



**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

VILLAGE OF SHERWOOD
DEFIANCE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2004	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Proprietary and Similar Fiduciary Fund Types - For the Year Ended December 31, 2004	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings	21

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

Village of Sherwood
Defiance County
U.S. Highway 127
P.O. Box 4545
Sherwood, Ohio 43556-0545

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 a February 2, 2005, 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 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

April 28, 2006

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Sherwood
Defiance County
U.S. Highway 127
P.O. Box 4545
Sherwood, Ohio 43556-0545

To the Village Council:

We have audited the accompanying financial statements of the Village of Sherwood, Defiance County, (the Village) as of and for the year ended December 31, 2004. 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. 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 this 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 year ended December 31, 2004, 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, 2004, or its changes in financial position or cash flows of its proprietary funds 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 Village of Sherwood, Defiance County, as of December 31, 2004, and its combined cash receipts and disbursements for the year 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 year ended December 31, 2004. 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 April 28, 2006, 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.



Betty Montgomery
Auditor of State

April 28, 2006

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

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

	<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	\$15,441	\$22,823		\$38,264
Municipal Income Tax	16,317			16,317
Intergovernmental Receipts	94,506	97,238	\$8,056	199,800
Charges for Services	7,775	31,806		39,581
Fines, Licenses, and Permits	1,015	222		1,237
Earnings on Investments	2,091	249		2,340
Miscellaneous	3,072	12,646		15,718
	<u>140,217</u>	<u>164,984</u>	<u>8,056</u>	<u>313,257</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	37,383	35,395		72,778
Public Health Services	1,500			1,500
Leisure Time Activities	2,973	5,605		8,578
Community Environment	6,686			6,686
Basic Utility Services	974			974
Transportation		74,138		74,138
General Government	70,015			70,015
Debt Service:				
Principal Payments	4,481	16,079		20,560
Interest Payments	137	8,946		9,083
Capital Outlay	752	25,811	8,056	34,619
	<u>124,901</u>	<u>165,974</u>	<u>8,056</u>	<u>298,931</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>15,316</u>	<u>(990)</u>		<u>14,326</u>
Other Financing Receipts and (Disbursements):				
Transfers-In		6,415		6,415
Transfers-Out	(8,615)			(8,615)
Other Financing Uses	(5)			(5)
	<u>(8,620)</u>	<u>6,415</u>		<u>(2,205)</u>
Total Other Financing Receipts/(Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	6,696	5,425		12,121
Fund Cash Balances, January 1	<u>25,711</u>	<u>98,044</u>		<u>123,755</u>
Fund Cash Balances, December 31	<u><u>\$32,407</u></u>	<u><u>\$103,469</u></u>		<u><u>\$135,876</u></u>

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

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Types</u>		Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$259,678		\$259,678
Miscellaneous	29		29
Total Operating Cash Receipts	<u>259,707</u>		<u>259,707</u>
Operating Cash Disbursements:			
Personal Services	29,326		29,326
Fringe Benefits	10,416		10,416
Contractual Services	37,441		37,441
Supplies and Materials	20,478		20,478
Other	2,302		2,302
Capital Outlay	64,478		64,478
Total Operating Cash Disbursements	<u>164,441</u>		<u>164,441</u>
Operating Income	<u>95,266</u>		<u>95,266</u>
Non-Operating Cash Receipts:			
Fines, Licenses, and Permits		\$750	750
Miscellaneous Receipts	141		141
Total Non-Operating Cash Receipts	<u>141</u>	<u>750</u>	<u>891</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	(37,303)		(37,303)
Interest and Other Fiscal Charges	(23,718)		(23,718)
Other Non-Operating Cash Disbursements		(750)	(750)
Total Non-Operating Cash Disbursements	<u>(61,021)</u>	<u>(750)</u>	<u>(61,771)</u>
Excess of Receipts Over Disbursements Before Interfund Transfers	34,386		34,386
Transfers-In	2,200		2,200
Net Receipts Over Disbursements	36,586		36,586
Fund Cash Balances, January 1	<u>246,807</u>		<u>246,807</u>
Fund Cash Balances, December 31	<u><u>\$283,393</u></u>		<u><u>\$283,393</u></u>

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

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Sherwood, Defiance County (the Village) is 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 six-member Council. The Village provides general government services including water and sewer utilities, park operations (leisure time activities), police services, fire services, and emergency medical services.

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 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).

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

C. Cash and Investments

The investment in STAR Ohio (the State Treasurer's Investment Pool) is valued at amounts reported by the State Treasurer.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Village 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

2. Special Revenue Fund

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

Fire and Rescue Fund - This fund receives property taxes and fire contract revenue for providing fire and rescue services to residents of the Village as well as residents of Mark Township.

Emergency Management Services (EMS) Fund – This fund received insurance monies for ambulance services provided to the residents of the Village as well as residents of Mark Township.

3. Enterprise Funds

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

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

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

4. Fiduciary Funds

Any funds that the Village acts in an agency capacity are classified as Agency funds. The Village had the following significant Agency Fund.

