



**VILLAGE OF EDON
WILLIAMS COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF EDON
WILLIAMS 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, 2006.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Types - For the Year Ended December 31, 2006.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Types - For the Year Ended December 31, 2005.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings.....	25

This page intentionally left blank.



Mary Taylor, CPA
Auditor of State

Village of Edon
Williams County
108 East Indiana Street
P.O. Box 338
Edon, Ohio 43518-0338

To the Mayor and Village Council:

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

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

Mary Taylor, CPA
Auditor of State

September 19, 2007

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Edon
Williams County
108 East Indiana Street
P.O. Box 338
Edon, Ohio 43518-0338

To the Mayor and Village Council:

We have audited the accompanying financial statements of the Village of Edon, Williams County, (the Village) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, 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, 2006 and 2005, or its changes in financial position and 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 of the Village of Edon, Williams County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

September 19, 2007

**VILLAGE OF EDON
WILLIAMS COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$30,921			\$30,921
Municipal Income Tax	183,810		\$95,560	279,370
Intergovernmental	87,553	\$70,808		158,361
Special Assessments	1,369			1,369
Fines, Licenses and Permits		45		45
Earnings on Investments	6,728	315		7,043
Miscellaneous	4,876			4,876
	<u>315,257</u>	<u>71,168</u>	<u>95,560</u>	<u>481,985</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	157,051	647		157,698
Public Health Services	5,773			5,773
Leisure Time Activities	20,332			20,332
Basic Utility Service	904			904
Transportation	44,692	73,692		118,384
General Government	94,155			94,155
Capital Outlay			39,668	39,668
	<u>322,907</u>	<u>74,339</u>	<u>39,668</u>	<u>436,914</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(7,650)</u>	<u>(3,171)</u>	<u>55,892</u>	<u>45,071</u>
Fund Cash Balances, January 1	<u>8,328</u>	<u>21,128</u>	<u>126,856</u>	<u>156,312</u>
Fund Cash Balances, December 31	<u>\$678</u>	<u>\$17,957</u>	<u>\$182,748</u>	<u>\$201,383</u>

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

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

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$421,441
Operating Cash Disbursements:	
Personal Services	60,288
Employee Fringe Benefits	13,531
Contractual Services	26,436
Supplies and Materials	89,293
Total Operating Cash Disbursements	189,548
Operating Income	231,893
Non-Operating Cash Receipts:	
Property and Other Local Taxes	35,698
Non-Operating Cash Disbursements:	
Capital Outlay	6,924
Redemption of Principal	205,502
Interest and Other Fiscal Charges	57,273
Total Non-Operating Cash Disbursements	269,699
Net Cash Receipts Under Cash Disbursements	(2,108)
Fund Cash Balances, January 1	(32,767)
Fund Cash Balances, December 31	(\$34,875)

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$36,218			\$36,218
Municipal Income Tax	186,766		\$97,093	283,859
Intergovernmental	82,585	\$44,453	43,600	170,638
Special Assessments	1,369			1,369
Earnings on Investments	4,096	197		4,293
Miscellaneous	8,976		6,542	15,518
Total Cash Receipts	<u>320,010</u>	<u>44,650</u>	<u>147,235</u>	<u>511,895</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	152,247			152,247
Public Health Services	5,641			5,641
Leisure Time Activities	17,962			17,962
Basic Utility Service	1,217			1,217
Transportation	43,198	49,337		92,535
General Government	107,980			107,980
Debt Service:				
Redemption of Principal	160			160
Capital Outlay			161,514	161,514
Total Cash Disbursements	<u>328,405</u>	<u>49,337</u>	<u>161,514</u>	<u>539,256</u>
Total Cash Disbursements Over Cash Receipts	<u>(8,395)</u>	<u>(4,687)</u>	<u>(14,279)</u>	<u>(27,361)</u>
Fund Cash Balances, January 1	<u>16,723</u>	<u>25,815</u>	<u>141,135</u>	<u>183,673</u>
Fund Cash Balances, December 31	<u>\$8,328</u>	<u>\$21,128</u>	<u>\$126,856</u>	<u>\$156,312</u>

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$408,689
Operating Cash Disbursements:	
Personal Services	57,333
Employee Fringe Benefits	18,765
Contractual Services	27,583
Supplies and Materials	95,494
Total Operating Cash Disbursements	199,175
Operating Income	209,514
Non-Operating Cash Receipts:	
Property and Other Local Taxes	36,269
Non-Operating Cash Disbursements:	
Capital Outlay	6,924
Redemption of Principal	197,720
Interest and Other Fiscal Charges	62,418
Total Non-Operating Cash Disbursements	267,062
Net Cash Receipts Under Cash Disbursements	(21,279)
Fund Cash Balances, January 1	(11,488)
Fund Cash Balances, December 31	(\$32,767)

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Edon, Williams County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities; park operations; street maintenance; and police services

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. Cash 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.

