

***VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2009 & 2008

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



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Village of Lafayette, Allen County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2008 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 27, 2011

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**VILLAGE OF LAFAYETTE
ALLEN COUNTY
For the Years Ending December 31, 2009 and 2008**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To Village Council:

We have audited the accompanying financial statements of the Village of Lafayette, Allen County, Ohio (the Village), as of and for the years ended December 31, 2009 and 2008. 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 that 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2009 and 2008. Instead of the combined funds the accompanying financial statements present for 2009 and 2008, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2009 and 2008. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lafayette, Allen County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2009 and 2008. 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 December 10, 2010, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.

December 10, 2010

VILLAGE OF LAFAYETTE
ALLEN COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2009

	Governmental Fund Types			Totals- (Memorandum Only)
	General	Special Revenue	Capital Projects	
Receipts:				
Property Taxes	\$ 20,002	\$ 5,317	\$ -	\$ 25,319
Intergovernmental	36,815	3,910	-	40,725
Special Assessments	-	10,899	-	10,899
Earning on Investment	29	-	-	29
Miscellaneous	801	-	-	801
Total Receipts	57,647	20,126	-	77,773
Disbursements:				
Security of Persons & Property	7,489	-	-	7,489
Public Health Services	4,800	-	-	4,800
Transportation	-	27,330	-	27,330
Capital Outlay	-	850	-	850
General Government	27,484	-	-	27,484
Debt Service:				
Principal Retirement	7,710	-	-	7,710
Interest and Fiscal Charges	2,294	-	-	2,294
Total Disbursements	49,777	28,180	-	77,957
Total Receipts Over/(Under)				
Disbursements	7,870	(8,054)	-	(184)
Other Financing Receipts/ (Disbursements):				
Transfers-In	-	7,572	-	7,572
Advances-In	5,000	-	-	5,000
Advances-Out	(5,000)	-	-	(5,000)
Transfers-Out	(7,572)	-	-	(7,572)
Total Other Financing Receipts/ (Disbursements)	(7,572)	7,572	-	-
Fund Cash Balance, January 1, 2009	21,209	3,928	257	25,394
Fund Cash Balance, December 31, 2009	\$ 21,507	\$ 3,446	\$ 257	\$ 25,210

See Accompanying Notes to the Financial Statements.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
Proprietary Fund Type
For the Year Ended December 31, 2009**

	<u>Enterprise</u>
Receipts:	
Charges for Services	\$ <u>98,425</u>
Total Receipts	98,425
Disbursements:	
Personal Services	19,556
Contractual Services	23,526
Employee Fringe Benefits	3,088
Supplies and Materials	<u>4,939</u>
Total Disbursements	<u>51,109</u>
Excess of Receipts Over/(Under) Disbursements	47,316
Nonoperating Receipts (Disbursements):	
Debt Service:	
Redemption of Principal	(15,500)
Interest and Fiscal Charges	<u>(12,150)</u>
Total Nonoperating Receipts (Disbursements)	<u>(27,650)</u>
Income / (Loss) Before Interfund Transfers and Advances	19,666
Transfers - In	1,000
Transfers - Out	(1,000)
Advances - In	5,000
Advances - Out	<u>(5,000)</u>
Total Nonoperating Receipts (Disbursements)	-
Fund Cash Balance, January 1, 2009	<u>34,494</u>
Fund Cash Balance, December 31, 2009	\$ <u><u>54,160</u></u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2008**

	Governmental Fund Types			Totals- (Memorandum Only)
	General	Special Revenue	Capital Projects	
Receipts:				
Property Taxes	\$ 22,594	\$ 4,585	\$ -	\$ 27,179
Intergovernmental	35,206	5,143	-	40,349
Earning on Investment	456	-	-	456
Miscellaneous	1,767	10	-	1,777
Total Receipts	60,023	9,738	-	69,761
Disbursements:				
Security of Persons & Property	7,637	-	-	7,637
Public Health Services	5,044	-	-	5,044
Transportation	-	17,504	-	17,504
Capital Outlay	-	2,880	-	2,880
General Government	38,358	-	-	38,358
Debt Service:				
Principal Retirement	6,524	-	-	6,524
Interest and Fiscal Charges	1,941	-	-	1,941
Total Disbursements	59,504	20,384	-	79,888
Total Receipts Over/(Under) Disbursements	519	(10,646)	-	(10,127)
Other Financing Sources/(Uses):				
Transfers-In	-	8,784	-	8,784
Transfers-Out	(10,858)	-	-	(10,858)
Total Other Financing Sources/(Uses)	(10,858)	8,784	-	(2,074)
Excess of Receipts and Other Sources Over/(Under) Disbursements and Other Uses	(10,339)	(1,862)	-	(12,201)
Fund Cash Balance, January 1, 2008	31,548	5,790	257	37,595
Fund Cash Balance, December 31, 2008	\$ 21,209	\$ 3,928	\$ 257	\$ 25,394

