ORANGE VILLAGE
CUYAHOGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006

Mary Taylor, CPA
Auditor of State

ORANGE VILLAGE
CUYAHOGA COUNTY

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Mary Taylor, CPA
Auditor of State

Orange Village
Cuyahoga County
4600 Lander Road
Orange Village, Ohio 44022

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 25, 2008

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INDEPENDENT ACCOUNTANTS' REPORT

Orange Village
Cuyahoga County
4600 Lander Road
Orange Village, Ohio 44022

To the Village Council:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2006 does 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, 2006, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Orange Village, Cuyahoga County, Ohio, as of December 31, 2006, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

As described in Note 2 to the financial statements, the Village has restated the January 1, 2006 fund cash balances for the general fund, special revenue fund, debt service fund, capital projects fund and agency fund.

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 24, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 25, 2008

ORANGE VILLAGE
CUYAHOGA COUNTY

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

	Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts:					
Property Tax and Other Local Taxes	$3,789,110	$46,931	$354,450	$239,885	$4,430,376
Special Assessments	4,130	0	1,156,804	0	1,160,934
Intergovernmental Receipts	208,243	160,269	0	762,470	1,130,982
Charges for Services	182,768	0	0	0	182,768
Fines, Licenses, and Permits	136,358	91,375	0	5,250	232,983
Earnings on Investments	119,580	2,436	20,485	71,004	213,505
Miscellaneous	66,423	0	0	0	66,423
Total Cash Receipts	4,506,612	301,011	1,531,739	1,078,609	7,417,971
Cash Disbursements:					
Current:					
Security of Persons and Property	2,074,354	196,398	0	0	2,270,752
Community Environment	248,216	0	0	0	248,216
Basic Utility Services	139,118	0	0	0	139,118
Transportation	545,822	54,871	0	0	600,693
General Government	868,404	0	0	0	868,404
Debt Service:					
Principal and Interest Payments	0	0	3,295,582	0	3,295,582
Capital Outlay	0	15,300	0	832,373	847,673
Total Cash Disbursements	3,875,914	266,569	3,295,582	832,373	8,270,438
Total Receipts Over/(Under) Disbursements	630,698	34,442	(1,763,843)	246,236	(852,467)
Other Financing Receipts and (Disbursements):					
Sale of Bonds	0	0	705,000	0	705,000
Sale of Notes	0	0	880,000	0	880,000
Transfers-In	0	160,270	39,344	118,000	317,614
Transfers-Out	(317,614)	0	0	0	(317,614)
Total Other Financing Receipts/(Disbursements)	(317,614)	160,270	1,624,344	118,000	1,585,000
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	313,084	194,712	(139,499)	364,236	732,533
Fund Cash Balances, January 1, 2006 (Restated)	1,360,936	212,571	1,935,172	919,709	4,428,388
Fund Cash Balances, December 31, 2006	**$1,674,020**	**$407,283**	**$1,795,673**	**$1,283,945**	**$5,160,921**

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

ORANGE VILLAGE
CUYAHOGA COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE FOR THE YEAR ENDED DECEMBER 31, 2006

	Agency
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	$244,953
Total Non-Operating Cash Receipts	244,953
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	224,206
Total Non-Operating Cash Disbursements	224,206
Net Receipts Over/(Under) Disbursements	20,747
Fund Cash Balances, January 1, 2006 (Restated)	343,196
Fund Cash Balances, December 31, 2006	**$363,943**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Orange, Cuyahoga County, Ohio (the Village) as a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected Mayor and seven-member Council. The Village provides general governmental services, including police, fire, building inspection and recreation programs.

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

The Village participates in the following jointly governed organization:

Northeast Ohio Public Energy Council

The Village is a member of the Northeast Ohio Public Energy Council ("NOPEC"), a jointly governed organization. NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. The Village did not contribute to NOPEC in 2006. Financial information can be obtained by contacting NOPEC, 1615 Clark Avenue, Cleveland, Ohio, 44109.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 values U.S. Treasury Notes at cost. The Village invested in STAROhio (the State Treasurer's investment pool) which is valued at amounts reported by the State Treasurer. The Village has purchased a note from the debt service fund.

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 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.

