



Dave Yost • Auditor of State



VILLAGE OF SHERWOOD  
DEFIANCE COUNTY

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# Dave Yost • Auditor of State

Village of Sherwood  
Defiance County  
P.O. Box 4545  
Sherwood, Ohio 43556-0545

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.

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

**Dave Yost**  
Auditor of State

November 8, 2012

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Sherwood  
Defiance County  
P.O. Box 4545  
Sherwood, Ohio 43556-0545

To the Members of Council:

We have audited the accompanying financial statements of the Village of Sherwood, Defiance County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010. 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(A) mandates 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 require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require 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, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of the Village of Sherwood, Defiance County, Ohio and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1.F, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2012, 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.



**Dave Yost**  
Auditor of State

November 8, 2012



**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$18,829	\$28,258		\$47,087
Municipal Income Tax	61,678			61,678
Intergovernmental	74,142	44,911	\$10,000	129,053
Charges for Services	5,820	65,634		71,454
Fines, Licenses and Permits	8,789			8,789
Earnings on Investments	1,014	29		1,043
Contributions and Donations		15,258		15,258
Miscellaneous	81	4,334		4,415
<i>Total Cash Receipts</i>	<u>170,353</u>	<u>158,424</u>	<u>10,000</u>	<u>338,777</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	48,604	41,073		89,677
Public Health Services	2,088			2,088
Leisure Time Activities	721	33,668		34,389
Community Environment	538			538
Transportation		50,827		50,827
General Government	102,468			102,468
Capital Outlay	400	3,127	10,000	13,527
Debt Service:				
Principal Retirement		18,665		18,665
Interest and Fiscal Charges		7,001		7,001
<i>Total Cash Disbursements</i>	<u>154,819</u>	<u>154,361</u>	<u>\$10,000</u>	<u>319,180</u>
<i>Excess of Receipts Over Disbursements</i>	<u>15,534</u>	<u>4,063</u>		<u>19,597</u>
<b>Other Financing Receipts (Disbursements)</b>				
Transfers In		18,981		18,981
Transfers Out	(20,811)			(20,811)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(20,811)</u>	<u>18,981</u>		<u>(1,830)</u>
<i>Net Change in Fund Cash Balances</i>	(5,277)	23,044		17,767
<i>Fund Cash Balances, January 1</i>	<u>85,258</u>	<u>149,228</u>		<u>234,486</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		161,806		161,806
Committed		10,466		10,466
Unassigned	79,981			79,981
<i>Fund Cash Balances, December 31</i>	<u>\$79,981</u>	<u>\$172,272</u>		<u>\$252,253</u>

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

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$265,349
Miscellaneous	288
	265,637
<i>Total Operating Cash Receipts</i>	<i>265,637</i>
<b>Operating Cash Disbursements</b>	
Personal Services	38,976
Employee Fringe Benefits	15,387
Contractual Services	40,747
Supplies and Materials	29,619
Other	927
	125,656
<i>Total Operating Cash Disbursements</i>	<i>125,656</i>
<i>Operating Income</i>	<i>139,981</i>
<b>Non-Operating Receipts (Disbursements)</b>	
Miscellaneous Receipts	100
Capital Outlay	(31,061)
Principal Retirement	(41,821)
Interest and Other Fiscal Charges	(11,273)
	(84,055)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(84,055)</i>
<i>Income Before Transfers</i>	<i>55,926</i>
Transfers In	1,830
	57,756
<i>Net Change in Fund Cash Balances</i>	<i>57,756</i>
<i>Fund Cash Balances, January 1</i>	<i>668,613</i>
<i>Fund Cash Balances, December 31</i>	<i>\$726,369</i>