See Accompanying Notes to the Financial Statements.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
Proprietary Fund Type
For the Year Ended December 31, 2008**

	Enterprise
Receipts:	
Charges for Services	\$ 89,858
Total Receipts	89,858
Disbursements:	
Personal Services	19,795
Contractual Services	25,282
Employee Fringe Benefits	3,058
Supplies and Materials	12,457
Total Disbursements	60,592
Excess of Receipts Over/(Under) Disbursements	29,266
Nonoperating Receipts (Disbursements):	
Debt Service:	
Principal	(16,817)
Interest and Fiscal Charges	(15,858)
Total Nonoperating Receipts (Disbursements)	(32,675)
Income / (Loss) Before Interfund Transfers	(3,409)
Transfers - In	2,074
Fund Cash Balance, January 1, 2008	35,829
Fund Cash Balance, December 31, 2008	\$ 34,494

See Accompanying Notes to the Financial Statements.

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

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

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

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

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved.)

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

C. CASH

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

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. FUND ACCOUNTING

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

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

The Village has the following significant Enterprise Funds:

- Sewer Operating Fund- This fund receives user fees to cover the cost of providing this utility.

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

D. FUND ACCOUNTING - (Continued)

- Bond Retirement Fund- This fund is used for the accumulation of resources for the retirement of the 1980 sewer improvement bond issue.
- Bond Reserve Fund- This fund is a mandatory reserve fund to help ensure prompt and complete payment of the sewer improvement bond issue.

E. BUDGETARY PROCESS

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

1. Estimated Resources

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

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

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

Budgeted receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2008 and 2009. However, those fund balances are available for appropriation.

VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS - (Continued)

2. Appropriations

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

3. Encumbrances

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

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

F. PROPERTY, PLANT AND EQUIPMENT

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

G. ACCUMULATED LEAVE

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	<u>2009</u>	<u>2008</u>
Demand Deposits	\$ <u>79,370</u>	\$ <u>59,888</u>

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

3. PROPERTY TAXES

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

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

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

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

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. Tangible personal property taxes are being phased-out through 2009.

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2009 and 2008 follows:

<u>2009 Budgeted vs Actual Receipts</u>			
<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	<u>Receipts</u>	<u>Receipts</u>	
General Fund	\$ 57,187	\$ 57,647	\$ 460
Special Revenue Funds	26,355	27,698	1,343
Capital Projects	-	-	-
Enterprise Funds	99,526	99,425	(101)

<u>2009 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Fund:</u>	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General Fund	\$ 65,117	\$ 57,349	\$ 7,768
Special Revenue Funds	30,283	28,180	2,103
Capital Projects	257	-	257
Enterprise Funds	147,300	79,759	67,541

<u>2008 Budgeted vs Actual Receipts</u>			
<u>Fund:</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
	<u>Receipts</u>	<u>Receipts</u>	
General Fund	\$ 51,858	\$ 60,023	\$ 8,165
Special Revenue Funds	15,000	18,522	3,522
Capital Projects	-	-	-
Enterprise Funds	95,800	91,932	(3,868)

<u>2008 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Fund:</u>	<u>Appropriation</u>	<u>Budgetary</u>	<u>Variance</u>
	<u>Authority</u>	<u>Expenditures</u>	
General Fund	\$ 73,645	\$ 70,362	\$ 3,283
Special Revenue Funds	23,549	20,384	3,165
Capital Projects	257	-	257
Enterprise Funds	145,911	93,267	52,644

The City was in violation of Ohio Revised Code Sections 5705.39 (See Schedule of Findings).

5. RETIREMENT SYSTEM

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

5. RETIREMENT SYSTEM – (Continued)

Contribution rates are prescribed by the Ohio Revised Code. OPERS members contributed 10.0% of their gross pay while the Village contributed an amount equal to 14.00% of covered payroll for both years.

The Village paid all required contributions through 2009.

6. RISK MANAGEMENT

Risk Pool Membership

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

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

Casualty Coverage

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

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

Property Coverage

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

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

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

6. RISK MANAGEMENT - (Continued)

Financial Position

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

	<u>2008</u>	<u>2007</u>
Assets	\$ 35,769,535	\$37,560,071
Liabilities	<u>(15,310,206)</u>	<u>(17,340,825)</u>
Net Assets	<u>\$ 20,459,329</u>	<u>\$20,219,246</u>

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

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

7. DEBT

Debt outstanding at December 31, 2009 is as follows:

<u>Description:</u>	<u>Principal</u>	<u>Interest Rate</u>
OWDA	\$ 70,026	5.06%
Sewer Mortgage Revenue Bonds	171,500	5.00%
Equipment Loan	<u>16,153</u>	5.40%
Total	<u>\$257,679</u>	

During 2004, OWDA has approved loan #4143 in the amount of \$135,500 for the wastewater treatment plan. The loan is being repaid in semiannual installments of \$2,100 over a 20 year period at 5.06%. As of December 2007, the OWDA disbursed \$100,626 to the contractors directly. The remaining balance of \$ 34,874 was not disbursed and the OWDA Chief Engineer officially closed the project and re-amortized the loan. The loan re-amortization resulted in the Village receiving a \$8,197 credit to the loan principal in 2009. An amortization schedule has not yet been completed.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008**

7. DEBT – (Continued)

The Sewer Mortgage Revenue Bonds were issued for the construction of the Sanitary Sewer system. Property and revenue of the utility have been pledged to repay this debt. As required by the mortgage revenue bond covenant, the Village has established and funded an enterprise reserve fund. At December 31, 2009, the balance of the reserve fund was \$4,718.

