VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2007 & 2006

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants

Mary Taylor, CPA
Auditor of State

Village Council
Village of Lafayette
225 Sugar Street
Lafayette, Ohio 45854

We have reviewed the *Report of Independent Accountants* of the Village of Lafayette, Allen County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Lafayette is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 23, 2008

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VILLAGE OF LAFAYETTE
ALLEN COUNTY
For the Years Ending December 31, 2007 and 2006

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Lafayette
Allen County
225 E. Sugar Street
Lafayette, Ohio 45854

To Village Council:

We have audited the accompanying financial statements of the Village of Lafayette, Allen County, Ohio (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.

Except as discussed in the following paragraph, 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 that our audit provides a reasonable basis for our opinion.

Records of the Village's sewer department collections were not properly maintained. As a result, we could not obtain sufficient appropriate audit evidence regarding management's assertions regarding recording of sewer receipts from residents in the amount of $92,774 during 2007, and $80,481 during 2006, which represent 100% of the receipts reported in the Enterprise Fund Type line item "Charges for Services" in the Statement of Receipts, Disbursements, and Changes in Fund Cash Balances- Proprietary Fund Type.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2007 and 2006. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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 or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding sewer receipts, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lafayette, Allen County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. 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 July 11, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
July 11, 2008

VILLAGE OF LAFAYETTE
ALLEN COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2007

	Governmental Fund Types			Totals-
	General	Special Revenue	Capital Projects	(Memorandum Only)
Receipts:				
Property Taxes	$ 32,269	$ 4,412	$ -	$ 36,681
Intergovernmental	41,967	8,424	-	50,391
Earning on Investment	693	-	-	693
Miscellaneous	5,233	700	-	5,933
Total Receipts	80,162	13,536	-	93,698
Disbursements:				
Security of Persons & Property	6,001	-	-	6,001
Public Health Services	5,800	-	-	5,800
Leisure Time Activities	-	-	1,537	1,537
Transportation	-	20,590	-	20,590
Capital Outlay	14,800	4,550	-	19,350
General Government	41,390	-	-	41,390
Debt Service:				
Principal Retirement	7,340	-	-	7,340
Interest and Fiscal Charges	1,895	-	-	1,895
Total Disbursements	77,226	25,140	1,537	103,903
Total Receipts Over/(Under) Disbursements	2,936	(11,604)	(1,537)	(10,205)
Other Financing Sources/(Uses):				
Advances-In	3,500	-	-	3,500
Total Other Financing Sources/(Uses)	3,500	-	-	3,500
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	6,436	(11,604)	(1,537)	(6,705)
Fund Cash Balance, January 1, 2007	25,112	17,394	1,794	44,300
Fund Cash Balance, December 31, 2007	$ 31,548	$ 5,790	$ 257	$ 37,595

See Accompanying Notes to the Financial Statements.

VILLAGE OF LAFAYETTE
ALLEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
Proprietary Fund Type
For the Year Ended December 31, 2007

	Enterprise
Receipts:	
Charges for Services	$ 92,774
Fines, Licenses and Permits	1,680
Total Receipts	94,454
Disbursements:	
Personal Services	21,809
Contractual Services	25,871
Employee Fringe Benefits	4,197
Supplies and Materials	20,229
Total Disbursements	72,106
Excess of Receipts Over/(Under) Disbursements	22,348
Nonoperating Receipts (Disbursements):	
Loan Proceeds	7,477
Debt Service:	
Redemption of Principal	(17,083)
Interest and Fiscal Charges	(16,192)
Total Nonoperating Receipts (Disbursements)	(25,798)
Income / (Loss) Before Interfund Transfers and Advances	(3,450)
Transfers - In	23,213
Transfers - Out	(23,213)
Advances - Out	(3,500)
Fund Cash Balance, January 1, 2007	42,779
Fund Cash Balance, December 31, 2007	$ 35,829

See Accompanying Notes to the Financial Statements.

