only goods or services the Village actually received.

- 9 expenditures tested were posted to incorrect line-items; additionally, debt principal payments of \$57,411 in 2004, and debt interest payments of \$12,059 and \$2,263 in 2004 and 2003, respectively, were not posted to the proper principal and interest accounts;

The Village should post all expenditures to the proper accounts in order to provide management with an accurate picture of the Village's financial condition. Additionally, the Village should post principal and interest to the proper accounts in order for management to ensure the Village's debt balances are being paid timely, being paid in the proper amount, and to track the balances of outstanding Village debt.

- 2 expenditures tested were cash advances to a Councilperson for the purchase of items for Village sponsored festivities. However, the Councilperson did not submit receipts to account for how the cash was spent and if any unspent portion was returned to the Village;

The Village should require sufficient itemized supporting documentation for all cash advances. In addition, the individual advanced money should submit a report indicating the amounts advanced, spent, and returned, if any, to the Village.

- 1 expenditure tested was a gasoline credit card payment which had no original detailed receipts. The credit card statement indicated gasoline purchase amounts and a miscellaneous item purchase of \$5.97, which because of lack of support, we were unable to determine was for a proper public purpose. The Village does not have a credit card policy (see Finding Number 2004-012).

The Village should establish a credit card policy indicating authorized users, allowable expenditures, and requiring original receipts are maintained. The Village should match the original receipt to the monthly credit card statement and keep all supporting documentation when payment is remitted.

- 7 blank checks signed by the Mayor were found among the Village's records.

The Village should keep all unused checks in a secure location. In addition, checks should not be signed until they are ready to be issued. This will help to safeguard the Village's funds and ensure expenditures are properly approved.

Officials' Response: The new system will help us to correct many of these problems.

Supporting document for any purchase is now required before any payments will be made by the Fiscal office. Invoices and all packaging information is required, as well as a sign off from the receiving employee.

All checks are now kept in a fire proof safe in the Fiscal Officer's Office. No blank checks will be signed by any official for any reason.

FINDING NUMBER 2004-005

Payroll Expenditures

Our testing revealed numerous weaknesses with respect to the processing of payroll expenditures. These weaknesses included, but were not limited to, lack of supporting time sheets, inconsistent check numbering and dating, miscalculated withholdings, duplicate ledger entries, and unrecorded transactions. These weaknesses could lead to inefficient operation of the Village's finance functions, and financial statement errors. In addition, these weaknesses may compromise management's ability to effectively monitor the finances and make appropriate decisions for the Village.

Our testing of 40 payroll disbursement transactions revealed the following:

- 25 transactions which did not have timesheets or other documentation of hours worked for the pay period;
- 4 transactions which had checks dated as of the beginning of the pay period indicating the employees may have been paid prior to earning their wages;
- 15 transactions which had check numbers in the payroll register different from the actual printed check;
- 1 transaction which had police and fire pension fund withholdings miscalculated;
- 16 transactions which did not have a payroll register for the pay period;
- 2 transactions where the same check number was used more than once for unrelated transactions;
- 1 transaction which did not have a voucher packet or other documentation to verify the amount to be paid to the employee;
- 23 transactions where the ledger fund/account appears to have been charged at the net pay amount instead of the gross pay amount;
- 13 transactions for withholdings in which either the payee, the amount of the check, or the check number did not agree to the ledger entry;

Our testing further revealed:

- There was no comprehensive list of salaries or written salary notices. Promotions, new hires, etc. are approved in the minutes, but there is no master list to ensure the proper rate is recorded for an employee;
- The payroll register produced by the computer system did not report detail of hours worked and pay rates;
- There were numerous duplicate entries in the employee earnings record. 6 of 11 entries tested appear to have a correcting entry in the ledger and 5 of 11 entries tested appear not to have been corrected properly;
- 3 of 4 months tested for federal tax payments were not recorded timely in the ledger;
- 21 of 28 withholding payments were not timely made and we were unable to match the payments to the taxes withheld and owed by month because of the lack of records.

The Village should implement procedures to ensure its payroll transactions are properly processed, documented and in accordance with the Village's policies.

Officials' Response: We are currently using PayCor to process our payroll expenditures. This will be done until we can begin use of the UAN payroll module. This has helped to reduce any errors and the Fiscal Officer is working on problems of reconciling to our books.