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

Principal and interest requirements for debt outstanding at December 31, 2009 are as follows:

<u>Year Ended</u>	OWDA	Sewer Bonds	Bank Note
2010	Not	\$22,600	\$9,234
2011	Available	21,900	7,697
2012		22,200	-
2013		22,450	-
2014		22,650	-
2015-2019		111,000	-
Total		\$222,800	\$16,931

8. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

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Certified Public Accountants

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

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

To Village Council:

We have audited the financial statements of the Village of Lafayette, Allen County, Ohio (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated December 10, 2010, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-LAF-02 and 03 as described in the accompanying schedule of findings to be material weaknesses.

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 grants 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 such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2009-LAF-01, 02, and 04.

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

We also noted certain matters that we have reported to management of the Village in a separate letter dated December 10, 2010.

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

Charles E. Harris and Associates, Inc.

December 10, 2010

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings
December 31, 2009 and 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2009-LAF-01-Non-Compliance

Bond Ordinance Compliance

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

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

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

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

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

Management Response:

Management will recommend Council amend the Bond Ordinance to require only bi-annual audits in accordance with current practice and make transfers as required to the Operation and Maintenance Fund.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings – (continued)
December 31, 2009 and 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2009-LAF-02-Material Weakness/Non-Compliance

Recording Errors

Ohio rev. Code Sections 733.28 and 733.43 state that the Fiscal Officer shall keep the books of the Village, exhibit accurate statements of all monies received and expended, of all property owned by the Village and the income derived therefrom, and of all taxes and assessments. Contrary to this requirement, there were transactions which were incorrectly recorded on the books of the Village:

- Debt service payments were improperly allocated between principal and interest.
- Sewer receipts from residents for monthly service were recorded as special assessments.

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

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

Management Response:

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

Finding Number 2009-LAF-03-Material Weakness

Prior Audit Adjustment Not Recorded

Proper internal control provides for the prevention or detection of material misstatement of the financial statements in a timely manner.

However, the Village did not record an audit adjustment from the prior audit related to a posting error for property taxes for the 2007 fiscal year. Accordingly, the general fund beginning fund balance was understated by \$13,280 and the bond reserve fund as overstated by \$13,280.

The financial statements have been adjusted to reflect the proper presentation and management has agreed with this adjustment and posted it.

**VILLAGE OF LAFAYETTE
ALLEN COUNTY
Schedule of Findings – (continued)
December 31, 2009 and 2008**

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

Finding Number 2009-LAF-03-Material Weakness-Continued

Management Response:

The current fiscal officer was not in office at the time of the accounting error and was not aware that an adjustment was required, but concurs with the adjustment and has posted it to the accounting records.

Finding Number 2009-LAF-04-Non-Compliance

Appropriations Exceeded Estimated Resources

Ohio Revised Code Section 5705.39 states, in part, that "... The total appropriations from each fund shall not exceed the total of the estimated resources available for expenditure there from, as certified by the budget commission..." This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources. Contrary to this requirement, the following funds had total appropriations in excess of estimated resources plus carryover balances:

2009

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Enterprise-Reserve	\$4,718	\$17,998	\$(13,280)

2008

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue-SCMR	\$15,029	\$17,788	\$(2,759)
Enterprise-Sewer Operating	\$79,868	\$80,868	\$(1,000)
Enterprise-Reserve	\$ 4,718	\$17,800	\$(13,282)

We noted that the previously noted audit adjustment (See Finding 2009-LAF-03) which was not booked, caused the variance in the Enterprise Reserve Fund

Management Response:

Management indicated they would book the previously noted audit adjustment and monitor appropriations versus estimated resources more closely.

VILLAGE OF LAFAYETTE
 ALLEN COUNTY, OHIO
 For the Years Ended December 31, 2009 and 2008

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2007-LAF-01	Bond Ordinance Compliance	No	Reissued as 2009-LAF-01
2007-LAF-02	Segregation of Duties and Maintenance of Sewer Records	Yes	
2007-LAF-03	Accounting Errors	No	Repeated as 2009-LAF-02
2007-LAF-04	ORC 5705.36-Amended Certificate not obtained	Yes	



Dave Yost • Auditor of State

VILLAGE OF LAFAYETTE

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 8, 2011