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 accounts for 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 trusts or for capital projects) restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

VILLAGE OF EDON
WILLIAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Motor Vehicle License Tax Fund – This fund receives auto registration tax money for constructing, maintaining, and repairing the Village streets.

3. Capital Project Funds

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

Capital Projects Fund – This fund receives proceeds from the Village's income tax revenues. The proceeds are being used for the repair and maintenance of Village's streets.

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 Fund – This fund receives charges for services from residents to cover water service costs.

Sewer Fund – This fund receives charges for services from residents to cover sewer service costs.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled and reappropriated in the subsequent year.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH

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

	2006	2005
Demand deposits	\$166,508	\$123,545

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village. Contrary to Ohio law, \$1,357 of the Village's bank balance of \$290,380 was uninsured and uncollateralized at December 31, 2006.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$320,000	\$315,257	(\$4,743)
Special Revenue	45,800	71,168	25,368
Capital Projects	100,000	95,560	(4,440)
Enterprise	470,000	457,139	(12,861)
Total	\$935,800	\$939,124	\$3,324

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$328,209	\$322,907	\$5,302
Special Revenue	67,046	74,339	(7,293)
Capital Projects	189,079	39,668	149,411
Enterprise	475,009	459,247	15,762
Total	<u>\$1,059,343</u>	<u>\$896,161</u>	<u>\$163,182</u>

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$315,000	\$320,010	\$5,010
Special Revenue	80,600	44,650	(35,950)
Capital Projects	110,000	147,235	37,235
Enterprise	444,500	444,958	458
Total	<u>\$950,100</u>	<u>\$956,853</u>	<u>\$6,753</u>

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$350,723	\$328,405	\$22,318
Special Revenue	106,415	49,337	57,078
Capital Projects	210,135	161,514	48,621
Enterprise	446,011	466,237	(20,226)
Total	<u>\$1,113,284</u>	<u>\$1,005,493</u>	<u>\$107,791</u>

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.

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.

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. PROPERTY TAX – (CONTINUED)

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 1 ½ 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.

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, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$1,354,790	2.2 - 8.97%
Ohio Public Works Commission Loans	231,487	0%
Edon State Bank Loan	<u>408,501</u>	4.75%
Total	<u><u>\$1,994,778</u></u>	

The Ohio Water Development Authority (OWDA) loans relate to the improvements made to the Village's water and sewer plant that were mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$3,290,845 in loans to the Village for these projects. The loans will be repaid in semiannual installments over twenty years from water and sewer revenues. The scheduled payment amount shows the principal balance of \$1,354,790 at December 31, 2006. The scheduled payment will be adjusted to reflect any revisions in amounts actually borrowed at the conclusion of the repayment of outstanding loans. OWDA requires the Village to charge rates for the services of the water and sewer system that result in pledged revenues at least adequate to cover the required debt obligation to OWDA. Contrary to this agreement, revenues generated from sewer charges were not adequate to provide for payments of its debt obligations to OWDA.

The Ohio Public Works Commission (OPWC) loans relate to the improvements made to Michigan Street Waterline project and a sewer extension project. The loans do not carry an interest charge and will be repaid in semiannual installments over twenty years from the water and sewer funds. The principal balance of the loans is \$231,487 at December 31, 2006.

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. DEBT – (CONTINUED)

On December 17, 2004, the Village obtained a loan from Edon State Bank for \$436,000 to help consolidate a prior loan to repay an Ohio Water Development Authority (OWDA) loan used to prepare the plans and specifications for a Village water project; a loan to fund construction of a new water tower; and loan to acquire property the water tower is located on. The loan is unreserved but water revenues and/or income tax revenues have been pledged to repay this loan. The loan will be repaid in quarterly installments over twenty years from water revenues. The scheduled payment amount below shows the principal balance of \$408,501 at December 31, 2006.