FINDING NUMBER 2004-006

Vacation Leave Records

The Clerk-Treasurer did not keep any records of employee leave balances during the audit period. Some departments kept their own records of employee leave; however, there was no comprehensive leave record for all employees. Leave usage was recorded only on the time sheets. Prior to September 2003, the Village had no written employee policies. As a result, Village Council had to establish by resolution the payment of accrued leave time for employees leaving employment and certain part-time employees. However, we could not locate any documentation as to how the amount paid was calculated.

To ensure the completeness and accuracy of employee leave records, procedures should be implemented as follows:

- Leave Request forms should be implemented to document employee leave.
- Leave Request forms should be signed by the employee and approved, via signature, by the department supervisor.
- The Clerk-Treasurer should maintain a comprehensive leave record history for each employee on the computer system.
- Leave Request forms should be compared to the time sheets or other absence reports.
- For leave requested but not taken, the respective request form should be amended to reflect only the time actually taken.
- Payment for accrued leave upon retirement or termination of employment should be documented by a copy of the employee's leave record and a worksheet that clearly documents how the amount was calculated. A copy of these documents should also be attached to the voucher packet for the payment.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: Absence records have historically been kept by the individual departments. The Fiscal Officer is currently working on bringing all of these records to the Fiscal Office and have worked with council to create leave request forms. These will be put into use ASAP.

All payments for accrued leave upon retirement now require proper documentation and worksheets to show from where these payments are coming due.

FINDING NUMBER 2004-007

Council Monitoring of Financial Reports

The Village Council did not receive any financial reports during the audit period. Not reviewing and approving monthly reports demonstrates a lack of fiscal monitoring by Village Council. Unrecognized errors resulting in misstatements of the Village's records occurred and were not timely detected as a result of not monitoring the monthly reports.

Village Council should request monthly financial reports and formally recognize in the minutes the acceptance of monthly reports they receive from the Clerk-Treasurer. Reports should include, but not be limited to, monthly cash reconciliations, budget to actual statements, year-to-date receipt, expenditure, and fund balance reports. These reports should reflect all activity of the Village and should be up-to-date. This will increase Council's awareness of all finance related activity and facilitate their decision making process.

FINDING NUMBER 2004-007 (Continued)

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: Village Council has now been made a large part of the financial process. The Fiscal Officer has set up finance meetings at least once a month where the finances of the Village are discussed in an open forum. They are kept up to date on fund levels and projected financial matters. Reports will be more specific and complete upon conversion to UAN.

FINDING NUMBER 2004-008

Backup Procedures

Sound computer backup practices require a recent copy of the system and data files be retained off-site to ensure their availability in the event of complete data loss. The practice of storing backup data on-site increases the risk that data will not be available if the system should crash or is destroyed, resulting in the inability of the Village to continue operations.

Backup information for the finance and utility system data were stored on site in the Village Hall. In addition, the Village does not back up its financial information on a daily basis. The Village backup practices should be modified to require that backups are rotated off-site to a location where the Village can ensure adequate environmental and access controls and that backup procedures are performed on a daily basis.

Officials' Response: With the new UAN system, backups are done daily. The Fiscal Officer will find an off site place to store copies of these backups, probably a deposit box at our bank. As of now, the copies are being stored in our fire proof safe.

FINDING NUMBER 2004-009

Disaster Recovery Plan

In order to ensure minimal disruption to services, the Village should maintain a comprehensive disaster recovery plan that identifies procedures to perform which permit the Village to continue processing information in the event of a disaster. Data processing contingency plans identify arrangements for alternative data processing on compatible hardware and software. A proper plan removes as much time-consuming decision making as possible from the period immediately following the disaster. Without a comprehensive disaster recovery plan there is a greater risk of data loss, and an increased risk computer operations important for the functioning of the Village will not be restored in a timely, cost effective manner.

The Village should develop and implement a disaster recovery plan. An elaborate plan is not necessary; however, an effective plan should be designed to ensure efficient recovery if a disaster occurs. At a minimum, the following be completed:

- Recovery Terms and Definitions
- Technical (Hardware/Software) Recovery Procedures
- End User Recovery Procedures
- Readiness Plan
- Emergency Contact List

FINDING NUMBER 2004-009 (Continued)

Once completed, the contingency plan should be periodically reviewed and tested to ensure its continued applicability. This review should also ensure personnel are sufficiently trained to carry out procedures necessary to restore functions critical to business operations. All individuals responsible for the disaster recovery plan tasks should be knowledgeable of their duties and retain a copy of the plan. Additionally, an updated copy of the plan should be kept off-site.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: We do not currently have a disaster recovery plan in place. This plan will be developed in cooperation with our Fire and Police Chiefs.