VILLAGE OF LAFAYETTE
ALLEN COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2006

	Governmental Fund Types			Totals-
	General	Special Revenue	Capital Projects	(Memorandum Only)
Receipts:				
Property Taxes	$ 34,119	$ 2,821	$ -	$ 36,940
Intergovernmental	21,136	15,613	-	36,749
Earning on Investment	518	-	-	518
Miscellaneous	3,505	-	-	3,505
Total Receipts	59,278	18,434	-	77,712
Disbursements:				
Security of Persons & Property	5,031	-	-	5,031
Public Health Services	179	-	-	179
Leisure Time Activities	-	1,118	-	1,118
Transportation	-	18,748	-	18,748
Capital Outlay	39,714	-	-	39,714
General Government	34,448	-	-	34,448
Debt Service:				
Principal Retirement	2,273	-	-	2,273
Interest and Fiscal Charges	844	-	-	844
Total Disbursements	82,489	19,866	-	102,355
Total Receipts Over/(Under) Disbursements	(23,211)	(1,432)	-	(24,643)
Other Financing Receipts/ (Disbursements):				
Loan Proceeds	40,000	-	-	40,000
Advances-Out	(3,500)	-	-	(3,500)
Other Financing Sources	305	-	-	305
Total Other Financing Receipts/ (Disbursements)	36,805	-	-	36,805
Fund Cash Balance, January 1, 2006- Restated, Note 8	11,518	18,826	1,794	32,138
Fund Cash Balance, December 31, 2006	$ 25,112	$ 17,394	$ 1,794	$ 44,300

See Accompanying Notes to the Financial Statements.

VILLAGE OF LAFAYETTE
ALLEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
Proprietary Fund Type
For the Year Ended December 31, 2006

	Enterprise
Receipts:	
Charges for Services	$ 80,481
Total Receipts	80,481
Disbursements:	
Personal Services	21,078
Contractual Services	12,506
Employee Fringe Benefits	3,861
Supplies and Materials	14,768
Total Disbursements	52,213
Excess of Receipts Over/(Under) Disbursements	28,268
Nonoperating Receipts (Disbursements):	
Special Assessments	6,983
Loan Proceeds	2,000
Debt Service:	
Principal	(15,358)
Interest and Fiscal Charges	(16,969)
Total Nonoperating Receipts (Disbursements)	(23,344)
Income / (Loss) Before Interfund Advances	4,924
Advances - In	3,500
Fund Cash Balance, January 1, 2006	34,355
Fund Cash Balance, December 31, 2006	$ 42,779

See Accompanying Notes to the Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Lafayette, Allen County (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six member Council. The Village provides general governmental services, including sewer utilities and park services. The Village has a mutual aid agreement with the Allen County Sheriff's department to provide police protection. The Lafayette Jackson Volunteer Fire Department provides fire protection and emergency medical services.

In 1985, the Village of Lafayette and Jackson Township entered into an agreement for the construction of a community hall. The Village provided the land and Jackson Township was responsible for the cost of the construction of the building. The Township Pays an annual fee of $1 and provides an office for the Village for the lease of the ground. Jackson Township provides all maintenance and utilities for the community building and pays a monthly sewer charge to the Village.

The Village's management believes the financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

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

- Street Construction, Maintenance and Repair Fund–Receives gasoline and motor vehicle excise taxes for constructing, maintaining and repairing Village roads.

Proprietary Fund Types:

Enterprise Funds: To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

The Village has the following significant Enterprise Funds:

- Sewer Operating Fund- This fund receives user fees to cover the cost of providing this utility.
- Bond Retirement Fund- This fund is used for the accumulation of resources for the retirement of the 1980 sewer improvement bond issue.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. FUND ACCOUNTING - (Continued)

- Bond Reserve Fund- This fund is a mandatory reserve fund to help ensure prompt and complete payment of the sewer improvement bond issue.

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Clerk, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Clerk by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of estimated resources stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Clerk sends the county auditor a certificate, which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected revenue increases or the Clerk identifies decreases in revenue.

Budgeted receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2006 and 2007. However, those fund balances are available for appropriation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS - (Continued)

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the object level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	2007	2006
Demand Deposits	$73,424	$87,079

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Village, or (3) collateralized by the financial institution’s public entity deposit pool.