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

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$18,292	\$28,447		\$46,739
Municipal Income Tax	64,217			64,217
Intergovernmental	78,050	86,737	\$221,849	386,636
Charges for Services	5,735	58,070		63,805
Fines, Licenses and Permits	5,552			5,552
Earnings on Investments	944	210		1,154
Contributions and Donations		29,165		29,165
Miscellaneous	1,098	9,575		10,673
<i>Total Cash Receipts</i>	<u>173,888</u>	<u>212,204</u>	<u>221,849</u>	<u>607,941</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	45,634	55,389		101,023
Public Health Services	1,500			1,500
Leisure Time Activities	878	44,115		44,993
Community Environment	1,163			1,163
Transportation		34,142		34,142
General Government	119,117	64,766		183,883
Capital Outlay	4,675		221,849	226,524
Debt Service:				
Principal Retirement		18,005		18,005
Interest and Fiscal Charges		7,661		7,661
<i>Total Cash Disbursements</i>	<u>172,967</u>	<u>224,078</u>	<u>\$221,849</u>	<u>618,894</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>921</u>	<u>(11,874)</u>		<u>(10,953)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Transfers In		13,814		13,814
Transfers Out	(15,719)			(15,719)
Other Financing Sources	4,759			4,759
Other Financing Uses	(200)			(200)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(11,160)</u>	<u>13,814</u>		<u>2,654</u>
<i>Net Change in Fund Cash Balances</i>	(10,239)	1,940		(8,299)
<i>Fund Cash Balances, January 1</i>	<u>95,497</u>	<u>147,288</u>		<u>242,785</u>
<i>Fund Cash Balances, December 31</i>	<u>\$85,258</u>	<u>\$149,228</u>		<u>\$234,486</u>
Reserve for Encumbrances, December 31		<u>\$200</u>		<u>\$200</u>

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

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$272,097
<b>Operating Cash Disbursements</b>	
Personal Services	33,559
Employee Fringe Benefits	10,769
Contractual Services	43,702
Supplies and Materials	19,961
Other	2,997
<i>Total Operating Cash Disbursements</i>	110,988
<i>Operating Income</i>	161,109
<b>Non-Operating Receipts (Disbursements)</b>	
Intergovernmental	19,000
Debt Proceeds	28,078
Miscellaneous Receipts	964
Capital Outlay	(38,947)
Principal Retirement	(38,452)
Interest and Other Fiscal Charges	(12,699)
<i>Total Non-Operating Receipts (Disbursements)</i>	(42,056)
<i>Income Before Transfers</i>	119,053
Transfers In	6,571
Transfers Out	(4,666)
<i>Net Change in Fund Cash Balances</i>	120,958
<i>Fund Cash Balances, January 1</i>	547,655
<i>Fund Cash Balances, December 31</i>	\$668,613

*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, 2011 AND 2010**

**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 Sherwood, Defiance County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, water and sewer utilities, maintenance of Village roads and bridges, park operations, and police services. The Village appropriates General Fund money to support a volunteer fire department.

The Village participates in the Ohio Plan Risk Management, Inc., a public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

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

**B. Accounting Basis**

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. The Village 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 include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Deposits and Investments**

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

Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 30, 2011 and 2010.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Funds**

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

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

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

Parks and Recreation Fund – This fund receives donations and other miscellaneous receipts to fund renovations to the Crystal Fountain Auditorium as well as improvements and upkeep of the parks within the Village.

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

Emergency Medical Services (EMS) Fund – This fund receives payments from residents of the Village and those in surrounding areas who receive emergency rescue services from Village emergency service personnel. Grants are also a source of revenue.

**3. Capital Project Funds**

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

Community Development Block Grant (CDBG) Fund – This fund received grant monies through the CDBG Formula Program which were used for a sidewalk replacement project.

Water Pollution Control Loan Fund – This fund accounts for grant funds from the Federal government received and spent on behalf of the Village to help with the costs of the wastewater treatment plant improvements project.

**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 significant Enterprise Funds:

Water Operating Fund - This fund accounts for the provision of water services to the residents and commercial users within the Village.