Police Pension Fund – This fund is used to account for property taxes and transfers from the General Fund which is used to pay police pension obligations.

3. Debt Service Fund

This fund is used to accumulate resources for the payment of bond and note indebtedness. The Village had the following significant Debt Service Funds:

Debt Service Fund - This fund receives special assessments and transfers-in to retire bond and note debt.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects. The Village had the following significant Capital Project Funds:

Emery Road Water Line Fund – This fund is used to account for the construction of the Emery Road water line.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

4. Capital Project Funds (Continued)

Infrastructure Levy Fund – This fund is used to account for the construction and maintenance of Village roads, drainage and water.

Orange Place Extension Fund – This fund is used to account for the construction and maintenance of the infrastructure located at the South/North sides of Orange Place.

5. Fiduciary Funds (Agency Funds)

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant Fiduciary Funds:

Contractor's Deposits – This fund is used to account for the collection and distribution of contractor's deposits.

Mayor's Court Fund – This fund holds deposits which consist of traffic violations within the Village limits. A portion of these revenues are paid to the Village's General Fund and the remainder is remitted to the State of Ohio.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually. The Village does not budget for the Mayor's Court.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and major object level of control for the general fund, and fund level of control for all other funds, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 2006 budgetary activity appears in Note 4.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2. RESTATEMENT OF CASH FUND BALANCES

The Village has reclassified the January 1, 2006 fund cash balances of the following funds due to the reclassification of revenues collected to retire debt:

	General	Special Revenue	Debt Service	Capital Projects	Agency
January 1, 2006 fund cash balance previously reported	$1,429,251	$144,256	$0	$2,758,688	$439,389
Reclassification	(68,315)	68,315	1,935,172	(1,838,979)	(96,193)
Restated January 1, 2006 fund cash balance	$1,360,936	$212,571	$1,935,172	$919,709	$343,196

3. 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:

	2006
Demand Deposits	$2,236,083
Total Deposits	2,236,083
U.S. Treasury Notes	963,539
Investment in Debt Service Fund	880,000
STAR Ohio	1,445,242
Total Investments	3,288,781
Total Deposits and Investments	$5,524,864

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

Investments: The Federal Reserve holds the Village's U.S. Treasury Notes in book-entry form, in the name of the Village's financial institution. The financial institution maintains records identifying the Village as owner of these securities. Investments in STAROhio are not evidenced by securities that exist in physical or book-entry form.

4. BUDGETARY ACTIVITY

Budgetary activity for the year ending 2006 follows:

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$4,361,788	$4,506,612	$144,824
Special Revenue	418,359	461,281	42,922
Debt Service	3,165,700	3,156,083	(9,617)
Capital Projects	3,479,835	1,196,609	(2,283,226)
Fiduciary	250,000	244,953	(5,047)
Total	$11,675,682	$9,565,538	($2,110,144)

Fund Type	Authority	Expenditures	Variance
General	$5,034,500	$4,193,528	$840,972
Special Revenue	284,823	266,569	18,254
Debt Service	3,295,700	3,295,582	118
Capital Projects	3,980,650	832,373	3,148,277
Fiduciary	250,000	224,206	25,794
Total	$12,845,673	$8,812,258	$4,033,415

Contrary to Ohio Rev. Code § 5705.41(D)(1**),** Village did not certify the availability of funds during 2006.

Contrary to Ohio Rev. Code §§ 5705.14, 5705.15, and 5705.16 several transfers were made which were not authorized by Council.

Contrary to Ohio Revised Code § 5705.41(B), the following funds had expenditures in excess of appropriations at December 31, 2006:

Fund/Account	Expenditures	Appropriations	Variance
General Fund:			
Transportation	545,822	542,000	(3,822)
Community Environment	248,216	238,500	(9,716)
Special Revenue Funds:			
Police Computer	15,300	-0-	(15,300)
Capital Projects Funds:			
Capital Equipment	220,544	183,000	(37,544)

4. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio Revised Code § 5705.39, the following funds had appropriations in excess of total estimated resources as of December 31, 2006:

Fund	Total Estimated Resources	Appropriations	Variance
Special Revenue Fund:			
State Law Enforcement Fund	40	1,500	(1,460)

5. 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.

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

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.