FINDING NUMBER 2004-010

Security Administration

The increasing dependence of the Village on data processing for daily operations makes it important precautions are taken against unauthorized modification, disclosure, disruption or use of data and programs. Policies, as high level statements of intent, provide management direction and guidance. Security standards are specific requirements that enable compliance or noncompliance to be evaluated and measured. Procedures (or practices) are detailed security measures or processes tailored to a specific department, system or operating environment. Policies and standards are implemented through practices or procedures.

The Village has not established formal security administration procedures, which increases the risk of unauthorized modification, disclosure, disruption or use of data and programs. Also, the Village has no firewall protection to prevent unauthorized persons from gaining access to the computer systems.

One form can be utilized to assign the user identifier and password, note actual access levels needed, document approval by the Supervisor and record subsequent deletion of the user identifier. A security statement can be incorporated into the form used to request a user identifier. The statement should define the user's responsibility for confidentiality of their password and the data access privileges. The user's signature on the request form would acknowledge their awareness of security responsibilities. In addition, the Village should obtain adequate firewall software to protect all its computers with internet access from unauthorized intrusions and potential corruption of data and systems.

Once developed, the security policies, standards and procedures should be communicated to employees and appropriate training provided on a continuing basis. Written security administration procedures should include the following items:

- User profile setup and maintenance;
- Authorization and approval criteria;
- Security policy;
- Access request forms;
- Access revoke criteria;
- Security reporting and review criteria.

Officials' Response: We are currently using Symantec firewall security and anti virus.

There is not a current security administration plan in place. This will be done to protect us and bring us up to compliance.

FINDING NUMBER 2004-011

Monitoring Control Procedures

Internal control procedures are developed and implemented to assist management in reducing potential financial statement misstatements by detecting or preventing errors and irregularities in the accounting system in a timely manner. We noted the following:

- There is no segregation of duties between the Clerk-Treasurer's department and the utility department. During the audit period, there were times when the Utility Clerk collected the money received by various departments, deposited the monies, and opened all the mail.

Collections from all departments should be deposited with the Clerk-Treasurer. The Clerk-Treasurer should issue a receipt for all monies received, whether received directly (i.e., County Fiscal Officer receipts), or received from another department. The Clerk-Treasurer should make all bank deposits. All departments submitting collections to the Clerk-Treasurer should also submit all supporting documentation such as duplicate departmental receipts issued to the customer, copies of permits, dock forms, summary Utility Cash Receipt Journal, etc. with the deposit ticket in order to permit the Clerk-Treasurer to reconcile the bank deposits to the departmental records and to determine the source and purpose for appropriate accounting treatment. The Department should reconcile their receipt records with the Clerk-Treasurer on a monthly basis to help ensure the monies are being deposited correctly. In addition, the Clerk-Treasurer should perform spot checks at various remote collection points to verify the day's collections and provide additional oversight on these locations.

- Mail is not stamped with a date stamp to indicate the date it was received by the Village. During the audit period, the mail was collected by and opened by the Utility Clerk and distributed to the various departments. In addition, certain monies were written to and mailed to the Police and Fire Departments, rather than the Village of Lakemore.

To control collection and ensure proper distribution of the mail, all Village mail should be collected from the post office box by the Clerk-Treasurer. The Clerk-Treasurer should be the sole person with a key to the post office box, and should be collecting all mail directed to the Village. Once collected, the Clerk-Treasurer should distribute the mail unopened, to the appropriate officials. All correspondence should be date stamped to document the date received.

- The Village Clerk-Treasurer's office is not properly secured as several Village employees have keys which compromise the security of sensitive public and personnel records.

Access to the Clerk-Treasurer's office and departmental offices should be restricted only to authorized persons in each department in order to secure Village records. A log should be kept of those persons who have keys to various areas and keys should be marked "DO NOT DUPLICATE" to avoid unauthorized copies of keys. In addition, all locks should be changed immediately when there is a change in department personnel, especially those in sensitive positions. As an added control, all file cabinets should be locked when not in use to prevent unauthorized access to Village records and restricted files. Only those with the proper authorization should have access to these filing cabinets.

Officials' Response: We now have segregation of utility clerk duties. Collection of utility bill money is handled by the utility clerk and presented to the Fiscal Officer for verification.

Locks have been changed on the Fiscal Office and the Fiscal Officer, the Mayor, and the Village Administrator are the only persons with keys to the office.

Important and confidential documents are locked in file cabinet or the Fiscal Officer's safe.

