



**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF NEW BAVARIA
HENRY COUNTY

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Mary Taylor, CPA
Auditor of State

Village of New Bavaria
Henry County
P.O. Box 256
New Bavaria, Ohio 43548-0256

To the Village Council:

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

October 2, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of New Bavaria
Henry County
P.O. Box 256
New Bavaria, Ohio 43548-0256

To the Village Council:

We have audited the accompanying financial statements of the Village of New Bavaria, Henry 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 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 for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balances of the Village of New Bavaria, Henry County, as of December 31, 2006 and 2005, and its cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 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

October 2, 2007

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

**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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$4,486	\$264	\$4,750
Intergovernmental	3,472	4,591	8,063
Earnings on Investments	26	18	44
	<u>7,984</u>	<u>4,873</u>	<u>12,857</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	594		594
Leisure Time Activities	432		432
Transportation		2,164	2,164
General Government	8,122		8,122
	<u>9,148</u>	<u>2,164</u>	<u>11,312</u>
Total Cash Disbursements			
	<u>9,148</u>	<u>2,164</u>	<u>11,312</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(1,164)</u>	<u>2,709</u>	<u>1,545</u>
Other Financing Receipts:			
Other Financing Sources	545		545
	<u>545</u>		<u>545</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(619)	2,709	2,090
Fund Cash Balances, January 1	1,778	7,986	9,764
	<u>1,778</u>	<u>7,986</u>	<u>9,764</u>
Fund Cash Balances, December 31	<u>\$1,159</u>	<u>\$10,695</u>	<u>\$11,854</u>

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

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

**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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$3,855	\$290	\$4,145
Intergovernmental	3,605	4,274	7,879
Earnings on Investments	24	15	39
Miscellaneous	168		168
	<u>7,652</u>	<u>4,579</u>	<u>12,231</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	200		200
Leisure Time Activities	900		900
Basic Utility Service	1,595		1,595
Transportation		4,397	4,397
General Government	11,948		11,948
	<u>14,643</u>	<u>4,397</u>	<u>19,040</u>
Total Cash Disbursements	<u>14,643</u>	<u>4,397</u>	<u>19,040</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(6,991)</u>	<u>182</u>	<u>(6,809)</u>
Other Financing Receipts:			
Other Financing Sources	4,861		4,861
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(2,130)	182	(1,948)
Fund Cash Balances, January 1	<u>3,908</u>	<u>7,804</u>	<u>11,712</u>
Fund Cash Balances, December 31	<u>\$1,778</u>	<u>\$7,986</u>	<u>\$9,764</u>

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

**VILLAGE OF NEW BAVARIA
HENRY 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 New Bavaria, Henry County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, including park operations. The Village contracts with Pleasant Township to receive fire protection 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. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 Fund

This fund accounts 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 Fund:

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

D. Budgetary Process

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

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

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

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. The Village did not encumber all commitments required by Ohio law.

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.

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:

	<u>2006</u>	<u>2005</u>
Demand deposits	<u>\$11,854</u>	<u>\$9,764</u>

Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$15,000	\$8,529	(\$6,471)
Special Revenue	8,000	4,873	(3,127)
Total	\$23,000	\$13,402	(\$9,598)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$17,507	\$9,148	\$8,359
Special Revenue	15,200	2,164	13,036
Total	\$32,707	\$11,312	\$21,395

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$9,800	\$12,513	\$2,713
Special Revenue	2,000	4,579	2,579
Total	\$11,800	\$17,092	\$5,292

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$15,938	\$14,643	\$1,295
Special Revenue	5,574	4,397	1,177
Total	\$21,512	\$19,040	\$2,472

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 NEW BAVARIA
HENRY COUNTY**

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

4. PROPERTY TAX – (CONTINUED)

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

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

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

5. RETIREMENT SYSTEM

The Village's officials 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 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.

6. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

7. COMPLIANCE

- Contrary to the requirements of the Ohio Revised Code certain expenditures were not properly certified by the Fiscal Officer.
- Contrary to the requirements of the Ohio Administrative Code the financial records of the Village were deficient in several areas.
- Contrary to Ohio law the Village improperly credited revenues into funds for which there were no statutory authority to receive them.



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 New Bavaria
Henry County
P.O. Box 256
New Bavaria, Ohio 43548-0256

To the Village Council:

We have audited the financial statements of the Village of New Bavaria, Henry County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated October 2, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. 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 2006-004.