Sewer Operating Fund - This fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

**E. Budgetary Process**

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

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

**F. Fund Balance**

For 2011, the Village implemented Governmental Accounting Standards Board (GASB) No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" which had no effect on fund balances. For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the General Fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the General Fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. 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.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Equity in Pooled Deposits and Investments**

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

	2011	2010
Demand deposits	\$797,334	\$721,913
STAR Ohio	181,288	181,186
Total deposits and investments	\$978,622	\$903,099

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation or 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, 2011 AND 2010  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$170,408	\$170,353	(\$55)
Special Revenue	158,600	177,405	18,805
Capital Projects	10,000	10,000	
Enterprise	265,980	267,567	1,587
Total	\$604,988	\$625,325	\$20,337

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$250,000	\$175,630	\$74,370
Special Revenue	254,000	154,561	99,439
Capital Projects	10,000	10,000	
Enterprise	340,000	209,811	130,189
Total	\$854,000	\$550,002	\$303,998

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$163,939	\$178,647	\$14,708
Special Revenue	204,250	226,018	21,768
Capital Projects	240,849	221,849	(19,000)
Enterprise	12,708	326,710	314,002
Total	\$621,746	\$953,224	\$331,478

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$250,000	\$188,886	\$61,114
Special Revenue	334,600	224,278	110,322
Capital Projects	240,849	221,849	19,000
Enterprise	424,500	205,752	218,748
Total	\$1,249,949	\$840,765	\$409,184

**4. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted 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 financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**4. Property Tax (Continued)**

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

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

**5. Local Income Tax**

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village. Income tax proceeds are placed into the General Fund.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**6. Debt**

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$62,020	5.15%
Sherwood State Bank Loans	95,993	4.875% - 5.25%
Fire Marshall Revolving Loan Program	33,823	
USDA Rural Development Mortgage Revenue Bonds	125,000	5.00%
Ohio Public Works Commission Loan No. CE30E	83,319	
Ohio Public Works Commission Loan No. CE09M	102,125	
Total	<u><u>\$502,280</u></u>	

The Ohio Water Development Authority (OWDA) Loan was issued for the installation of sewer lines. The loan for the sewer line project was approved in 2001 for a total of \$95,685 to be paid in semiannual installments of \$3,860, including interest, over 21 years. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

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 loan is secured by the vehicle financed with the loan proceeds. 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 Marshall Revolving Loan was issued in November 2002 in the amount of \$84,559 for the purchase of a new ambulance. The Village is to make quarterly payments of \$1,409 over the next 15 years.

The USDA Rural Development 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.

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**6. Debt (Continued)**

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 repaid in installments of \$2,500 over 10 years. The Village began making payments in 2002, with the final payment being made in 2011.

The Ohio Public Works Commission (OPWC) Loans relate to sewer improvements. OPWC Loan NO. CE30E was issued for the installation of sewer lines. The loan was issued in 2001 for \$158,703 to be repaid in semiannual installments of \$3,967 over 20 years. OPWC Loan No. CE09M was issued in 2009 and related to the wastewater pump station replacement project. The loan amounted to a total of \$107,500 and will be repaid in semiannual installments of \$1,792 over 30 years.

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

Year ending December 31:	OWDA Loan	Sherwood State Bank Loans	Fire Marshall Revolving Loan	Mortgage Revenue Bonds	OPWC Loans
2012	\$7,721	\$26,233	\$5,637	\$24,250	\$11,518
2013	7,721	21,421	5,637	24,350	11,519
2014	7,721	17,979	5,637	24,400	11,518
2015	7,721	17,979	5,637	25,400	11,519
2016	7,721	17,979	5,637	24,300	11,518
2017-2021	38,605	8,989	5,638	25,200	57,593
2017-2026	3,860				21,885
2027-2031					17,916
2032-2036					17,916
2037-2040					12,542
Total	<u>\$81,070</u>	<u>\$110,580</u>	<u>\$33,823</u>	<u>\$147,900</u>	<u>\$185,444</u>

**7. Retirement System**

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

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

**8. Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**8. Risk Management (Continued)**

Prior to 2009, the Village belonged 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 Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk Management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009, respectively. The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009, respectively. The Village does not participate in this coverage.