FINDING NUMBER 2004-012

Village Policies

The Village is operating without key policies in place or policies that are inadequate. The Village should implement or amend the following policies:

- The Village has an employee policy manual that provides for travel allowances. However, the Village does not have a standard form to document reimbursement requests. In addition, the Village's travel policy does not address "frequent flyer" miles.

The Village should implement the use of a standard form to document reimbursement requests. Further, the Village should have a policy that prohibits the accumulation of "frequent flyer" miles by employees earned on official travel or a policy that requires employees to use such miles earned for future official travel.

- The Village does not have a credit card policy.

The Village should adopt a credit card policy which addresses; who is responsible for custody of the credit cards, who is permitted to use the credit cards, types of purchases which may be made, and receipt documentation requirements.

- The Village does not have a cell phone policy.

The Village should adopt a cell phone policy. At a minimum, the policy should address the authorized users, guidelines for allowable use, method of reimbursement (if personal use was made) or documentation by the user indicating no personal phone calls were made, specific unallowable uses, monitoring of use by appropriate levels of management, and other guidelines deemed appropriate by the legislative body. Refer to the AOS Best Practices Spring 2004 edition for other guidelines for cell phone policies.

- The Village does not have a fraud and abuse policy.

The Village should adopt a fraud and abuse policy to increase awareness of fraud risks and prevention. The policy should define fraud, abuse, inappropriate conduct, the reporting procedure, investigation procedure, confidentiality, and administration of the policy and the responsibility of employees and officials under the policy.

- Several of the Village departments that receive cash do not have written policies to ensure the cash is collected and remitted properly.

The Village should adopt a policy for each department that receives cash to ensure there are procedures for issuing receipts, safe guarding the cash until it is deposited with the bank or Clerk-Treasurer, and the supporting documentation that is required to be given to the Clerk-Treasurer to support the receipt.

FINDING NUMBER 2004-012 (Continued)

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: We do not currently have a need for a "frequent flyer" policy in the Village. This may change, so we will look at amending our policy and procedures to address this.

Credit cards are kept in the safe in the Fiscal Office and must be signed out by the Fiscal Officer. All receipts must be turned in with the return of the card.

We will address the fraud and abuse policy issue. We do not currently have any in place.

We have made changes in the receipt of cash. The utility clerk receives cash from utility bills and for inspections, permits, and parks revenues. The park revenues are going to be changed so that a police officer picks up all monies at the end of the park day and places them into a lock box for the Fiscal Officer to count the next day. An officer then will return the starting day's cash to the park office for the next business day.

FINDING NUMBER 2004-013

Service Organization

The Village contracts with North Coast Physicians, (the service organization) to process and bill their emergency medical service fees. However, the service organization does not provide assurances to the Village it is properly billing and processing the collection of fees in accordance with Village policies.

In order to reasonably ensure the completeness and accuracy of emergency medical service fees processed by the service organization, a Statement of Auditing Standards No. 70 (SAS70) Tier II report, which prescribes testing and reporting standards for audits of claims processing controls in place at the service organization, should be provided.

The Village should request a "Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness" from North Coast Physicians. Such a report, if unqualified, would provide evidence to the Village's management fees for their ambulance services are being processed in conformance with Village policies. Failure to obtain such a report puts the burden on management to provide evidence services are being properly billed and all fees due to the Village are being collected and remitted to the Village.

Officials' Response: This report will be requested of Northcoast Physicians.

FINDING NUMBER 2004-014

Noncompliance Citation:

Ohio Rev. Code Section 733.28B requires the Village Clerk-Treasurer to maintain the books of the Village and exhibit accurate statements of all monies received and expended.

Ohio Admin. Code Section 117-2-02(A) requires governments to maintain an accounting system and accounting records sufficient to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements. Per **Ohio Admin. Code Section 117-2-02(D)**, accounting records that can help achieve these objectives include:

1. Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and other information necessary to properly classify the transaction.
2. Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund.
3. Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution.

Ohio Admin. Code Section 117-9-01 provides suggested account classifications. These accounts classify receipts by source (i.e. taxes or charges for services) and classify disbursements by program (i.e. security of persons and property) or object (i.e. personal services).

The Village's Clerk-Treasurer did not post all receipts and expenditures to the books, nor were receipts and expenditures posted timely or accurately to the correct funds and accounts. As a result, the receipt ledger and appropriation ledger were not accurate and the Village was determined to be unauditible.

Using the aforementioned classifications and accounting records will provide the Village with information required to monitor compliance with the budget, and will assist the Village in preparing annual reports in the format required by the Auditor of State.

Officials' Response: We will follow and obey all findings by the Ohio Auditor of State's office in order to bring us into compliance with all issues facing the Village of Lakemore.