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

Year ending December 31:	OWDA Loan	OPWC Loans	Edon State Bank Loan
2007	\$208,463	\$20,748	\$33,897
2008	208,824	20,748	33,897
2009	209,218	20,748	33,897
2010	209,648	20,748	33,897
2011	184,240	20,748	33,897
2012 – 2024	464,738	127,747	440,657
Total	<u>\$1,485,131</u>	<u>\$231,487</u>	<u>\$610,142</u>

7. RETIREMENT SYSTEMS

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OP&F participants contributed 10% of their wages. For 2006 and 2005, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Commercial Property and General Liability;
- Public Officials Liability
- Law Enforcement Liability;

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

- Commercial Inland Marine;
- Commercial Crime and Auto; and
- Commercial Umbrella Coverage

During the 2003/2004 audit, the Village belonged to the Ohio Risk Management Plan, a jointly administered self-insurance risk management program. During the 2005/2006 audit, the Village obtained commercial insurance through the HCC Insurance Company.

9. COMPLIANCE

- Contrary to Ohio law, the Village did not post any Issue II monies spent on behalf of the Village.
- The Village did not properly certify certain disbursements as required by Ohio law.
- Contrary to Ohio law, the Village had deficit fund balances in the Water fund at December 31, 2005, and deficit fund balances in the Water, Sewer, and Garbage fund at December 31, 2006.
- The Village violated its income tax ordinance by not allocating income tax receipts to the proper funds.
- Contrary to Ohio law, appropriations exceeded estimated resources and actual resources in the State Grants-CDBG, Permissive Motor Vehicle License Tax and the Sanitary Sewer funds in 2005. In 2006, the General, Capital Projects, Water, and Refuse funds all had appropriations exceeded estimated and actual resources.

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

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

Village of Edon
Williams County
108 East Indiana Street
P.O. Box 338
Edon, Ohio 43518-0338

To the Mayor and Village Council:

We have audited the financial statements of the Village of Edon, Williams County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 19, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-007.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe findings 2006-002 through 2006-006 are also material weaknesses.

We also noted certain matters that we reported to the Village's management in a separate letter dated September 19, 2007.

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 2006-001 through 2006-006.

We also noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated September 19, 2007.

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



Mary Taylor, CPA
Auditor of State

September 19, 2007

VILLAGE OF EDON
WILLIAMS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Non-Compliance Finding and Significant Deficiency

Chapter 5705 of the Revised Code sets forth a scheme that provides for a uniform budget and appropriation process in order to assure that a government entity expends no more that it expects to receive in revenue. In order to accomplish this, all appropriations must be accounted to and from each appropriation fund. While federal and state loans and grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded (R.C.5705.42). Thus, a mechanism is still required to account for receipts and expenditures. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making an original appropriation (R.C.5705.40). An original appropriation measure must be passed by the taxing authority, and in any amendment of, or supplement to, that measure also requires legislative action (R.C. 5705.38).

Auditor of State Bulletin 2002-004 further requires that when an entity enters into an Issue II infrastructure project with the Ohio Public Works Commission (OPWC), the cash value benefit of the program should be recorded as memorandum receipts and disbursements in the year the "on-behalf-of" payments are made to contractors by OPWC.

In 2005, Issue II grant monies, in the amount of \$43,600, were expended directly to contractors on behalf of the Village. These monies were not recorded in the Village's financial statements.

The accompanying financial statements have been adjusted to reflect the "on-behalf-of" activity.

We recommend that the Village follow the guidelines of Auditor of State Bulletin 2002-004, which describes the proper accounting treatment for Issue II infrastructure projects and that the Village post and budget all grant money received to the Village books.

Officials' Response:

Management did not respond to this finding.

FINDING NUMBER 2006-002

Non-Compliance Finding and Material Weakness

Ohio Revised Code § 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 Clerk-Treasurer is attached thereto. The Clerk-Treasurer 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 Clerk-Treasurer'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.

**FINDING NUMBER 2006-002
(Continued)**

1. “Then and Now” certificate – If the Clerk-Treasurer can certify that both at the time that the contract or order was made (“then”), and at the time that the Clerk-Treasurer 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 Clerk-Treasurer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Clerk-Treasurers 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.

Twenty (20%) percent of the transactions tested were not certified by the Clerk–Treasurer at the time the commitment was incurred (35 percent of the purchase orders were not approved by the Mayor) 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 Clerk–Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials’ Response:

Management did not respond to this finding.