6. 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. The Village allows a 60% tax credit up to 1.5% of withholding taxes paid to another municipality. The tax also applies to the net income of businesses operating within the Village.

Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Regional Income Tax Agency (RITA) at least quarterly. Corporations and other individual taxpayers are also required to pay estimated tax quarterly and file a final return annually. Taxes collected by RITA in one month are remitted to the Village on 1st and 15th of the following month. Income tax revenue is credited entirely to the General Fund.

7. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other employees, except the Village's firefighters hired after August 3, 1992, 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.

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

Effective August 3, 1992, any new part-time Village firefighters are no longer covered by OPERS and must contribute to social security. The Village liability is 6.2 percent of wages paid.

8. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Village Hall – Advanced Refunding GO Bonds	$1,065,000	1.4% to 4.1%
General Obligation Bond – Lander Watermain	385,000	4.8%
Orange Place South Extension Bonds	1,600,000	2.25% to 5.125%
Orange Place North Extension Bonds	705,000	4% to 5.25%
OPWC Loan – Harvard Road	137,858	0%
OPWC Loan	96,126	0%
OWDA Loans 3266 and 3271	1,622,196	6.41%
Emery Road Bond Anticipation Note	880,000	Variable
Cuyahoga County – Miles Road	560,039	2% to 3.55%
Cuyahoga County – Chagrin Highlands	1,610,000	3% to 5.25%
Total	$8,661,219	

On October 23, 2003, the Village issued $1,295,000 in general obligation bonds at interest rates varying from 1.4 percent to 5.5 percent. The general obligation bonds proceeds were used to refund $1,135,000 of 1994 Village Hall Bonds. The bonds are being repaid in annual installments, including interest, over 10 years.

The General Obligation Bond – Lander Watermain was issued in 1998 and relates to water line improvements which are being repaid in semiannual installments, including interest, over 20 years. The bond is being repaid through special assessments.

The Orange Place South Extension Bond was issued in 2004 for $1,687,000 and was sold at a discount. The bonds are being repaid in semiannual installments, including interest, over 20 years. The bonds are being repaid through special assessments.

8. DEBT (Continued)

The Orange Place North Extension Bond was issued in 2006 for $705,000. The bonds are being repaid in annual installments, including interest, over 20 years. The bonds are being repaid through special assessments.

The Ohio Public Works Commission (OPWC) loan issued in 2002 is a non interest bearing loan that will be paid in semiannual installments over 20 years for the Harvard Road Improvement Project. The Village makes annual payments in the amount of $9,507. The loan is being repaid through special assessments.

The OPWC loan issued in 2005 is a non interest bearing loan that will be paid in semiannual installments over 20 years for the Brainard Road Improvement Project. The Village makes annual payments in the amount of $ 5,059. The loan is being repaid through special assessments.

Ohio Water Development Authority (OWDA) Loan 3266 issued in 2005 relates to a $1,072,180 loan for a sewer and stormwater construction project related to the Chagrin Highlands Project that was issued in 2005. The loan is being repaid in semiannual installments, including interest, over 20 years. The loan is being repaid through special assessments.

OWDA Loan 3271 issued in 2005 relates to a $641,016 loan for the Chagrin Highlands waterline construction project that was issued in 2005. The loan is being repaid in semiannual installments, including interest, over 20 years. The loan is being repaid through special assessments.

The Emery Road Bond Anticipation Note relates to the construction and expansion of Emery Road This note was issued in 2006 for $880,000 and will be repaid in one installment of $880,000 for the principal, plus interest payable on August 2, 2007. This debt will be repaid through special assessments when the bonds are issued.

Cuyahoga County – Chagrin Highlands relates to an agreement entered into in 1999 between Cuyahoga County and the Village to construct the Phase II Public Improvement project for Chagrin Highlands. The County issued the bonds and the Village is required to issue special assessments on the benefiting properties to retire them. The bonds are being repaid in semiannual installments, including interest, over 20 years through special assessments.

Cuyahoga County – Miles Road relates to an agreement entered into in 1991 between Cuyahoga County and the Village to construct the Miles Road Sanitary Sewer Phase I project. The County issued the bonds and the Village is obligated pay its share of the principal and interest on the bonds. The bonds are being repaid in semiannual installments, including interest, over 10 years through special assessment tap-in fees.