FINDING NUMBER 2004-015

Noncompliance Citation:

Ohio Rev. Code Section 5705.10 requires money paid into any fund be used only for the purposes for which such fund is established. A negative fund balance indicates money from one fund was used to cover the expenses of another fund.

At December 31, 2004, after the affects of adjustments made in connection with our testing, the Village had negative cash balances in the following funds:

<u>Special Revenue Funds</u>	
Street Construction, Maintenance, and Repair	\$ 59,624
Police Disability and Pension	33,885
<u>Debt Service Funds</u>	
Note Principal on Police Facility	65,229
<u>Enterprise Funds</u>	
Trash	25,566
Water	28,850

At December 31, 2003, after the affects of the adjustments made in connection with our testing, the Village had negative cash balances in the following funds:

<u>Special Revenue Funds</u>	
Street Construction, Maintenance, and Repair	\$ 22,232
<u>Debt Service Funds</u>	
Note Principal on Police Facility	32,614
<u>Enterprise Funds</u>	
Trash	40,375
Water	23,238

In addition, at December 31, 2004, the Village had fund balances of \$38,968 and \$149,811 in the Special Revenue Funds for the COPS FAST and Community Development Block Grant programs, respectively, which cannot be legally spent since the grant period has expired. Money spent for purposes other than specified in grant agreements could result in the loss of future grant awards.

Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code. Additionally, the Village should create a separate fund to account for each federal grant and each separate grant year in order to account for all grant receipts and disbursement activity. The Village should refer to Auditor of State Bulletin 2000-08 for guidance. The Village must contact the grantor agencies for the above mentioned grants to secure permission to transfer these amounts to the General Fund. Finally, the Village must further obtain a court order from the Summit County Court of Common Pleas, after it has received written permission from the grantor agencies, in order to transfer these unused balances to the General Fund.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: Fund balances will be fully monitored and actions, defined by the audit findings, will be taken to transfer closed grant monies to the General Fund.

FINDING NUMBER 2004-016

Noncompliance Citation:

Ohio Rev. Code Section 149.351 states all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

Additionally, **Ohio Rev. Code Section 149.39** requires the creation of a records commission in each municipal corporation. The commission shall be composed of the chief executive or his appointed representative, as chairman, and the chief fiscal officer, the chief legal officer, and a citizen appointed by the chief executive. The commission shall appoint a secretary and meet at least once every six months. The functions of the commission shall be to provide rules for retention and disposal of records and to review applications for one-time records disposal and schedules of records retention and disposition submitted by municipal offices. Records may be disposed of by the commission pursuant to the procedure outlined in this section.

As discussed in Finding Numbers 2004-002 through 2004-005, certain documents, including but not limited to, payroll journals, timesheets, supporting documentation for receipts, invoices for disbursements, and utility ledgers could not be located and are assumed to have been destroyed without the appropriate reviews.

The Village has no policy or system of approval to control the shredding of documents, such as delicate copies or printouts that have been revised in the finance office. The Village should institute written procedures, which should include a process of review and a written log of documents approved for shredding in the finance and other Village offices.

Officials' Response: Written procedures will be put in place regarding the storage and destruction of Village records.

FINDING NUMBER 2004-017

Noncompliance Citation:

Ohio Rev. Code Section 9.38 states monies should be deposited with the Village Clerk-Treasurer or designated depository within 24 hours of collection.

This section also stipulates that if the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

Certain utility, building permits, park permits, zoning, other charges for services, court fines, state distributions and various other daily receipts were not deposited with the Village Clerk-Treasurer or designated depository for a period ranging between 3 to 69 days after initial receipt of the money. Delays of this nature could cause Village daily receipts to be lost or misplaced without being detected in a timely manner.

The Village should properly safeguard receipts and implement the procedures set forth in the Ohio Revised Code and explained in Auditor of State Bulletin 99-020 relative to depositing requirements and procedures.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: Receipt safeguards will be implemented.

FINDING NUMBER 2004-018

Noncompliance Citation:

Ohio Rev. Code Section 5705.41(D) provides in part that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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.

- **"Then and Now" Certificate** – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), 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 (\$1,000 prior to April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.
- **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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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.
- **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.

During 2004 and 2003, the Village did not certify the availability of funds for its expenditures. The Village should certify the availability of funds for expenditures and also implement the use of Then and Now Certificates, Blanket Certificates and Super Blanket Certificates as further means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

Officials' Response: Blanket and Super Blanket certificates have been implemented.