3. PROPERTY TAXES

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Township by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as intergovernmental receipts.

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

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

The County Treasurer collects property tax on behalf of all taxing authorities within the county. The County Auditor periodically remits to the taxing authorities their portions of the taxes collected.

4. BUDGETARY ACTIVITY

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

2007 Budgeted vs Actual Receipts

Fund:	Budgeted Receipts	Actual Receipts	Variance
General Fund	$ 70,985	$ 80,162	$ 9,177
Special Revenue Funds	15,202	13,536	(1,666)
Capital Projects	-	-	-
Enterprise Funds	113,328	125,144	11,816

2007 Budgeted vs Actual Budgetary Basis Expenditures

Fund:	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	$ 96,497	$ 77,226	$ 19,271
Special Revenue Funds	32,596	25,140	7,456
Capital Projects	1,794	1,537	257
Enterprise Funds	145,130	128,594	16,536

2006 Budgeted vs Actual Receipts

Fund:	Budgeted Receipts	Actual Receipts	Variance
General Fund	$ 89,459	$ 99,583	$ 10,124
Special Revenue Funds	15,202	18,434	3,232
Capital Projects	-	-	-
Enterprise Funds	106,352	89,464	(16,888)

2006 Budgeted vs Actual Budgetary Basis Expenditures

Fund:	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	$ 100,977	$ 82,489	$ 18,488
Special Revenue Funds	27,296	19,866	7,430
Capital Projects	1,794	-	1,794
Enterprise Funds	140,707	84,540	56,167

The City was in violation of Ohio Revised Code Sections 5705.36(A) (See Schedule of Findings).

5. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS), a state operated, cost sharing, multiple employer plans. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

5. RETIREMENT SYSTEM – (Continued)

Contribution rates are prescribed by the Ohio Revised Code. OPERS members contributed 9.0% in 2006 and 9.5% in 2007 of their gross pay while the Village contributed an amount equal to 13.70% in 2006 and 13.85% in 2007 of covered payroll. The Village paid all required contributions through 2007.

6. RISK MANAGEMENT

Risk Pool Membership

The Society belongs to the Public Entities Pool of Ohio ("PEP"), a risk sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP.

PEP pays judgments, settlements and other expenses resulting from covered claims that exceed members' deductibles.

Casualty Coverage
PEP retains casualty risks up to $250,000 per occurrence, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding $250,000, up to $1,750,000 per claim and $10,000,000 in aggregate per year. Governments can elect additional coverage, from $2,000,000 to $12,000,000, from General Reinsurance Corporation.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to $5,000,000 per year, subject to a per-claim limit of $2,000,000.

Property Coverage
On January 1, 2005, APEEP began administering a risk-sharing property program. Under the new program, St. Paul Travelers will reinsure specific losses in excess of $250,000 up to $600,000,000 per occurrence. APEEP will reinsure members for specific losses in excess of $100,000 up to $250,000 per occurrence, subject to annual aggregate loss payment. St. Paul Travelers provides aggregate stop-loss coverage based upon the combined Members' Total Insurable Value (TIV). If the stop-loss is reached by payment of losses between $100,000 and $250,000, St. Paul Travelers will then reinsure specific losses in excess of $100,000 up to their $600,000,000 per occurrence limit.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

6. RISK MANAGEMENT - (Continued)

Financial Position
PEP's financial statements (audited by other accountants) conform to generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31 (latest information available).

Casualty Coverage	2006	2005
Assets	$ 30,997,868	$29,719,675
Liabilities	(15,875,741)	(15,994,168)
Net Assets	$ 15,122,127	$13,725,507

Property Coverage	2006	2005
Assets	$ 5,125,326	$4,443,332
Liabilities	(863,163)	(1,068,245)
Net Assets	$ 4,262,163	$3,375,087

Workers' compensation benefits are provided through the State Bureau of Worker's Compensation. The premium is calculated based upon accident history and administrative costs.