8. DEBT (Continued)

Amortization of the above debt, including interest, follows:

Year ending December 31:	Village Hall Refunding Bonds	Lander Watermain / Miles-Tap-In	Orange Place Extension Bonds	O.P.W.C.
2007	$156,115	$141,304	$184,015	14,566
2008	153,355	141,308	186,670	14,566
2009	155,235	140,338	188,970	14,566
2010	156,485	144,842	186,120	14,566
2011	157,130	143,851	188,070	14,566
2012-2016	470,370	401,658	1,036,143	72,830
2017-2021		146,398	1,004,175	68,076
2022-2025			602,311	
Total	$1,248,690	$1,259,699	$3,576,474	213,736

Year ending December 31:	OWDA Loan 3266	OWDA Loan 3271	Chagrin Highland	Totals
2007	$95,869	$57,317	$137,525	$786,711
2008	95,869	57,317	135,125	784,210
2009	95,869	57,317	138,475	790,770
2010	95,869	57,317	136,525	791,724
2011	95,869	57,317	138,275	795,078
2012-2016	479,345	286,585	686,163	3,433,094
2017-2021	479,345	286,585	685,738	2,670,317
2022-2025	335,542	200,608	411,050	1,138,461
Total	$1,773,577	$1,060,363	$2,468,876	$11,190,365

9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

They also provide for health insurance, life insurance and dental coverage to full-time employees through a private carrier.

10. JOINT ECONOMIC DEVELOPMENT ZONE AGREEMENT

The Joint Economic Development Zone Agreement was entered into pursuant to Ohio Revised Code Section 715.49 between the City of Cleveland, City of Warrensville Heights and Orange Village. The City of Cleveland owns property currently situated in the City of Warrensville Heights and Orange Village and desires to develop the property to create job opportunities as well as tax and other revenue. Orange Village is responsible for constructing improvements and providing municipal services. The three municipalities have agreed to share in the zone agreement income tax revenues generated from this agreement. The City of Cleveland, the City of Warrensville Heights and Orange Village will receive 37.5%, 12.5% and 50% respectively of the income tax revenue. During the fiscal year 2006, $234,795 of gross zone agreement income tax revenue was collected, of which $117,690 represents Orange Village's portion.

Mary Taylor, CPA
Auditor of State

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

Orange Village
Cuyahoga County
4600 Lander Road
Orange Village, Ohio 44022

To the Village Council

We have audited the financial statements of the Village of Orange, Cuyahoga County, Ohio, (the Village) as of and for the year ended December 31, 2006, and have issued our report thereon dated July 25, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village restated the January 1, 2006 fund cash balances for the general fund, special revenue fund, debt service fund, capital projects fund and agency fund. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-009.

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

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Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe findings numbers 2006-001 through 2006-009 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated July 25, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2006-001 through 2006-009.

We also noted certain noncompliance or other matter that we reported to the Village's management in a separate letter dated July 25, 2008.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 25, 2008

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

Finding Number	2006-001

Failure to Encumber - Noncompliance Citation - Material Weakness

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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

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

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

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

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

The Village did not certify the availability of funds for any expenditure transactions during the audit period. This weakness could allow expenditures to exceed the total of the available fund balance and the current year revenues. This could result in a negative fund balance(s). The Village stated that they were aware of these requirements but failed to implement them.

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

(Continued)

Finding Number	2006-001

(Continued)

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

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

Village's Response

The Village will review the cost/benefits of complying with this requirement in the future.

Finding Number	2006-002

Expenditures Exceeded Appropriations at the Legal Level of Control - Noncompliance Citation – Material Weakness

Ohio Revised Code Section 5705.38(C) requires the following minimum level of budgetary control for villages: "Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services."

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from expending money unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Village may not exceed appropriations at the legal level for all funds.

While the Village appropriates at the proper legal level of control the accounting system the Village utilizes does not report the activity at the level adopted by Council. For example, Council adopted an appropriation for General Law Enforcement for "personal services" and "other" but the Village's expenditure reports only report expenditures in total and not by "personal services" and "other." As a result, management and Council are not provided with reports that allow them to monitor expenditures and appropriations at the legal level of control adopted by Council.

