



Mary Taylor, CPA
Auditor of State

VILLAGE OF HARROD
ALLEN COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of 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

October 9, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

We have audited the accompanying financial statements of the Village of Harrod, Allen County, (the Village), as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP requires 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 governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserve for encumbrances of the Village of Harrod, Allen County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

October 9, 2008

**VILLAGE OF HARROD
ALLEN COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property Tax and Other Local Taxes	\$26,874			\$26,874
Intergovernmental Receipts	29,339	\$28,892		58,231
Fines, Licenses, and Permits	25			25
Charges for Services		150		150
Earnings on Investments	10,632	8,635		19,267
Miscellaneous	4,083	116		4,199
Total Cash Receipts	<u>70,953</u>	<u>37,793</u>		<u>108,746</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	6,219			6,219
Public Health Services	970			970
Leisure Time Activities	969			969
Transportation		93,184		93,184
General Government	31,261			31,261
Capital Outlay	81,535		\$27,425	108,960
Total Cash Disbursements	<u>120,954</u>	<u>93,184</u>	<u>27,425</u>	<u>241,563</u>
Total Receipts (Under) Disbursements	(50,001)	(55,391)	(27,425)	(132,817)
Other Financing Receipts				
Other Uses	<u>(1,092)</u>			<u>(1,092)</u>
Excess of Cash Receipts and Other Financing Receipts Under) Cash Disbursements	(51,093)	(55,391)	(27,425)	(133,909)
Fund Cash Balances, January 1	<u>97,525</u>	<u>109,952</u>	<u>27,425</u>	<u>234,902</u>
Fund Cash Balances, December 31	<u>46,432</u>	<u>54,561</u>		<u>100,993</u>
Reserves for Encumbrances, December 31	<u>\$19,023</u>	<u>\$0</u>	<u>\$0</u>	<u>\$19,023</u>

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

**VILLAGE OF HARROD
ALLEN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$68,937
Total Operating Cash Receipts	68,937
 Operating Cash Disbursements:	
Personal Services	12,107
Fringe Benefits	3,134
Contractual Services	21,025
Supplies and Materials	7,660
Capital Outlay	13,277
Total Operating Cash Disbursements	57,203
Operating Income	11,734
 Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	18,000
Excess of Receipts Over Disbursements	29,734
Fund Cash Balance, January 1	128,920
Fund Cash Balance, December 31	\$158,654

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

**VILLAGE OF HARROD
ALLEN COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$25,911			\$25,911
Intergovernmental Receipts	27,388	\$35,075		62,463
Fines, Licenses, and Permits	10			10
Earnings on Investments	9,199	7,016		16,215
Miscellaneous	728			728
Total Cash Receipts	<u>63,236</u>	<u>42,091</u>		<u>105,327</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	5,313			5,313
Public Health Services	889			889
Leisure Time Activities	982			982
Transportation	16,436	36,959		53,395
General Government	39,926			39,926
Capital Outlay	17,594			17,594
Total Cash Disbursements	<u>81,140</u>	<u>36,959</u>		<u>118,099</u>
Total Receipts Over/(Under) Disbursements	(17,904)	5,132		(12,772)
Fund Cash Balances, January 1	<u>115,429</u>	<u>104,820</u>	<u>\$27,425</u>	<u>247,674</u>
Fund Cash Balances, December 31	<u>\$97,525</u>	<u>\$109,952</u>	<u>\$27,425</u>	<u>\$234,902</u>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

VILLAGE OF HARROD
ALLEN COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$73,439
Total Operating Cash Receipts	<u>73,439</u>
Operating Cash Disbursements:	
Personal Services	11,352
Fringe Benefits	2,891
Contractual Services	21,692
Supplies and Materials	5,354
Capital Outlay	15,090
Total Operating Cash Disbursements	<u>56,379</u>
Operating Income	17,060
Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	<u>74</u>
Excess of Receipts Over Disbursements	17,134
Fund Cash Balance, January 1	<u>111,786</u>
Fund Cash Balance, December 31	<u><u>\$128,920</u></u>

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

**VILLAGE OF HARROD
ALLEN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Harrod, Allen County (the Village), as a body corporate and politic. A publicly-elected five-member Council governs the Village. The Village provides general governmental services, sewer utilities, park operations (leisure time activities), and street maintenance. The Village relies on the Allen County Sheriff's department to provide security of persons and property. The Village receives fire protection services from the Harrod Volunteer Fire Department.

The Village participates in the Ohio Government Risk Management Plan (the Plan) a public entity risk pool. This Plan provided insurance coverage for participating members. Note 6 to the financial statements provides additional information for the Plan

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

**VILLAGE OF HARROD
ALLEN COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

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

Permanent Improvement Fund - This fund receives proceeds of donations and bequests. The proceeds were used to purchase a new Village Hall.

4. Enterprise Funds

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

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

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

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**VILLAGE OF HARROD
ALLEN COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2007	2006
Demand deposits	\$259,647	\$336,040
Certificates of deposit		27,782
Total deposits	259,647	363,822

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

3. BUDGETARY ACTIVITY

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

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$66,807	\$70,953	\$4,146
Special Revenue	20,000	37,793	17,793
Enterprise	75,000	86,937	11,937
Total	\$161,807	\$195,683	\$33,876

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$165,399	\$141,069	\$24,330
Special Revenue	126,835	93,184	33,651
Capital Projects	27,782	27,425	357
Enterprise	203,921	57,203	146,718
Total	\$523,937	\$318,881	\$205,056

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$65,256	\$63,236	(\$2,020)
Special Revenue	20,000	42,091	22,091
Enterprise	75,000	73,513	(1,487)
Total	\$160,256	\$178,840	\$18,584

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$193,309	\$81,140	\$112,169
Special Revenue	138,518	36,959	101,559
Enterprise	186,668	56,379	130,289
Total	\$518,495	\$174,478	\$344,017

**VILLAGE OF HARROD
ALLEN COUNTY**

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

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

5. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 percent and 9.0 percent, respectively, of their gross salaries and the Village contributed an amount equal to 13.85 percent and 13.7 percent, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

6. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments ("Members").