FINDING NUMBER 2004-019

Noncompliance Citation:

Ohio Rev. Code Section 5705.36(A)(1) requires on or about the first day of each fiscal year, the fiscal officers of each subdivision and other taxing units shall certify to the county fiscal officer the total amount from all sources available for expenditures from each fund in the tax budget along with any encumbered balances that existed at the end of the preceding year. In addition, this section allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenues to be collected will be greater or less than the amount in the official certificate of estimated resources.

For 2004 and 2003, the Village failed to certify the total amount available from each fund to the county fiscal officer. By not certifying year-end balances to the county fiscal officer, and subsequently obtaining an amended certificate of estimated resources, the Village could base appropriations on outdated estimates of available resources which could result in negative fund balances. The Village should file its certificate of available revenue with the county fiscal officer on or about the first day of each fiscal year, and should amend it throughout the year as deemed necessary.

Officials' Response: Certification of funds through the County Fiscal Officer has resumed and will remain in place.

FINDING NUMBER 2004-020

Noncompliance Citation:

Ohio Rev. Code Section 5705.38(A) requires on or about the first day of each fiscal year, an appropriation measure be passed. The Village may pass a temporary appropriation measure to meet their ordinary expenses until April 1, at which time a permanent appropriation measure must be passed.

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

The Village did not adopt a permanent appropriation measure for 2004 and 2003. As a result, all expenditures made during 2004 and 2003 were not legally expended. The Village should adopt a permanent appropriation measure by April 1st each year.

Officials' Response: Temporary and permanent appropriations have been passed.

FINDING NUMBER 2004-021

Noncompliance Citation:

Ohio Rev. Code Section 5705.28(A)(2) requires the Village Council as the Village's taxing authority, to adopt a tax budget for the next succeeding year on or before July 15 of each year.

Village Council did not adopt an annual tax budget for 2004 and 2003. To avoid jeopardizing their share of local government monies, the Village should adopt a tax budget on or before July 15 of each year.

Officials' Response: Tax budgets will be adopted by Village council through the Fiscal Officer's office.

FINDING NUMBER 2004-022

Noncompliance Citation:

Ohio Rev. Code Section 5705.34 requires the Village to pass an ordinance or resolution authorizing the necessary tax levies. The Village is required to certify the levies to the county fiscal officer before October 1 of the preceding fiscal year, unless a later date is approved by the tax commissioner.

The Village did not pass resolutions authorizing the necessary tax levies for 2003. The county fiscal officer does not have authority to collect levy monies until the rates and amounts have been certified by the Village. The Village should ensure the necessary tax levies are formally approved and certified to the county fiscal officer timely. This will help ensure that monies generated from the Village's tax levies can be collected and available for the Village.

Officials' Response: Resolutions authorizing tax levies will be put in place.

FINDING NUMBER 2004-023

Noncompliance Citation:

Ohio Rev. Code Section 135.14(O)(1) states investments or deposits under Section 135.14 cannot be made unless a written investment policy approved by the treasurer or governing board is on file with the Auditor of State, with the following two exceptions:

- Ohio Rev. Code Section 135.14(O)(2), provides if a written investment policy is not filed with the Auditor of State, the treasurer or governing board can invest only in interim deposits, STAR Ohio, or no-load money market mutual funds;
- Ohio Rev. Code Section 135.14(O)(3), provides a subdivision whose average annual portfolio of investments is \$100,000 or less need not file an investment policy, provided the treasurer or governing board certifies to the Auditor of State that the treasurer or governing board will comply and is in compliance with the provisions of Section 135.01 to 135.21.

Additionally, **Ohio Rev. Code Section 135.14(O)(1)** requires the investment policy be signed by:

- All entities conducting investment business with the treasurer or governing board (except the Treasurer of State);
- All brokers, dealers, and financial institutions, described in Section 135.14(M)(1), initiating transactions with the treasurer or governing board by giving advice or making investment recommendations;
- All brokers, dealers, and financial institutions, described in Section 135.14(M)(1), executing transactions initiated by the treasurer or governing board.

While the Village adopted an investment policy on September 16, 2002, it has not been submitted to the Auditor of State, and has not been signed by the required financial institutions. Additionally, the Village did not meet any of the exceptions noted. The Village should have those financial institutions that conduct investment business with the treasurer or governing board sign and date the investment policy. Once properly signed and dated, the Village should file a signed copy with the Auditor of State.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: The Fiscal Officer shall get the proper investment documentation and have it forwarded to the Auditor of State's offices.