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

(Continued)

Finding Number	**2006-002**

(Continued)

Since actual expenditures are not comparable to the legal level of control adopted by Council a comparison of total appropriations with total expenditures was made. As reported in Note 4 to the financial statements, the following funds had expenditures in excess of appropriations at December 31, 2006:

Fund/Account	Total Expenditures	Total Appropriations	Variance
General Fund:			
Transportation	$545,822	$542,000	$(3,822)
Community Environment	248,216	238,500	(9,716)
Special Revenue Funds:			
Police Computer	15,300	0	(15,300)
Capital Projects Funds:			
Capital Equipment	220,544	183,000	(37,544)

We recommend the Village verify that all expenditures have proper appropriation authority prior to expending funds and compare appropriations to expenditures in all funds which are legally required to be budgeted, at the legal level of control, to maintain compliance with the above requirements. Furthermore, management should review their accounting system and determine if reports can be generated at the legal level of control adopted by Council.

Village's Response

The Village will comply with this requirement in the future.

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

Finding Number	**2006-003**

(Continued)

Illegal Transfers - Noncompliance Citation - Material Weakness

Ohio Revised Code § 5705.14 states that no transfer can be made from one fund of a subdivision to any other fund, except as follows:

- Money may be transferred from the general fund to any other fund of the subdivision by resolution of the taxing authority passed by a simple majority of the board members. [RC 5705.14(E) and 5705.16]

- Except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members [RC 5705.14 & .16]

- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision. [RC 5705.14(B)]

During 2006, the Treasurer transferred monies from various funds to the Debt Service Fund. While these transfers were made to retire debt they were not permissible pursuant to the above Sections nor were they approved by Village Council. The transfers recorded on the financial statements were as follows:

Transfer From Fund	Amount Transferred to Debt Service Fund
Street Construction Maintenance & Repair	$ 9,507
Municipal Building Construction	153,300
Emery Waterline	909,836
Infrastructure Levy	354,450
Lander Watermain	39,522
Orange Place Extension	412,783
Orange Place Sidewalk Assessment	1,286,182

In addition, $20,270 was transferred from the General Fund to the Police Computer Fund without Council authorization. In this instance, a police computer fund was being maintained within the General Fund and the decision was made to establish a separate fund in order to track the activity separately. Permission was granted to establish the fund by the Auditor of State, as required.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**
(Continued)

Finding Number	2006-003

(Continued)

The accompanying financial statements reflect the removal of the above transfers since the monies needed to retire the debt have been reclassified from the respective funds to the Debt Service Fund Type. See findings 2006-004 through 2006-006 for the reclassification of monies to the Debt Service Fund Type.

Village's Response

The Village will comply with this requirement in the future.

Finding Number	2006-004

Monies from the Street Construction Maintenance and Repair (SCM&R) Fund are Restricted as to Use - Noncompliance Citation – Material Weakness

Ohio Revised Code § 5705.10 (D) requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year and cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Village Council) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

In addition, **Ohio Revised Code § 5705.10 (D)** states that 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.

The Village has been using Street Construction Maintenance and Repair (SCM&R) Fund monies to repay an Ohio Public Works Commission (OPWC) loan and for the improvements related to the installation of a watermain and hydrants which are being repaid through special assessments, contrary to these requirements.

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

Finding Number	**2006-004**

(Continued)

1. In 2002, the Village began retiring the debt from a $190,149 interest free loan from the Ohio Public Works Commission (OPWC) for the Harvard Road project. There is no statutory authority for the Street Construction, Maintenance and Repair Fund to expend monies for the repayment of a road loan which was used to reconstruct the existing 2 lane highway to a 5 lane highway. Since then, the Street Construction Maintenance and Repair (SCM&R) Fund – Special Revenue Fund Type has been transferring monies to the Bond Retirement Fund - Debt Service Fund Type to retire the debt. However, due to SCM&R Fund restrictions, the Village cannot legally use SCM&R monies to repay the road loan and should have used General Fund monies or other allowable monies instead.