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

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except the Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

VILLAGE OF HARROD
ALLEN COUNTY

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

6. RISK MANAGEMENT (Continued)

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

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

	<u>2007</u>	<u>2006</u>
Assets	\$11,136,455	\$9,620,148
Liabilities	(4,273,553)	(3,329,620)
Members' Equity	<u>\$ 6,862,902</u>	<u>\$6,290,528</u>

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

7. RELATED PARTY TRANSACTIONS

A Council Member who is the owner of Hughes Plumbing and Heating provided plumbing and heating services and miscellaneous supplies. The Village paid Hughes Plumbing and Heating \$389 in 2007 and \$372 in 2006.

Various services were also acquired for drainage repair and sewer maintenance and repair, from Allen Hughes Septic Tank Service which is owned by the son of the above Council Member. The Village paid Allen Hughes Septic Tank Service \$1,744 in 2007 and \$5,424 in 2006.

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Mary Taylor, CPA

Auditor of State

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

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

We have audited the financial statements of the Village of Harrod, Allen County, (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated October 9, 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 uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 to be significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

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.

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, we believe the significant deficiencies described above as findings 2007-001 through 2007-003 are also material weaknesses.

We also noted a certain internal control matter that we reported to the Village's management in a separate letter dated October 9, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of as items 2007-002 and 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 9, 2008.

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

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

Mary Taylor, CPA
Auditor of State

October 9, 2008

**VILLAGE OF HARROD
ALLEN COUNTY**

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

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

FINDING NUMBER 2007-001

Material Weakness

Recording of Financial Activity

To assist in the effective management and reporting of financial resources, an entity should have procedures in place to help assure the proper recording of financial activity in the accounting records and financial statements. The Village's 2007 financial statements had revenue classification errors of \$4,148 in the General Fund and \$11,189 in the Special Revenue Street Fund. The Village's 2006 financial statements had revenue classification errors of \$2,557 in the General Fund and \$14,405 in the Special Revenue Street Fund. The classification errors consisted of but were not limited to the recording of exempt personal property taxes, gas and electric reimbursements and vehicle registration fees as property and other local taxes instead of intergovernmental revenue and the recording of a sidewalk grant and vehicle registration fees as miscellaneous revenue instead intergovernmental revenue.

The failure to correctly record revenues may not only impact the users' understanding of the financial operations, it may also inhibit the Village Council and management's ability to make sound financial decisions, may impact the Village's ability to comply with budgetary laws, and resulted in the material misstatement of the financial statements. The accompanying financial statements have been adjusted to correctly reflect the classification errors identified above.

The Village Fiscal Officer should review the Ohio Village Manual, the UAN Manual, and Auditor of State Audit Bulletins for guidance in the recording of financial activity. The Village's Fiscal Officer and Council Members should also perform a periodic review of the financial records and financial statements to help identify financial recording errors.

FINDING NUMBER 2007-002

Material Weakness/Noncompliance Finding

Ohio Rev. Code Section 135.21 states, in part, that interest earned must be credited to the general fund unless certain exceptions are met. During 2007, the Village recorded interest in the amount of \$1,128 in the Capital Projects Fund which is not a permissible exception to this Code Section.

The failure to record interest revenue in the allowed funds not only inhibits the users understanding of the revenue and fund balances of the impacted funds, but also may result in the material misstatement of the financial statements.

The accompanying financial statements and the accounting records have been adjusted to reflect this interest revenue in the General Fund.

The Fiscal Officer should utilize Chapter 5, Section 5-5, of the Ohio Compliance Supplement, as an aid in the recording of interest revenue. The Village Council should adopt an interest allocation policy to help assure that interest is only allocated to the permissible funds and in proportion to the respective fund balances. Monthly financial reports should be utilized to help identify interest recording errors.

FINDING NUMBER 2007-003

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or 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 fiscal officer can authorize the drawing of a warrant for the payment of the amount due. The subdivision 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 subdivision.
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 subdivision 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.

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

**FINDING NUMBER 2007-003
(Continued)**

The Village Fiscal Officer did not properly certify the availability of funds for an outstanding encumbrance at December 31, 2007, in the amount of \$19,023, in the General Fund. Failure to properly certify encumbrances at year-end could result in the Village overstating available resources for appropriation in the subsequent year. In addition, the failure to certify obligations resulted in the material misstatement of encumbrances in the Village's annual financial statements. The accompanying financial statements have been adjusted to reflect outstanding year-end encumbrances.

To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Village's Fiscal Officer certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used. A review should be performed at year-end to help assure that outstanding obligations have been certified and recorded in the budgetary accounting system and on the year-end financial statements.

OFFICIALS' RESPONSE:

Officials did not respond to the findings above.

VILLAGE OF HARROD
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2005-001	Ohio Rev. Code Section 5705.41 (D) – The Village did not certify the availability of funds prior to entering into purchase obligations.	No	Repeated as Finding 2007-003



Mary Taylor, CPA
Auditor of State

VILLAGE OF HARROD

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
NOVEMBER 13, 2008**