

VILLAGE OF WILLSHIRE
VAN WERT COUNTY
REGULAR AUDIT
JANUARY 1, 2005 THROUGH DECEMBER 31, 2006
YEARS AUDITED UNDER GAGAS: 2006 AND 2005

CAUDILL & ASSOCIATES CPA's

725 5th Street
Portsmouth, Ohio 45662



Mary Taylor, CPA

Auditor of State

Village Council
Village of Willshire
323 State Street
P.O. Box 110
Willshire, Ohio 45898

We have reviewed the *Independent Auditor's Report* of the Village of Willshire, Van Wert County, prepared by Caudill & Associates, CPA's, for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 5, 2007

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VAN WERT COUNTY

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Independent Auditor's Report

Village of Willshire
Van Wert County
323 State Street
P.O. Box 110
Willshire, Ohio 45898

To the Village Council:

We have audited the accompanying financial statements of the Village of Willshire (The Village), Van Wert County, Ohio, 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also presenting its larger (i.e. major) funds separately for 2006 and 2005. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, 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 or cash flows of its proprietary funds for the years then ended.

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Independent Auditor's Report
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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, 2006 and 2005 and reserves for encumbrances of the Village as of December 31, 2006 and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Note 10 to the financial statements, the Village has incurred deficit spending in several funds and maintains deficit fund balances in the General and Water Funds that raise substantial doubt about its ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 10. The financials statements do not include any adjustments that might result from the outcome of this uncertainty.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. 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 31, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Caudill & Associates, CPA's

Caudill & Associates, CPA's

October 31, 2007

VILLAGE OF WILLSHIRE
VAN WERT 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 Funds Types</u>				Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Permanent Fund	
<u>Cash Receipts</u>					
Property and Other Taxes	\$ 24,086	\$ 114	\$ -	\$ -	\$ 24,200
Charges for Services	-	17,212	-	-	17,212
Municipal Income Tax	35,384	-	-	-	35,384
Fines, Licenses and Permits	1,820	-	-	-	1,820
Intergovernmental	29,250	23,266	1,101,616	-	1,154,132
Earnings on Investments	22	24	-	-	46
Miscellaneous	14,558	5,175	-	-	19,733
Total Cash Receipts	<u>105,120</u>	<u>45,791</u>	<u>1,101,616</u>	<u>-</u>	<u>1,252,527</u>
<u>Disbursements:</u>					
General Government	73,181	-	-	-	73,181
Security of Persons and Property	-	10,822	-	-	10,822
Transportation	-	18,157	1,101,616	-	1,119,773
Public Health	2,599	5,052	-	-	7,651
Community Environment	40	-	-	-	40
Capital Outlay	-	4,000	-	-	4,000
Other	-	-	-	-	-
Total Cash Disbursements	<u>75,820</u>	<u>38,031</u>	<u>1,101,616</u>	<u>-</u>	<u>1,215,467</u>
Total Receipts Over (Under) Disbursements	<u>29,300</u>	<u>7,760</u>	<u>-</u>	<u>-</u>	<u>37,060</u>
<u>Other Financing Receipts/Disbursements:</u>					
Transfers In	-	4,264	-	-	4,264
Transfers Out	-	(4,264)	-	-	(4,264)
Total Other Financing Receipts/(Disbursements)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Cash Balance, January 1	<u>(62,972)</u>	<u>104,535</u>	<u>-</u>	<u>997</u>	<u>42,560</u>
Fund Cash Balance, December 31	<u>\$ (33,672)</u>	<u>\$ 112,295</u>	<u>\$ -</u>	<u>\$ 997</u>	<u>\$ 79,620</u>
Reserve for Encumbrances	<u>\$ 590</u>	<u>\$ 139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 729</u>

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

VILLAGE OF WILLSHIRE
VAN WERT COUNTY

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

	Proprietary Fund Type
	Enterprise
<u>Operating Cash Receipts:</u>	
Charges for Services	\$ 199,898
Total Cash Receipts	199,898
<u>Operating Cash Disbursements:</u>	
Personal Services	71,157
Contractual Services	74,561
Supplies and Materials	28,456
Capital Outlay	10,000
Other	685
Total Cash Disbursements	184,859
<u>Operating Income</u>	15,039
<u>Non-Operating Cash Receipts</u>	
Miscellaneous	5,745
Total Non-Operating Cash Receipts	5,745
<u>Non-Operating Cash Disbursements</u>	
Debt Service:	
Principal Payments	(34,975)
Interest and Fiscal Charges	(16,267)
Total Non-Operating Cash Disbursements	(51,242)
<u>Income (loss) before transfers</u>	(30,458)
Transfers In	54,331
Transfers Out	(54,331)
Total Transfers	-
Total Receipts Over (Under) Disbursements	(30,458)
Fund Cash Balance, January 1	18,151
Fund Cash Balance, December 31	\$ (12,307)
Reserve for Encumbrances	\$ 1,659