   Since the loan's inception through 2005, the SCM&R Fund has transferred $47,537 for the retirement of the OPWC loan. As a result, an adjustment has been made increasing the SCM&R fund balance by $47,537 and decreasing the General Fund by the same amount. Also, the transfers made to retire the debt from the SCM&R Fund to the Bond Retirement Fund have been eliminated and the transfers were made from the General Fund to the Bond Retirement Fund - Debt Service Fund Type instead.

2. In April 2002, the Village passed Ordinance No. 2002-10, which levied $32,061 in special assessments on the properties benefiting from the installation of a watermain and fire hydrants on Brainard Road. At the time of the improvements, the Village utilized the SCM&R Fund and subsequent special assessment collections were recorded in the SCM&R Fund. However, due to SCM&R Fund restrictions, the Village cannot legally use SCM&R monies to repay the road loan and should have used General Fund monies or other allowable monies instead.

   Since the SCM&R Fund has collected $11,283 of the $32,061 levied from special assessment the Fund is still owed $20,778. As a result, an adjustment has been made increasing the SCM&R fund balance by $20,778 and decreasing the General Fund by the same amount. An adjustment has also been made reclassifying the special assessment collections received in 2006 ($4,130) from the SCM&R Fund to the General Fund and eliminating the transfer made from the SCM&R Fund to retire the debt ($9,507) and instead recording the transfer from the General Fund.

   Based on the above facts, the adjustments are as follows:

	General Fund	SCM&R Fund Special Revenue Fund Type
Beginning balance	($68,315)	$68,315
Receipts	4,130	
Expenditures	(9,507)	
Ending balance	($73,692)	$68,315

We recommend the OPWC loan be paid from General Fund or other allowable monies and that the Village review the purposes for which SRM&R monies may be used for.

Village's Response

The Village will comply with this requirement in the future.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

Finding Number	2006-005

Revenues Levied to Retire Bonds, Loans and Special Assessments Must be Paid Into the Debt Service Fund Type – Noncompliance Citation – Material Weakness

Ohio Revised Code § 5705.09(C) requires each subdivision to establish a bond retirement fund into which it must pay sufficient revenues to retire serial bonds, notes and certificates of indebtedness at maturity.

Ohio Revised Code § 5705.10(B) provides that all revenue derived from levies for debt charges on bonds, notes, or certificates of indebtedness must be paid into a [debt service] fund for that purpose.

The Village issued general obligation bonds, obtained Ohio Water Department Authority loans and levied special assessments for several projects it is administering. The projects were completed during 2006 or earlier and relate to the Lander Watermain, Orange Place South Extension, the Phase II Public Improvement Project with Cuyahoga County, the Infrastructure Levy and the Chagrin Highlands Project.

The Village is also administering the Orange Place North Project. In 2005, a bond anticipation note was issued for the project and it was retired in 2006 when the bonds were issued. An OPWC loan was also obtained and the loan is being retired through special assessments levied on properties benefiting from the improvement. In 2006, the Village issued a $705,000 bond which was used to retire the Orange Place bond anticipation note.

The revenues derived from levies for debt charges on the bonds, loans, notes and special assessments issued were recorded in several improvement funds in the Capital Projects Fund Type, instead of the Debt Service Fund Type, as required. The funds were then transferred to the Debt Service Fund Type on an as needed basis to retire the principal and interest maturing. Since the only revenues recorded in the Debt Service Fund Type are from transfers-in used to retire the current debt the Debt Service Fund Type is not being used to accumulate revenues earmarked to retire debt and the fund has a zero beginning and ending balance.

Revenues derived from levies for debt charges on bonds, special assessments, loans and proceeds from the bonds issued to retire notes have been reclassified from the various improvement funds in the Capital Projects Fund Type to the Bond Retirement Fund - Debt Service Fund Type in the amounts as follows and the transfers have been eliminated in the accompanying financial statements:

Beginning balance	$475,041
Receipts	1,012,427
Sale of Bonds	705,000
Ending balance	$2,192,468

We recommend that revenue derived from levies for debt charges on bonds, notes, or certificates of indebtedness be paid into the Village's Bond Retirement Fund - Debt Service Fund Type in order to retire the debt issued.

Village's Response

The Village will comply with this requirement in the future.