There has been no significant reduction in insurance coverage from the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

7. DEBT

Debt outstanding at December 31, 2007 is as follows:

Description:	Principal	Interest Rate
OWDA	$ 85,540	5.06%
Sewer Mortgage Revenue Bonds	196,500	5.00%
Equipment Loan	30,387	5.40%
Total	$312,427	

During 2004, OWDA has approved loan #4143 in the amount of $135,500 for the wastewater treatment plan. The loan is being repaid in semiannual installments of $5,425 over a 20 year period at 5.06%. As of December 2007, the OWDA disbursed $100,626 to the contractors directly. The remaining balance $ 34,874 will be disbursed fully after the OWDA Chief Engineer officially closes this project. At present, the Village is repaying the loan based on the total loan amount instead of the disbursed amount. As a result, the following amortization schedule for the OWDA loan is calculated based on the total loan amount $135,500 instead of the disbursed amount of $100,626.

7. DEBT – (Continued)

The Sewer Mortgage Revenue Bonds were issued for the construction of the Sanitary Sewer system. Property and revenue of the utility have been pledged to repay this debt. As required by the mortgage revenue bond covenant, the Village has established and funded an enterprise reserve fund. At December 31, 2006, the balance of the reserve fund was $10,448.

The Village purchased a truck in 2006 for $40,000 payable in 60 monthly installments of $769 at 5.40%.

Principal and interest requirements for debt outstanding at December 31, 2007 are as follows:

Year Ended	OWDA	Sewer Bonds	Bank Note
2008	$ 10,850	$21,850	$9,240
2009	10,850	22,250	9,240
2010	10,850	22,600	9,240
2011	10,850	21,900	6,927
2012	10,850	22,200	-
2013-2017	54,250	110,900	-
2018-2020	54,250	45,200	-
2021-2024	47,452	-	-
Total	$210,202	$266,900	$34,647

8. PRIOR PERIOD ADJUSTMENT

An accounting error of $5,730 related to a vendor payment in 2005 was discovered in 2006. The fund balance at January 1, 2006 in the FEMA Special Revenue fund was increased by that amount to correct the error.

9. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Lafayette
Allen County
225 E. Sugar Street
Lafayette, Ohio 45854

To Village Council:

We have audited the financial statements of the Village of Lafayette, Allenn County, Ohio (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July 11, 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 and wherein we noted that we were not able to perform procedures to satisfy ourselves as to the processing of sewer receipts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion 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 deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of 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 accounting practices the Auditor of State prescribes such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings as items 2007-LAF-02 and 03 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

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 considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards,* which are described in the accompanying Schedule of Findings as items 2007-LAF-01 and 04.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We also noted certain other matters that we have reported to management of the Village in a separate letter dated July 11, 2008.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris and Associates, Inc.
July 11, 2008

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

Finding Number 2007-LAF-01-Non-Compliance

Bond Ordinance Compliance

Bond Ordinance 1979-4 Section 8© states that as long as the authorized bonds remain unpaid, that complete books and records will be maintained relating to the operation of the system and its financial affairs (a sewage plant was built with the monies provided by the bond sale). Such books and records are to be audited annually at the end of each fiscal year and an audit report shall be prepared and shall be submitted to the Farmers Home Administration as long as it is holder of any of the bonds without request, and shall be furnished to any other holder of the Bonds upon written request.

Section 8(f) states that prior to the beginning of each fiscal year the Village will prepare an annual budget of said system for the ensuring fiscal year itemized on the basis of monthly requirements and a copy of such budget shall be mailed without request to the Farmers Home Administration as long as the government is holder of any of the bonds and upon written request of any other bondholder.

In addition, a transfer of funds is required each month from the Sewer Revenue Fund Account to an Operation and Maintenance Fund Account. The amount of the transfers should be sufficient to pay reasonable and necessary current expenses for operating and maintaining a sanitary sewer system.

There was no evidence that an annual audit was performed of the sewer accounts and an audit report submitted to the proper agency, or that an annual budget was prepared and sent to the applicable agency. In addition, an Operation and Maintenance Fund has not been established, nor had funds been transferred, to pay current expenses of operating and maintaining the Village's sanitary sewer system.