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.

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

**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**8. Risk Management (Continued)**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2010 and 2009 (the latest information available), and include amounts for both OPRM and OPHC:

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members' Equity	\$7,191,485	\$300,035	\$6,323,701	\$105,185

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**9. Fund Balances**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the governmental fund types are presented below:

Fund Balances	Governmental Fund Types		Total
	General	Special Revenue	
<b>Restricted for</b>			
Road Maintenance and Improvements		\$47,731	\$47,731
Fire Operations		28,808	28,808
Emergency Medical Services		85,267	85,267
<i>Total Restricted</i>		161,806	161,806
<b>Committed for</b>			
Parks and Recreation		10,466	10,466
Unassigned	\$79,981		79,981
<i>Total Fund Balances</i>	\$79,981	\$172,272	\$252,253

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# Dave Yost • 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 Sherwood  
Defiance County  
P.O. Box 4545  
Sherwood, Ohio 43556-0545

To the Members of Council:

We have audited the financial statements of the Village of Sherwood, Defiance County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated November 8, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and the Village adopted GASB Statement 54 in 2011. We also noted 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(A) mandates the Auditor of State to audit Ohio governments. 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 the purpose of expressing our opinion 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 certain deficiencies in internal control over financial reporting, that we consider material weaknesses and another deficiency we consider to be a significant deficiency.

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 Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-001 and 2011-002 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2011-003 described in the accompanying schedule of findings to be a significant deficiency.

### **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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 8, 2012.

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

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



**Dave Yost**  
Auditor of State

November 8, 2012



**VILLAGE OF SHERWOOD  
DEFIANCE COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<i>Finding Number</i>	2011-001
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**Material Weakness – Estimated Revenue Postings**

Sound accounting practices provide for budgeted revenues posted to the Village's ledgers be based on amounts formally reviewed and approved by Council. Estimated revenues as approved by Council varied with amounts posted to the Council's ledgers at December 31, 2011 and 2010, such as in the following funds:

<u>Fund</u>	<u>Posted Estimated Revenue</u>	<u>Approved Estimated Revenue</u>	<u>Difference</u>
<b>For the year ended December 31, 2011:</b>			
Parks and Recreation Fund	\$35,428	\$36,000	\$572
Water Pollution Control Loan Fund	17,500	10,000	(7,500)
Water Operating Fund	126,284	126,250	(34)
Refuse Fund	2,000	1,500	(500)
<b>For the year ended December 31, 2010:</b>			
Street Construction, Maintenance and Repair Fund	\$35,044	\$35,025	(\$19)
Parks and Recreation Fund	23,953	44,850	20,897
Fire and Rescue Fund	71,048	68,700	(2,348)
Community Development Block Grant Fund	10,000		(10,000)
Water Pollution Control Loan Fund	251,391	240,849	(10,542)
Water Operating Fund	121,500		(121,500)
Sewer Operating Fund	159,458	9,458	(150,000)
Water Deposit Fund	3,789	1,400	(2,389)
Sewer Deposit Fund	2,787	600	(2,187)
Refuse Fund	2,250	\$1,250	(1,000)

This may cause appropriations to exceed estimated resources and could cause deficit spending.

We recommend estimated revenue amounts posted to the Village's ledgers be reconciled with the amounts officially approved on the Amended Certificate of Estimated Resources.

<i>Finding Number</i>	2011-002
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**Material Weakness - Monitoring of Financial Transactions**

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Village's financial statements for the years ended December 31, 2011 and 2010, contained posting errors, such as the following:

- In 2010, \$240,849 in Ohio Water Development Authority (OWDA) grant monies spent on behalf of the Village were reported as debt service disbursements instead of capital outlay disbursements in the Capital Projects fund type. Also, \$19,000 of the OWDA grant receipts were double-booked and reported both in the Water Pollution Control Loan Fund in the Capital Projects fund type and in the Sewer Operating Fund in the Enterprise fund type. Furthermore, when this \$19,000 OWDA grant receipt was posted to the Sewer Operating Fund, it was erroneously reported as other financing sources instead of intergovernmental revenue.
- In 2011 and 2010, contributions and donations credited to the Parks and Recreation Fund totaling \$15,258 and \$29,165, respectively, were posted to miscellaneous revenue instead of separately reporting these monies as contributions and donations.