FINDING NUMBER 2006-003

Non-Compliance Finding and Material Weakness

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

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

Furthermore, the aforementioned section requires that all revenue derived from a source other than general property tax which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. This section also provides that money paid into any fund shall be used only for the purposes for which such fund is established. A negative fund balance indicates money from one fund was used to cover the expenses of another fund.

During the 2003/2004 audit, the Village advanced \$22,000 from the Capital Projects fund to the Water fund. The monies advanced to the Water fund were used to pay for the debt of the water fund. There was no statutory authority for the Capital Projects fund to expend monies for the Water fund and Council only approved \$9,000 in formal resolutions. As such, there was a prior audit adjustment to rectify the lack of statutory authority for making the advances; however, the Clerk-Treasurer never posted the adjustment to the financial statements.

Since the 2003/2004 audit adjustments were not made during the prior audit, we posted the adjustments to the Water fund and Capital Projects fund beginning fund balance after Council approved the adjustments and the Clerk-Treasurer posted the adjustments. This resulted in a deficit fund balance in the Water fund at December 31, 2005 of (\$19,285) and at December 31, 2006 of (\$20,801).

To resolve the cash flow dilemma and insufficiency of resources in certain funds, we suggest, among other things, that Council consider enhancing revenues and/or reducing expenditures in the affected funds. Council could seek a fund transfer from fund(s) with more abundant resources provided officials comply with the provisions of Ohio Revised Code §§ 5705.14, 5705.15, and 5705.16. Other potential remedies include obtaining a tax advance from the County Auditor, securing short term tax anticipation notes, or reducing the percentage of income tax revenue allocated to the Capital Projects fund.

If advances are deemed necessary, management should refer to Auditor of State Bulletin 97-003 for further guidance. In addition, if advances are made, they should be made only under the express authority of the Village Council.

**FINDING NUMBER 2006-003
(Continued)**

As part of the monitoring process, Village Council should review financial records to make sure the amounts are reflected in the appropriate funds and that there are sufficient funds to pay obligations.

Officials' Response:

Management did not respond to this finding.

FINDING NUMBER 2006-004

Non-Compliance Finding and Material Weakness

Ohio Water Development Authority (OWDA) Cooperative Agreement for State Planning Projects § 3.2(a) provides that the Village will prescribe and charge rates for the services of the water and sewer system that shall result in pledged revenues at least adequate to provide for payments required to remit its debt obligation payments to OWDA.

Revenues generated from sewer charges were not adequate to provide for payments required to remit the Village's debt obligations to OWDA. This has resulted in the Village designating 11.33 percent of the Village's income tax revenues to the Sanitary Sewer fund to subsidize its debt obligations.

We recommend the Board of Public Affairs review the Village's sewer rates and amend them in order to generate an adequate amount of revenues that will provide for payments to meet its debt obligations to OWDA.

Officials' Response:

Management did not respond to this finding.

FINDING NUMBER 2006-005

Finding for Adjustment and Material Weakness

Village of Edon Ordinance 98-01, Section 9 states that "Fifty percent (50%) of the 1% income tax receipts will be placed in the General fund; twenty-five percent (25%) will be placed in the Capital Projects fund; and the remaining twenty-five percent will be placed in the Sanitary Sewer fund." Village of Edon Ordinance 03-07, Section 181.091 states that "Seventy-five (75%) of the funds collected from the additional ½% income tax receipts will be placed in the General fund and the remaining twenty-five percent (25%) will be placed in the Capital Project fund."

Additionally, Ohio Revised Code § 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established.

In 2005, income tax receipts of \$15,777 was misposted to the Sanitary Sewer fund instead of the Capital Projects fund and \$1,671 was misposted to the Refuse fund instead of the Sanitary Sewer fund.

In 2006, income tax receipts of \$96 was misposted to the General fund instead of the Capital Projects fund and \$36 was misposted to the General fund instead of the Sanitary Sewer fund.

**FINDING NUMBER 2006-005
 (Continued)**

In accordance with the foregoing facts, a finding for adjustment is hereby issued against the Sanitary Sewer fund for \$17,448 and in favor of the Capital Projects fund for \$15,777 and the Refuse fund for \$1,671 in 2005. A finding for adjustment is also issued against the General fund for \$132 and in favor of the Capital Projects fund for \$96 and the Sanitary Sewer fund for \$36 in 2006.