Mayor's Court Fund – This fund receives revenues from tickets issued by the police department. Corresponding expenditures are made to the applicable governmental agencies.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except Agency Funds) to be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control 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.

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not certify all commitments required by Ohio law.

A summary of 2004 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

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

F. Accumulated Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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 and investments at December 31, was as follows:

	<u>2004</u>
Demand deposits	<u>\$271,725</u>
STAR Ohio	<u>147,544</u>
Total deposits and investments	<u><u>\$419,269</u></u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2004, follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$121,132	\$140,217	\$19,085
Special Revenue	127,590	171,399	43,809
Capital Projects	8,056	8,056	
Enterprise	237,826	262,048	2,422
Total	\$494,604	\$581,720	\$87,116

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$146,843	\$133,521	\$13,322
Special Revenue	225,633	165,974	59,659
Capital Projects	8,056	8,056	
Enterprise	484,631	225,462	259,169
Total	\$865,163	\$533,013	\$332,150

4. PROPERTY TAX

Real property taxes become a lien on January 1, preceding the October 1, date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half 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.

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.

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

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

5. DEBT

Debt outstanding at December 31, 2004, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loans	\$135,247	5.15 - 9.86%
Mortgage Revenue Bonds	232,000	5.00%
Sherwood State Bank Loans	219,981	4.875-6%
Fire Marshal Revolving Loan	73,284	0.00%
Revolving Loan Defiance County	17,500	0.00%
Ohio Public Works Commission Loans	138,865	0.00%
Total	<u>\$816,877</u>	

The Ohio Water Development Authority (OWDA) loans were issued for the installation of water and sewer lines. The loan for the water line project was issued January 1, 1984, in the amount of \$123,241 to be repaid in semiannual installments of \$6,716, including interest, over 25 years. The loan for the sewer line project was approved in 2001 for a total of \$95,685 to be repaid in semiannual installments of \$3,860, including interest, over 21 years.

The Mortgage Revenue Bonds were issued for the installation of sewer lines. The bonds were issued February 1, 1979, in the amount of \$418,000 to be repaid in annual installments over 38 years.

The Village has two loans with Sherwood State Bank. The Fire Truck loan was issued in June 2002, in the amount of \$185,000 to be repaid in semiannual installments of \$8,989 over 15 years. The Sewer repairs loan was issued in May 2003, in the amount of \$65,000 to be repaid in monthly installments of \$688 over 11 years.

The State Fire Marshal Revolving Loan was issued in November 2002 for the purchase of a new ambulance. The Village is to make quarterly payments of \$1,409 over the next 15 years.

The Village entered into an agreement with the Defiance County Commissioners in 1998 for a Revolving Loan of \$25,000 to secure the completion of infrastructure due to the expansion of Mid-City Manufacturing. The loan was to be paid in installments of \$2,500 over 10 years and the Village began making payments in 2002.

The Ohio Public Works Commission Loan (OPWC) was issued for the installation of sewer lines. The loan was issued in 2001 for \$158,703 to be paid in semiannual installments of \$3,967 over 20 years.

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

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

5. DEBT – (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	OWDA Loan	Mortgage Revenue Bonds	Sherwood State Bank Loans	Fire Marshal Revolving Loan	OPWC Loan	Defiance County Revolving Loan
2005	21,152	24,600	26,233	4,228	7,935	2,500
2006	21,152	23,950	26,233	5,637	7,935	2,500
2007	21,152	25,300	26,233	5,637	7,935	2,500
2008	21,152	24,550	26,233	5,637	7,935	2,500
Subsequent	139,657	222,850	189,272	52,146	103,158	7,500
Total	<u>\$224,265</u>	<u>\$321,250</u>	<u>\$294,204</u>	<u>\$73,285</u>	<u>\$134,898</u>	<u>\$17,500</u>

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2004, the Village contributed an amount equal to 8.5% of their wages. The Village has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT

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

Pursuant to § 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 with A-VII or better rated carriers, except for a 5 percent portion the Plan retains. With policies effective September 1, 2003 and after, the Plan pays the lesser of 5 percent or \$25,000 for casualty losses up to the coverage limit and the lesser of 5 percent or \$50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

**VILLAGE OF SHERWOOD
DEFIANCE COUNTY**

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

7. RISK MANAGEMENT – (Continued)

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

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

8. CONTINGENT LIABILITIES

The Village is defendant in a lawsuit. Although management cannot presently determine the outcome of this suit, they believe the resolution of this matter will not materially adversely affect the Village's financial condition.

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

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

Village of Sherwood
Defiance County
U.S. Highway 127
P.O. Box 4545
Sherwood, Ohio 43556-0545

To the Village Council:

We have audited the financial statements of the Village of Sherwood, Defiance County (the Village) as of and for the year ended December 31, 2004, and have issued our report thereon dated April 28, 2006, 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of finding as item 2004-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are

also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Village's management dated April 28, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 findings as items 2004-001 and 2004-002. In a separate letter to the Village's management dated April 28, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

April 28, 2006

VILLAGE OF SHERWOOD
DEFIANCE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Revised Code Section 1905.21 states in part that the mayor of a municipal corporation and a mayor's court magistrate shall keep a docket. Neither the mayor of a municipal corporation nor a mayor's court magistrate shall retain or receive for his own use any of the fines, forfeitures, fees, or costs he collects. A mayor's court magistrate shall account for all such fines, forfeitures, fees, and costs he collects and transfer them to the mayor. The mayor shall account for and dispose of all such fines, forfeitures, fees, and costs he collects, including all such fines, forfeitures, fees, and costs that are transferred to him by a mayor's court magistrate, as provided in section 733.40 of the Revised Code.