FINDING NUMBER 2004-024

Noncompliance Citation:

Ohio Rev. Code Section 135.22 requires the Clerk-Treasurer to complete annual continuing education provided by the Treasurer of State. Without such training, the Clerk-Treasurer is limited to investments in interim deposits, no load money market mutual funds, and STAR Ohio.

During 2004 and 2003, the Clerk-Treasurer did not attend and/or complete any annual continuing education programs provided by the Treasurer of State and still invested funds in repurchase agreements. As of December 31, 2004 and 2003, approximately 99% of the Village's funds were invested in repurchase agreements. The Clerk-Treasurer should either attend continuing education programs or limit the Village's investment to those permitted by law without training. Village Council should monitor the Clerk-Treasurer to ensure the Clerk-Treasurer completes the annual continuing education programs as required by Ohio Rev. Code Section 135.22.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: These continuing education programs will be scheduled and attended.

FINDING NUMBER 2004-025

Noncompliance Citation:

Ohio Rev. Code Section 5705.09 requires each subdivision to establish a special fund for each class of revenue derived from a source other than general property tax, which the law requires to be used for a particular purpose. In addition, **Ohio Rev. Code Section 5705.10** provides all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

During 2004 and 2003 the Village did not establish a separate fund for the Permissive Motor Vehicle Tax. As a result, Permissive Motor Vehicle Tax monies of \$5,333 and \$4,790 were deposited in the Street Construction Maintenance and Repair Fund in FY 2004 and 2003, respectively.

The Village should create a separate fund to account for each restricted revenue source. The Village should ensure all Permissive Motor Vehicle Tax revenue is posted to its own fund, and should only use these revenues for the purpose of the fund.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: The Permissive Motor Vehicle tax has been broken out into a separate fund in the new UAN system. Adjustments were made according to audit findings, fund adjustments, and monies in and out to that point.

FINDING NUMBER 2004-026

Noncompliance Citation:

Ohio Rev. Code Section 117.38 requires cash-basis entities file annual reports with the Auditor of State within 60 days of the fiscal year end. These forms must be filed on forms prescribed by the Auditor of State. Any public office which does not file the report by the required date shall pay a penalty of \$25 for each day the report remains unfiled, not to exceed \$750. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer. The Auditor of State may provide waivers of these dates and penalties in certain circumstances.

The Village did not file or publish the notice of availability of the required reports for fiscal years 2004 and 2003. The Village should file their annual report with the Auditor of State within 60 days of fiscal year end. The Village should also publish notice in a local newspaper stating the financial report is available for public inspection at the Village's office.

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: The Fiscal Officer will obtain these forms and file them accordingly. Notice will be published of the availability of the audit findings.

FINDING NUMBER 2004-027

26 CFR Section 1.6041-1 requires governments to report on Form 1099 "salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more."

The Clerk-Treasurer failed to prepare and file any Form 1099s for services rendered by contractors which exceeded the \$600 limit during 2004 and 2003.

The Clerk-Treasurer should ensure all non-incorporated vendors paid more than \$600 for services rendered receive a 1099. In addition, the Form 1099s should also be filed with Internal Revenue Service.

This matter will be referred to the Internal Revenue Service.

Officials' Response: Proper 1099 forms will be filed and sent to any contractor performing services in the Village of Lakemore.

FINDING NUMBER 2004-028

Ohio Rev. Code Section 731.17(A) provides requirements pertaining to the passage of ordinances and resolutions. Ohio Rev. Code Section 731.17(A)(2) requires each ordinance or resolution be read on three different days, provided the legislative authority dispenses with this rule by a vote of at least three-fourths of its members.

Village Council has passed numerous ordinances and resolutions as emergency measures. In addition, several Village ordinances or resolutions were enacted with the three readings occurring during the same meeting of Village Council. This could result in Council attempting to circumvent certain laws and regulations. Council should follow the appropriate steps as they pertain to this Section and vote on suspending rules whenever they choose to pass an ordinance as an emergency only if it truly is an emergency measure. Council should also conduct the three readings of an ordinance or resolution on three different meeting dates to meet the requirements unless they have dispensed with this requirement in accordance with the Code.

FINDING NUMBER 2004-028 (Continued)

We reported a similar matter in the management letter in our December 31, 2002 and 2001, audit of the financial statements.

Officials' Response: It is abundantly apparent that we pass far too many resolutions and ordinances as emergency measures. This problem is being looked at in a number of ways to get us back on track and following the proper steps for legislation passage. We were using many more blanket and super blanket certificates to fix this problem. A change in the old way of doing business combined with the new UAN system will definitely help us to rectify this problem.