A copy of the bond covenant and Village Ordinance 1979-4 should be maintained on file and the requirements added to a tickler file in order to comply with all requirements set forth therein. In addition, the required operation and maintenance costs for the sanitary sewer system determined and transferred.

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

Finding Number 2007-LAF-01-Non-Compliance-(Continued)

Management Response:

Management agrees and indicated they are in the process of complying with requirements stated in bond ordinance in the future.

Finding Number 2007-LAF-02- Material Weakness

Maintenance of Sewer Records

Records relating to collections of sewer receipts were not properly maintained. Therefore, we could not obtain sufficient evidential matter to determine whether sewer receipts were properly recorded.

A policy should be adopted establishing adequate accounting and administrative control procedures, including the requirement of a periodic review to determine that the adopted procedures are being followed: The policy should require that a hard copy of the monthly utility registers be generated and maintained in chronological order. This will allow the status of each account to be followed from one month to the next. Sewer collections should be reconciled with the utility stubs and timely deposits made. The stubs that comprise each deposit should be bound and marked with the date collected and deposited. The copies of the deposit slips and the utility stubs should then be filed together to support the dates the amounts were posted the utility registers. This will allow reconciliations to be performed and deposits to be agreed to a specific period. A monthly reconciliation should be performed between the cash/receipt journals and the sewer payment register. Periodically, a review should be performed of the account categories to ensure billings and receipts are accumulating into the correct category.

The Board of Public Affairs should review the reports generated at the monthly meetings to verify the accuracy of the amounts posted to the receipts journal, and to determine that the monthly amounts collected and deposited are consistent, and if not, variances should be investigated.

Management Response:

Management agrees and is in the process of establishing adequate accounting and administrative control procedures for sewer operations.

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

Finding Number 2007-LAF-03-Material Weakness

Recording Errors

We noted the following recording errors in the Village's records:

- Debt service payments were incorrectly classified as transfers or general governmental expenses or were improperly allocated between principal and interest.
- Loan proceeds and sewer receipts from residents for monthly service were recorded as special assessments.
- We also noted that certain property tax revenues were posted to the Bond Reserve Fund rather than the General Fund.

The financial statements have been adjusted to reflect the proper presentation and management has agreed with these adjustments.

We recommend that the disbursements and receipts be recorded in accordance with the classifications found in the *Ohio Village Officers' Handbook*.

Management Response:

Management indicated they concurred with the adjustments and will refer to the Ohio Village Officers' Handbook for guidance on classification of expenditures.

Finding Number 2007-LAF-04-Non-Compliance

Amended Certificate Not Obtained

Ohio Revised Code Section 5705.36 allows subdivisions to request increased amended certificates of estimated resources and reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

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

Finding Number 2007-LAF-04-Material Weakness-Continued

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

The following funds had actual revenues which were less than budgeted revenues and the deficiency reduced available resources below the amounts appropriated at December 31:

2007

Fund	Budgeted Receipts	Actual Receipts	Variance
Special-Street CMR	$15,202	$13,536	$(1,666)

2006

Fund	Budgeted Receipts	Actual Receipts	Variance
Enterprise-Bond Fund	$22,500	$8,983	$(13,517)

By not amending its certificate of estimated resources, the Village cannot make reasonable decisions regarding the monies it has available for appropriation and expenditure. The Village Council should monitor its budgeted revenues versus its actual revenues throughout the year and amend its certificate of estimated resources accordingly.

Management Response:

Management agrees and will monitor appropriations and estimated resources closer.

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
For the Years Ended December 31, 2007 and 2006

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	Appropriations Exceeded Estimated Resources	Yes	
2005-002	Expenditures Exceeded Appropriations	Yes	
2005-003	Failure to issue 1099's	Yes	
2005-004	Bond Ordinance Compliance	No	Reissued as 2007-LAF-01
2005-005	Monitoring of Monthly Reports	Yes	
2005-006	Segregation of Duties and Maintenance of Sewer Records	No	Reissued as 2007-LAF-02

Mary Taylor, CPA
Auditor of State

VILLAGE OF LAFAYETTE

ALLEN 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
OCTOBER 7, 2008

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