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

VILLAGE OF WILLSHIRE
VAN WERT 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 Funds Types</u>			Totals (Memorandum Only)
	General	Special Revenue	Permanent Fund	
<u>Cash Receipts</u>				
Property and Other Taxes	\$ 23,300	\$ -	\$ -	\$ 23,300
Intergovernmental	34,123	24,912	-	59,035
Charges for Services	25	26,289	-	26,314
Earnings on Investments	1,768	115	-	1,883
Miscellaneous	6,651	12,982	-	19,633
Total Cash Receipts	<u>65,867</u>	<u>64,298</u>	<u>-</u>	<u>130,165</u>
<u>Disbursements:</u>				
General Government	78,823	-	-	78,823
Security of Persons and Property	1,713	15,089	-	16,802
Transportation	-	18,217	-	18,217
Public Health	2,726	5,158	-	7,884
Community Environment	193	-	-	193
Debt Service:				
Principal Payments	10,150	-	-	10,150
Interest and Fiscal Charges	584	-	-	584
Capital Outlay	3,003	-	-	3,003
Other	-	8,818	-	8,818
Total Cash Disbursements	<u>97,192</u>	<u>47,282</u>	<u>-</u>	<u>144,474</u>
Total Receipts Over (Under) Disbursements	<u>(31,325)</u>	<u>17,016</u>	<u>-</u>	<u>(14,309)</u>
<u>Other Financing Receipts/Disbursements:</u>				
Sale of Notes	10,150	-	-	10,150
Total Other Financing Receipts/(Disbursements)	<u>10,150</u>	<u>-</u>	<u>-</u>	<u>10,150</u>
Fund Cash Balance, January 1 (restated)	<u>(41,797)</u>	<u>87,519</u>	<u>997</u>	<u>46,719</u>
Fund Cash Balance, December 31	<u>\$ (62,972)</u>	<u>\$ 104,535</u>	<u>\$ 997</u>	<u>\$ 42,560</u>

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

VILLAGE OF WILLSHIRE
VAN WERT COUNTY

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

	Proprietary Fund Type
	Enterprise
<u>Operating Cash Receipts:</u>	
Charges for Services	\$ 195,830
Total Cash Receipts	195,830
<u>Operating Cash Disbursements:</u>	
Personal Services	57,226
Contractual Services	93,551
Supplies and Materials	5,627
Capital Outlay	2,599
Total Cash Disbursements	159,003
<u>Operating Income</u>	36,827
<u>Non-Operating Cash Receipts</u>	
Sale of Notes	26,150
Miscellaneous	2,121
Total Non-Operating Cash Receipts	28,271
<u>Non-Operating Cash Disbursements</u>	
Debt Service	
Principal Payments	(53,833)
Interest and Fiscal Charges	(21,805)
Other Non-Operating Cash Disbursements	(1,482)
Total Non-Operating Cash Disbursements	(77,120)
Total Receipts Over (Under) Disbursements	(12,022)
Fund Cash Balance, January 1	30,173
Fund Cash Balance, December 31	\$ 18,151

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

**VILLAGE OF WILLSHIRE
VAN WERT 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 Willshire, Van Wert County, (the Village), as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services, street maintenance and repair, water and sewer utilities, park operations, and fire protection services. The Village contracts with the Van Wert County Sheriff's department to provide security of persons and property. The Village appropriates general fund money to support a volunteer fire department.

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

B. Basis of Accounting

These financial statements follow the basis of accounting 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 adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Fund

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

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

Fire Special Fund – This fund receives donations from outside private sources for defraying the cost of unique and special equipment for the Fire Department.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Fund:

Issue II Fund – This fund receives revenue from the State of Ohio for road work.

4. Permanent Fund

These funds report resources legally restricted so that earnings only, not principal, may be expended to support the government's programs. The Village had the following significant Permanent Fund:

Cemetery Bequests – This fund should receive interest from fund investments. Proceeds are used to maintain grave sites.

5. Enterprise Funds

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

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

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

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. 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 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 commitments are made. The Village did not use the encumbrance method of accounting in 2005.