This resulted in a deficit fund balance in the Sanitary Sewer fund at December 31, 2005, of (\$14,105) and at December 31, 2006, of (\$12,948). In addition, there was a negative balance at December 31, 2006, in the Refuse fund of (\$1,347). A negative fund balance indicates money from one fund was used to cover the expenses of another fund which is contrary to Ohio Revised Code § 5705.10.

Officials' Response:

Management did not respond to this finding.

FINDING NUMBER 2006-006

Non-Compliance Finding and Material Weakness

Ohio Revised Code §5705.36(A)(2) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater or less than the amount included in an official certificate, the fiscal officer may certify the amount of the deficiency or excess to the commission, and if the commission determines that fiscal officer's certification is reasonable, the commission shall certify an amended certificate reflecting the deficiency or excess.

Ohio Revised Code §5705.36(A)(4) state that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Additionally, Ohio Revised Code §5705.39, states in part that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures there from as certified by the budget commission or in case of appeal, by the board of tax appeals.

The actual amounts available for appropriations were less than the amounts estimated in the official certificate and the current level of appropriations in the following funds:

<u>Year</u>	<u>Fund</u>	<u>Estimated Resources</u>	<u>Actual Resources</u>	<u>Appropriations</u>
As of December 31, 2005:				
	State Grants - CDBG	\$30,000		\$30,013
	Permissive Motor Vehicle License Tax	13,000	\$2,336	24,312
As of December 31, 2006:				
	General Fund	320,000	315,257	328,209
	Capital Projects	100,000	95,560	189,079
	Water Fund	173,000	164,743	175,714
	Refuse Fund	37,000	35,198	39,074

**FINDING NUMBER 2006-006
(Continued)**

The Clerk–Treasurer should have requested an amended certificate of estimated resources from the commission which would have reduced the estimated resources to the level of the actual resources available for appropriations. Appropriations in these funds should have also been reduced to the level of the actual resources available for appropriations.

We recommend that the Clerk–Treasurer compare actual revenues with estimated revenues during the year and make changes when necessary.

Officials’ Response:

Management did not respond to this finding.

FINDING NUMBER 2006-007

Significant Deficiency

Financial Reporting

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments.

1. In 2005, repayment of a water loop project by Edon Local School District was incorrectly posted to the “Income Tax” line item instead of “Miscellaneous Revenues”. Total amount of misposting amounted to \$6,542.
2. Utility revenue of \$7,825 was misposted to the “Income Tax” line item instead of “Charges for Services” in 2005
3. In 2006, motor vehicle registration monies and IRP compensation monies received from the County Auditor were misposted to the “Taxes” line item instead of “Intergovernmental Revenue”. Total amount of mispostings amounted to \$11,014.

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

To ensure the Village’s financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Council, to identify and correct errors and omissions. The Fiscal Officer should also review the UAN chart of accounts and the Village Handbook’s chart of accounts to ensure that all accounts are being properly posted to the financial statements.

Officials’ Response:

Management did not respond to this finding.

**VILLAGE OF EDON
WILLIAMS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC § 5705.10 – Issue II monies and CDBG monies not posted to financial statements; illegal advances made to cover expenses in funds	No	Partially Corrected. Issue II monies not posted in 2005. Reissued as finding 2006-001. Prior audit advance adjustments not posted. Reissued as finding 2006-003.
2004-002	ORC § 5705.41(B) – Expenditure exceeding appropriations	No	Partially Corrected. Reported in the Management Letter.
2004-003	ORC § 5705.40 – Approved appropriations were not properly posted to UAN system.	No	Partially Corrected. Reported in the Management Letter.
2004-004	ORC § 5705.36(A)(2); 5705.36(A)(4); 5705.39 – Appropriations exceeded estimated revenues and available resources.	No	Reissued as finding 2006-006.
2004-005	ORC § 5705.41(D) – Improper encumbering	No	Reissued as finding 2006-002.
2004-006	Ohio Water Development Authority Cooperative Agreement § 3.2(a) – Charging adequate utility rates to provide for the payment of debt obligations.	No	Reissued as finding 2006-004.
2004-007	Village Ordinance 7-96 – Penalties not being assessed on late utility billings; shut-off notifications not issued.	No	Partially Corrected. Reported in the Management Letter.
2004-008	Village Ordinance Chapter 181.07(a) – Penalties and interest not imposed on late income tax filers and/or late income tax payors	No	Partially Corrected. Reported in the Management Letter.



Mary Taylor, CPA
Auditor of State

VILLAGE OF EDON

WILLIAMS 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
OCTOBER 16, 2007**