As a result, audit adjustments were made to the Village's financial statements to correct these and other posting discrepancies ranging from \$11 to \$240,849. The occurrence of such errors increases the possibility the financial statements and accounting records could be materially misstated. Inaccurate posting of transactions impedes the ability of management officials to accurately assess the financial status of the Village. The financial statements and accounting records have been adjusted to reflect these corrections.

We recommend financial transactions only be included in the proper fund and account codes as specified in the Village Officers' Handbook issued by the Auditor of State. Furthermore, the Village Council should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and the Council Members to help ensure errors and omissions are detected and corrected.

<i>Finding Number</i>	2011-003
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**Significant Deficiency - Segregation of Duties for Utilities Collections**

The Village Administrator is responsible for the duties of the utility billing function, including processing utility billings, receiving payments, depositing utility receipts, and entering transactions into the utility system, including any credits and/or other adjustments to customer utility accounts. There is a lack of segregation of duties related to utilities, and a lack of monitoring by the Village Council. to compensate for this weakness.

Furthermore, there is no monthly reconciliation between the utility subsidiary revenue ledger and the Village fund revenue ledger since they are not online with each other.

This situation could result in errors and irregularities occurring without the timely detection by management official. To increase controls and accountability over utility receipts, we recommend the Village Council, (or, as appropriate, individual(s) designated by Council):

- Adopt a policy requiring when prior approval of adjustments to customer utility accounts should be made.
- On a periodic basis, review and approve all adjustments made to accounts. This could be done by reviewing and initialing the Utility Adjustment/Payment Edit Report for any credits and/or other adjustments made to customer utility accounts.
- If determined efficient and economical, Council should consider hiring a part-time employee or shifting certain duties to other employees to allow for some segregation of duties related to utilities.
- Monitor utility activity. Examples might include comparing monthly water and sewer receipts to previous months' and/or years' or reviewing the billing register for unusual billing amounts prior to printing of the utility bills.
- Review and initial the Utility Billing Aging Report and Account Late Charges Reprocessing Report to determine whether the Village's policy regarding penalties and shutoffs are being complied with.
- Reconcile monthly collections per the utility subsidiary revenue ledger (e.g. Payment/Credit Recap Report) to the to the Village fund revenue ledger. Reconciling items or differences should be documented, investigated, and resolved. This reconciliation should then be presented to Council or finance committee for review and approval. This reconciliation could be performed by the Fiscal Officer.

**Officials' Response:**

The Village is committed to ensuring all items are properly accounted for and protected from possible fraud risks to the extent that is feasible given the resources available to us. We appreciate the suggestions made by the Auditor of State and will give consideration to them all. Specifically, in regards to the Utilities Collections, we feel we have made a vast improvement in the accuracy and the reliability of information in the Utilities Billing and Collection System, and have instituted certain controls to compensate for the lack of segregation of duties. The suggestions outlined in the finding related to Utilities Collections are received as valuable insight as to how we can improve upon the monitoring even further. We will institute the procedures recommended by requiring an approval of certain reports as recommended, by the Fiscal Officer, Mayor, Finance Committee, Council, or a combination thereof, to ensure that all activities of the Utilities Collections are monitored by individuals not involved in the day-to-day operations of the Utilities.

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VILLAGE OF SHERWOOD  
DEFIANCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011 AND 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	Material Weakness for improved monitoring of financial activity.	No	Not corrected. Reissued in this report as Finding 2011-002.

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# Dave Yost • Auditor of State

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  
DECEMBER 13, 2012