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

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

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 AND INVESTMENTS

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

	<u>2006</u>	<u>2005</u>
Demand deposits	\$31,084	\$9,046
Certificates of Deposit	<u>\$36,229</u>	<u>\$51,665</u>
Total deposits	<u><u>\$67,313</u></u>	<u><u>\$60,711</u></u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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	\$90,800	\$105,120	\$14,320
Special Revenue	55,930	50,055	(5,875)
Permanent	0	0	0
Capital Project	0	1,101,616	1,101,616
Enterprise	196,900	259,974	63,074
Total	\$343,630	\$1,516,765	\$1,173,135

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$114,858	\$76,410	\$38,448
Special Revenue	76,288	42,434	33,854
Permanent	0	0	0
Capital Projects	0	1,101,616	(1,101,616)
Enterprise	364,821	292,091	72,730
Total	\$555,967	\$1,512,551	(\$956,584)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$120,080	\$76,017	(\$44,063)
Special Revenue	119,738	64,298	(55,440)
Permanent	0	0	0
Capital Projects	35,000	0	(35,000)
Enterprise	234,080	224,101	(9,979)
Total	\$508,898	\$364,416	(\$144,482)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$100,893	\$97,192	\$3,701
Special Revenue	70,350	47,282	23,068
Permanent	0	0	0
Capital Projects	4,529	0	4,529
Enterprise	292,900	236,123	56,777
Total	\$468,672	\$380,597	\$88,075

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.

5. DEBT

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #1	\$374,124	2.00%
Ohio Water Development Authority Loan #2	\$175,315	2.00%
Ohio Public Works Commission	\$148,525	0.00%
USDA/RD Loan	\$197,703	4.75%
First Financial Bank Loan	<u>\$20,076</u>	4.42%
Total	<u>\$915,743</u>	

Ohio Water Development Authority loan #1 is for the updating of the Village's sewer facilities. The loan was authorized May 25, 1990, with the first payment due June 1, 1992 and payable in semi-annual installments of \$19,932 which includes interest, with revenues generated from sewer billings over a period of 25 years. The Village does not have any plans to retire this debt at a date earlier than its scheduled maturity date.

The Ohio Water Development Authority loan #2 is for the construction of a new water plant facility. The loan was authorized January 29, 1998 with the first payment due June 1, 1999 and payable in semi-annual installments of \$5,897 which includes interest, with revenues generated from water billings over a period of 25 years. The Village does not have any plans to retire these debt issues at a date earlier than its scheduled maturity date.

The OPWC loan is for the construction of a new water plant facility. The loan was authorized July 1, 1996, with the first payment due July 1, 1999 and payable in semi-annual installments of \$5,491, with revenues generated from water billings over a period of 20 years. The Village does not have any plans to retire this debt at a date earlier than its scheduled maturity date.

The USDA/RD loan is for the construction of the new water plant facility and is considered as mortgage revenue bonds. The loan was authorized March 8, 1999, with the first payment due March 1, 2000 and payable in annual installments of \$9,302 with revenues generated from water billings over a forty year period. The Village does not have any plans to retire this debt at a date earlier than its scheduled maturity date.

The First Financial Bank loan is for cash flow purposes. The Village is under fiscal emergency and was in need of adequate cash flow. The loan was authorized January 10, 2005 and payable in monthly installments of \$400 which includes interest, with revenues generated from water billings over a one year period. The Village does not have any plans to retire this debt at a date earlier than its scheduled maturity date.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

5. DEBT (CONTINUED)

Amortization of the above debt, including interest, follows:

	OWDA Loan #1	OWDA Loan #2	USDA/RD Loan	OPWC Loan	First Financial Loan
Year ending December 31:					
2007	\$59,797	\$17,960	\$11,766	\$17,824	\$22,725
2008	39,864	11,973	11,766	11,882	
2009	39,864	11,973	11,766	11,882	
2010	39,864	11,973	11,766	11,882	
2011	39,864	11,973	11,766	11,882	
2012 – 2016	198,547	59,867	58,830	59,410	
2017 – 2021		59,867	58,830	23,763	
2022 – 2026		23,944	58,830		
2027 – 2031			58,830		
2032 – 2036			58,830		
2037 – 2039			42,216		
Total	<u>\$417,800</u>	<u>\$209,530</u>	<u>\$395,196</u>	<u>\$148,525</u>	<u>\$22,725</u>

6. RETIREMENT SYSTEM

Four of the Village's elected officials (three council members and the Clerk) and all other full-time and part time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's retirement benefits, including 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 percent, respectively, of their gross salaries. The Village contributed an amount equaling 13.70 and 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

Effective July 1, 1991, all employees not otherwise covered by a State Retirement System have an option to choose Social Security or the appropriate State Retirement System. As of December 31, 2006, three Village Council members and the Mayor had elected Social Security. The Village's liability is 6.2 percent of wages paid.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

8. RELATED PARTIES

In 2005 and 2006 the Village paid Sheets' and Sons to repair water leaks for the Village's water plant. The Village paid Sheets' and Sons \$4,948 in 2005 and \$3,705 in 2006. Sheets' and Sons is owned by Village Fire Chief, Dwight Sheets.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