The Fiscal Officer will work closely with all state and county offices to rectify all problems the Village of Lakemore has had in the past and to get us up to regulations which have not been followed. It has been over a long period that things have gone from bad to worse but we are currently on the right track to solving these problems. It is our goal to have the Village of Lakemore compliant with all issues brought up by the State Auditor's office.

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**VILLAGE OF LAKEMORE
SUMMIT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	ORC 5705.41(D) – The Village did not certify any expenditures prior to incurring the obligation	No	Not corrected. Repeated as Finding 2004-018.
2002-002	ORC 5705.28(A)(2) – The Village Council did not adopt an annual tax budget for 2003, and adopted the 2002 tax budget late.	No	Not corrected. Repeated as Finding 2004-021.
2002-003	ORC 5705.34 – The Village Council did not pass an ordinance or resolution authorizing the necessary tax levy for 2002 or 2001.	No	Not corrected. Repeated as Finding 2004-022.
2002-004	ORC 5705.36(A)(1) – The Village failed to certify the total amount available from each fund to the county fiscal officer.	No	Not corrected. Repeated as Finding 2004-019.
2002-005	ORC 5705.38 – The Village did not adopt a permanent appropriation measure for 2002 or 2001.	No	Not corrected. Repeated as Finding 2004-020.
2002-006	ORC 5705.39 – The Village did not obtain a certificate from the county fiscal officer stating appropriations from each fund did not exceed total estimated resources.	No	Finding no longer valid. The Village did not approve appropriations, therefore, there was no need to certify appropriations did not exceed estimated resources.
2002-007	ORC 5705.04 – The Village Clerk-Treasurer failed to properly distribute taxes to the appropriate funds.	Yes	Finding no longer valid. The Village's Street Construction, Maintenance and Repair Fund had negative fund balances, and therefore, did not have any interest allocated.
2002-008	ORC 5705.14, .15, and .16 – The Village had transfers that were not approved by resolution of the Village Council.	Yes	Finding no longer valid. The Village did not have any transfers during 2004 or 2003.
2002-009	ORC 149.351(A) – The Village was unable to locate various documents.	No	Not corrected. Repeated as Finding 2004-016.
2002-010	26 CFR 1.6041-1 – The Village Clerk-Treasurer failed to file required IRS forms.	No	Not corrected. Repeated as Finding 2004-027.
2002-011	26 USC Section 3402 and ORC 5747.06 – The Village failed to include certain income on employee W-2s.	Yes	Finding no longer valid.

Village of Lakemore
Summit County
Schedule of Prior Audit Findings
Page 2

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2002-012	ORC 742.01, .02, .31-.34 – The Village failed to remit required employer reports to OPFPF.	No	Not corrected. Repeated as part of Finding 2004-005.
2002-013	ORC 4141.20 to 4141.23 – The Village failed to file required reports for unemployment with ODJFS.	Yes	Finding no longer valid.
2002-014	ORC 5705.09(F) – The Village did not record and track federal grant monies separately.	No	Not corrected. Repeated as part of Finding 2004-015.
2002-015	Backup Procedures – The Village does not have sound backup procedures.	No	Not corrected. Repeated as Finding 2004-008.
2002-016	Security Administration – The Village has not established formal security administration procedures.	No	Not corrected. Repeated as Finding 2004-010.
2002-017	Financial Records – The Village’s records were in disarray.	No	Not corrected. Repeated similar comment in Finding 2004-001.
2002-018	Monitoring Control Procedures – The Village had a lack of monitoring control procedures.	No	Not corrected. Repeated as Finding 2004-011.
2002-019	Receipts – The Village had various errors and weaknesses with the receipting function.	No	Not corrected. Repeated as Finding 2004-002.
2002-020	Expenditures – The Village had various weaknesses with the expenditure of Village funds.	No	Not corrected. Repeated as Finding 2004-004.
2002-021	Utility Operation – The Village had various weaknesses with the Utility Department.	No	Not corrected. Repeated as Finding 2004-003.
2002-022	Payroll – The Village had significant weaknesses with the payroll transaction cycle.	No	Not corrected. Repeated as Finding 2004-005.
2002-023	Employee and Officials Bonds – The Village utility clerk did not have a bond.	Yes	Finding no longer valid.
2002-024	Service Organization – Emergency Medical Billing and Processing Assurances – The Village has a service provider that does not have a SAS 70 Tier II report.	No	Not corrected. Repeated as Finding 2004-013.



Mary Taylor, CPA
Auditor of State

VILLAGE OF LAKEMORE

SUMMIT 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 5, 2007**