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

Finding Number	2006-006

Legislation Must Identify the Source(s) of Repaying Bonds and Estate Taxes Should be Credited to the General Fund - Noncompliance Citation – Material Weakness

Ohio Constitution Art. XII, Section 11 states: "No bonded indebtedness of the state, or any political subdivision thereof, shall be incurred or renewed unless, in the legislation under which such indebtedness is incurred or renewed, provision is made for levying and collecting annually by taxation an amount sufficient to pay the interest on said bonds, and to provide a sinking fund for their final redemption at maturity."

Ohio Revised Code § 133.23(C) provides that legislation must identify the source(s) of repaying the bonds, which may be any moneys required by law to be used, or lawfully available, for the purpose. If the bonds are general obligations, or a property tax otherwise must be levied for the debt service, the legislation shall provide for levying a property tax sufficient to pay the bonds' debt charges but the tax amount levied or collected in any year may be reduced by the amount to be available from special assessments, revenues and surplus funds of public utilities, any surplus in the funds from which such bonds are to be retired, or other moneys specifically assigned by law or by legislation of the taxing authority for payment of such debt charges

Ohio Revised Code § 5731.48 requires generally that Village's credit estate taxes in the general fund (effective June 29, 2004).

Ohio Revised Code § 5705.09(C) requires each subdivision to establish a bond retirement fund into which it must pay sufficient revenues to retire serial bonds, notes and certificates of indebtedness at maturity.

In 2003, the Village issued $1,295,000 in general obligation bonds and the proceeds were used to refund $1,135,000 of 1994 Village Hall construction bonds. The Village's resolution states there shall be a direct tax levied annually on all taxable property in the Village to retire the bonds while the bonds say the Village will levy sufficient taxation to retire the bonds. However, no tax was levied and the Village has been using estate taxes to retire the debt.

The estate taxes were recorded in the Municipal Building Construction Fund - Capital Projects Fund Type, instead of the General Fund, as required. The funds were then transferred to the Debt Service Fund Type on an as needed basis to retire the principal and interest maturing. Since the only revenues recorded in the Debt Service Fund Type are from transfers-in used to retire the current debt the Debt Service Fund Type is not being used to accumulate revenues earmarked to retire debt and the fund has a zero beginning and ending balance.

In 1984, the Village passed a resolution requiring all estate taxes be recorded in a capital improvement fund. This resolution is in conflict with Ohio Revised Code § 5731.48, effective June 29, 2004.

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

Finding Number	**2006-006**

(Continued)

Activity for the Village Hall, which is comprised of only estate tax revenues, has been reclassified from the Municipal Building Construct Fund - Capital Projects Fund Type to the Bond Retirement Fund - Debt Service Fund Type in the amounts as follows and the transfers have been eliminated in the accompanying financial statements:

Beginning balance	$1,363,938
Receipts	20,485
Ending balance	$1,384,423

We recommend the Village's follow their resolutions on how serial bonds are to be retired. If there are changes in the method of retiring serial bonds then a revised resolution should be adopted by Council. Also, in accordance with Ohio Revised Code § 5731.48, estate taxes should be recorded in the General Fund.

Village's Response

The Village will comply with this requirement in the future.

Finding Number	**2006-007**

Revenues Levied to Retire General Obligation Bonds Must be Paid Into the Debt Service Fund Type – Noncompliance Citation – Material Weakness

Ohio Revised Code § 5705.09(C) requires each subdivision to establish a bond retirement fund into which it must pay sufficient revenues to retire serial bonds, notes and certificates of indebtedness at maturity.

Ohio Revised Code § 5705.10 provides that all revenue derived from levies for debt charges on bonds, notes, or certificates of indebtedness must be paid into a [debt service] fund for that purpose.

In 1993, the Village entered into an agreement with Cuyahoga County in which the County issued General Obligation Sewer Bonds for the Miles Road Sanitary Sewer Phase 1 project and the Village agreed to impose a tap-in fee to retire their portion of the debt. The Village collected the fees and recorded the activity in the Agency Fund and paid the debt directly from this fund, instead of the Debt Service Fund Type, as required.