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

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

We noted certain matters that we reported to the Village's management in a separate letter dated October 2, 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 2006-004.

We also noted certain noncompliance or other matters not requiring inclusion in the report that we reported to the Village's management in a separate letter dated October 2, 2007.

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



Mary Taylor, CPA
Auditor of State

October 2, 2007

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Noncompliance Citation/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 fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and order for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

**FINDING NUMBER 2006-001
(Continued)**

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 fiscal officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Management's Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-002

Noncompliance Citation/Material Weakness

Ohio Administrative Code § 117-2-02 (A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

The Village's financial records for 2006 and 2005 indicated the following:

- Gas tax, local government, and rollback and homestead receipts posted to wrong fund and/or wrong line item
- Attempts to reimburse and advance money to the General Fund were incorrectly posted as fund balance adjustments.
- Street light costs were incorrectly paid out of the General Fund
- No 2006 or 2005 payroll journals exist that records gross pay, deductions, net pay, check numbers and dates for each payroll transaction and in total for the entire year.
- No W-2's, W-3's or W-4's and other withholding records or authorizations exist.
- There was no documentation of pay rates approved years ago.

These conditions caused twenty-eight audit adjustments which were needed to correct the Village's financial statements. This indicates a lack of financial monitoring by the Village Council.

Without a review of monthly financial reports, Council is unable to determine if financial results are occurring as anticipated. We recommend the Council review and approve monthly reports of revenue, expenditures, fund balances, and bank reconciliations. Also, we recommend that actual versus budget financial statements be prepared and reviewed at least quarterly (including year to date information).

The Council should carefully review this information and make appropriate inquiries to help determine the continued integrity and timeliness of financial information. This information also provides important data necessary to manage the Village. This information can help answer questions such as the following:

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

Inquires relevant to overall village operations:

- Are current receipts sufficient to cover expenditures?
- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received?

The Council should initial the financial statements reviewed, along with the fiscal officer's bank reconciliation to indicate the reports were reviewed.

Also, the Village could gain efficiencies in both financial accounting and reporting if they would consider utilizing the payroll software already in place on the Uniformed Accounting Network. This software is set up to comply with required payroll deductions, remittances, and filings.

Management's Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-003

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5747.51(J) states that all money received into the treasury of a subdivision from the undivided local government fund in a county treasury shall be paid into the general fund and used for the current operating expenses of the subdivision.

The Village incorrectly posted undivided local government receipts totaling \$405 in 2006 and \$257 in 2005 into the Street Construction, Maintenance, and Repair Fund instead of the General Fund. This caused a material misstatement in the Street Construction, Maintenance, and Repair Fund. The financial statements have been adjusted to correctly show the local government monies in the General Fund.

Management's Response

We did not receive a response from Officials to this finding.

FINDING NUMBER 2006-004

Noncompliance Citation/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;

**FINDING NUMBER 2006-004
(Continued)**

- 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.

In addition, Ohio Revised Code § 5705.10 states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

In 2005, the Village moved \$2,000 from the Street Construction, Maintenance and Repair Fund to the General Fund by posting a fund balance adjustment. The monies moved to the General Fund were used to pay the expenses of general operations. There is no statutory authority for the Street Construction, Maintenance and Repair Fund to expend monies for general operations for the Village. This movement of the \$2,000 was approved by Council in 2005, and although not referred to as an advance by Council, it appears an advance was the intended meaning as Council approved the return of the \$2,000 prior to year end. However, it was not and has not been returned, as of date, due to the lack of sufficient funds in the General Fund.

As a result of the lack of statutory authority for making this advance, adjustments were necessary to reduce the General Fund by \$2,000 and to increase the Street Construction, Maintenance and Repair Fund by \$2,000 for 2005 and 2006. In addition, these adjustments, (with which management agrees) are reflected in the accompanying financial statements.

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.

The Village also incorrectly posted gasoline tax receipts totaling \$1,047 in 2006 and \$1,011 in 2005 into the General Fund. The financial statements have been adjusted to correctly show these revenues in the Street Construction, Maintenance, and Repair Fund.

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.

Management's Response

We did not receive a response from Officials to this finding.

VILLAGE OF NEW BAVARIA
HENRY 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	Ohio Rev. Code § 5705.41(D), improper fiscal officer certification	No	Not Corrected. Repeated as finding 2006-001.



Mary Taylor, CPA
Auditor of State

VILLAGE OF NEW BAVARIA

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 8, 2007**