The mayor did not maintain a cashbook of the Mayor's court activity for 2004. This resulted in the inability to readily determine the revenues, disbursements, and balances of the Mayor's Court Fund. In order to provide a more accurate accounting of the revenue, disbursements and balances of the Mayor's Court, we recommend the Mayor use a cashbook to record the financial transactions of the mayor's court.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Rev. 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.

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.

**FINDING NUMBER 2004-002
(Continued)**

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.

Fifty-seven percent of the transactions tested for 2004 were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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 Clerk-Treasurer 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 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.

FINDING NUMBER 2004-003

Reportable Condition

Utility Software and Procedures

The Village utilizes QuickBook software to create utility invoices and to record customer payments. The following weaknesses were noted with regards to usage of the software as well as the processing of the utility receipts:

1. Daily, monthly, and yearly transaction reports did not indicate the total amount collected.
2. Monthly edit reports were not generated to indicate whether manual changes were made to any utility accounts.
3. Monthly delinquent account reports were not generated as indication of those individuals who should receive shut off notices and/or have their accounts written off. Delinquent account balances were not carried forward to the next invoice so customers were billed less than they actually owed on seven percent of the bills tested for 2004.

**FINDING NUMBER 2004-003
(Continued)**

4. The computer software did not automatically assess penalties for late payments. The Utility Clerk hand calculated the penalties and changed the computer invoices to include the penalties. Penalties were not properly assessed on 17% of the bills tested for 2004. This amounts to a potential estimated loss of revenues to the Village of \$5,223.
5. The computer system did not allocate the batches of receipts into amounts to be posted to the water fund and sewer fund. The Utility Clerk manually allocated the monies for the Village Clerk based on the utility stubs collected and prepared a hand written report of deposits.
6. Passwords were not utilized to enter the utility billing system. Back-up disks were not maintained in a locked, secured area and they were not maintained off-site.
7. The daily deposits were not compared to computer printouts by Village Management to verify the accuracy of deposits. There was no supervisory review of the invoices, penalties, or delinquent accounts by Village Management.
8. The Village assesses water and sewer rates based on the number of individuals in a household recorded on the customer information sheets. For 42 percent of the invoices tested, the number of members in the household per the invoice did not match the information on the customer information sheet or a sheet was not available for that customer.
9. When the Utility Clerk is unavailable the employees of Grimm's Locker collect the utility receipts. These individuals are not bonded. These individuals also have access to the utility billing computer system which is not password protected.

To strengthen controls and accountability over utility collections and ensure that utility receipts are being properly calculated and accounted for, we recommend the following:

1. Village obtain utility computer software that can perform the following functions:
 - Generate utility reports that provide the total collections. These reports should be reconciled to the batch of utility stubs and the money deposited. All documents should be filed in a consistent manner. Any discrepancies between the collections and the deposit should be investigated and reconciled. This daily reconciliation and any corrections made should be fully documented.
 - Print monthly edit reports which indicate any changes noted to utility accounts. Each change made should have an explanation as to why the change was made.
 - Generate a report of delinquent accounts each month as a means of issuing shut-off notices and approving writing off of any uncollectible accounts. The computer software should also carry the delinquent balance of accounts to the next month and include it on the next invoice printed.
 - Calculate and post penalties automatically to any account paid late or delinquent as of the time of the billing.
 - Generate monthly deposit reports which show the amounts to be posted to the water fund and the sewer fund. All monthly deposit reports should provide totals.
2. Passwords be utilized to enter the utility billing system. Passwords should be at least six characters and they should be changed every three months. Back-up disks should be maintained on-site in a secured, fireproof safe or cabinet. A copy of the back-up disks should also be maintained off-site.
3. Customer information sheets be obtained from all utility customers. Any changes to the number of household members be documented in writing by the customer.
4. The Village either bond the employee's of Grimm's Locker that collect utility receipts or prohibit them from collecting the receipts. A lock box could be utilized for customers to drop their payments into or the Village could make arrangements for a second payment location such as the bank.

FINDING NUMBER 2004-003
(Continued)

5. The work of the Utility Clerk be reviewed by the Administrator. The Administrator should review billings occasionally to ensure invoices are being correctly calculated, delinquent balances are being carried over, and penalties are being properly assessed. The Fiscal Officer or Administrator should compare the deposits to the daily transaction printouts to ensure the correct amount is being deposited.

VILLAGE OF SHERWOOD
DEFIANCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Legally adopted appropriations did not match amount posted.	Yes	Fully Corrected
2003-002	Deficiencies in controls over utilities receipts.	No	Repeated as 2004-003.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF SHERWOOD

DEFIANCE 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
MAY 25, 2006**