Activity for the Miles Road Sanitary Sewer Phase 1 project has been reclassified from the Agency Fund to the Bond Retirement Fund - Debt Service Fund Type in the accompanying financial statements. The amounts reclassified are as follows:

Beginning balance	$96,193
Receipts	153,136
Disbursements	130,000
Ending balance	$119,329

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

Finding Number	2006-007

(Continued)

We recommend the Village record all debt activity for the Miles Road Sanitary Sewer Phase 1 project in the Bond Retirement Fund - Debt Service Fund Type.

Village's Response

The Village will comply with this requirement in the future.

Finding Number	2006-008

Amending the Certificate of Estimated Resources when Notes are Issued - Noncompliance Citation – Material Weakness

Ohio Revised Code § 133.22(B) provides that when a subdivision issues anticipatory securities, the fiscal officer of the subdivision shall file a copy of the legislation passed under division (A) of this section with the county auditor of each county in which any part of the subdivision is located. Ohio Revised Code § 5705.36(A)(3) requires that an increased amended certificate be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue collected by a subdivision.

In 2006, the Village issued an $880,000 bond anticipation note and did not obtain an amended certificate of estimated resources from the county auditor. The county auditor would have allocated the tax settlement among the proper funds to repay the outstanding note had an amended certificate been obtained.

We recommend the Village obtain an amended certificate of estimated resources from the county auditor when notes are issued.

Village's Response

The Village will comply with this requirement in the future.

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

Finding Number	2006-009

The General Fund's Purchase of the Village's a Bond Anticipation Note Was Not Properly Recorded - Material Weakness

In November 2005, the Village issued an $880,000 bond anticipation note and the proceeds were reported in the Emery Waterline – Capital Project Fund. In November 2006, the Village passed Ordinance 2006-51 in order to retire the 2005 Note with the proceeds of a new note to be issued in anticipation of the issuance of bonds and to sell the notes to the General Fund of the Village, pursuant to Ohio Rev. Code Section 133.29. Council subsequently passed a resolution advancing $880,000 from the General Fund to the Emery Waterline – Capital Project Fund.

When preparing the financial statements the Reconciliation of Inter-fund Transactions by Fund Schedule included the advance but the Statements of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances omitted the advance. When including the advance on the financial statements, the Village advanced $880,000 from the General Fund to the Emery Waterline Fund and then transferred $909,837 ($880,000 in principal plus $29,837 in interest) to the Debt Service Fund Type to retire the 2005 Note. The financial statements did not reflect the note proceeds of $880,000 when the 2006 Note was issued.

Based on guidance promulgated in the Ohio Village Officer's Handbook, Chapter 6, Section IV(C), the Village should have recorded the proceeds from the 2006 Note in the Debt Service Fund Type and used these proceeds to retire the 2005 Note. Then the amount received from the General Fund would be recorded as an investment on the investment record and without decreasing the General Fund fund balance. When preparing the bank reconciliation the advance should have been recorded as an investment.

Based on these facts, the $880,000 advance from the General Fund to the Emery Waterline – Capital Projects Fund Type has been eliminated in the accompanying financial statements and the proceeds of $880,000 from the 2006 Note was recorded in the Bond Retirement Fund - Debt Service Fund Type. In addition, a transfer of $29,837 was made from the General Fund to the Bond Retirement Fund - Debt Service Fund Type in order to pay the interest maturing on the 2005 Note.

We recommend the Village follow the guidance promulgated in the Ohio Village Officer's Handbook when purchasing their own debt.

Village's Response

The Village will comply with this requirement in the future.

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VILLAGE OF ORANGE
CUYAHOGA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	The Village does not certify the availability of funds as required by Ohio Revised Code Section 5705.41(D)(1).	No	Re-issued in 2006 as finding 2006-001
2005-002	Several funds had total fund expenditures in excess of total appropriations contrary to Ohio Revised Code Section 5705.41(B).	No	Re-issued in 2006 as finding 2006-002
2005-003	Transfers were made in amounts not authorized by Council contrary to Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.	No	Re-issued in 2006 as finding 2006-003 as several transfers were not approved by Council.
2005-004	Three funds had total appropriations in excess of total estimated resources contrary to Ohio Revised Code Section 5705.39.	Partially	In 2006, the violations were not material. Therefore, violations were reported in the 2006 management letter.

Mary Taylor, CPA
Auditor of State

ORANGE VILLAGE

CUYAHOGA 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
AUGUST 12, 2008

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