9. RESTATEMENT OF FUND BALANCE

The restatement of the Cemetery Bequest Fiduciary Fund to a Special Revenue Fund was due to the guidance of AOS Technical Bulletin 2005-005 and has been restated as presented below:

	Mausoleum Repair Expendable Fiduciary Fund	Cemetery Bequest Nonexpendable Fiduciary Fund	Mausoleum Repair Special Revenue Fund	Cemetery Bequest Permanent Fund
Fund Balance December 31, 2004	\$35	\$997	\$0	\$0
Reclassification of Cemetery Fiduciary Fund	(\$35)	(\$997)	\$35	\$997
Adjusted Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>\$35</u>	<u>\$997</u>

10. MANAGEMENT'S PLAN REGARDING DEFICIT

The Village operated with significant deficit spending (disbursements over receipts) in the following funds:

Fund	2006	2005
General	-	(\$21,175)
Water	(\$20,646)	(8,154)
Sewer	-	(3,868)

At December 31, 2006, the Village's General Fund deficit was \$33,672. The Village also maintained a deficit balance in the Water Fund of \$66,975. The Village passed an income tax ordinance on September 6, 2005 to levy a 1% income tax on salaries, wages, commissions and other compensation and on net profits to provide funds for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and capital improvements. The tax was imposed on and after January 1, 2006. The Village also passed ordinances to increase water rates in both 2005 and 2006. Water rates increased by 3% in 2005 and 15% in 2006. The water rate increases will provide funds for the purposes of water and sewage treatment, maintenance, and new equipment needed by the water plant facility.

11. COMPLIANCE

Contrary to Ohio Rev. Code Section 5705.41 (D), the Village did not properly certify funds prior to a commitment being paid during 2005 and 2006. 52% of the expenditures in 2006 and 100% in 2005 tested were not properly certified contrary to Section 5705.41 (D).

Contrary to U.S.C. 1.6041-1 the Village did not report any sub-contractor payments to the IRS on Form 1099. In 2005, \$51,254 not reported. In 2006, \$13,713 was unreported.

Ohio Rev. Code Section 5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, negative fund balances indicates that money from one fund was used to cover the expenses of another fund. The Village had negative fund cash balances as of December 31, 2005 (General Fund, Water Operating Fund and Waste Water Operating Fund) and negative fund cash balances as of December 31, 2006 (General Fund and Water Operating Fund.)

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

11. COMPLIANCE (CONTINUED)

Contrary to Ohio Rev. Code Section 5705.34 the Village didn't document the authorization of the necessary tax levies. Ohio Rev. Code Section 5705.34 states that each taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies. Each such authority is to certify the levies to the county auditor before October 1st unless a later date is approved by the tax commissioner.

The Ohio Rev. Code Section 5705.36 (A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. ORC 5705.36 requires the Village to obtain a increased amended certificate of estimated resources from the budget commission if the legislative authority intends to appropriate and expend excess revenue. The Ohio Revised Code Section 5705.36 (A) (4) requires the Village to obtain a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

The Village didn't secure an amended certificate of estimated resources for 2005 and 2006.

The Ohio Revised Code Section 5705.39 requires in part that total appropriations from each fund shall not exceed the total estimated resources. The Village had several funds in 2005 (General, Fire, and Water) and in 2006 (General, Water, Waste Water and Waste Water Replacement) that had amended and final appropriations which exceeded its original and final certificates of estimated resources.

Contrary to Ohio Rev. Code Section 5705.40 there were several instances noted throughout the year and at year end in which expenditures exceeded appropriations at both the fund level and legal level of control. In 2005, the Fire and Street Funds were noncompliant and in 2006, the CDBG and Issue II Funds were noncompliant. The Village did not pass any amended or supplemental appropriation measures either year.

Contrary to Ohio Rev. Code Section 5705.41(B) there were several instances noted throughout the year and at year end in which expenditures exceeded appropriations at both the fund level and legal level of control including in 2005, the Fire and Street Funds and in 2006, the CDBG and Issue II Funds.

Contrary to Ohio Rev. Code Section 733.28 the Clerk/Treasurer did not account for all transactions on the books of the Village or the financial statements. During our test of debt, disbursements, and receipts it was noted the Clerk/Treasurer posted several receipts, disbursements, and debt payments to the incorrect line item and/or to the incorrect fund. This resulted in many reclassifications and adjustments.

Contrary to Ohio Rev. Code Section 5705.10 which states that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made, the Village posted the proceeds received from the Ohio Public Works Commission to the State Highway Fund rather than the Capital Projects Issue II fund.

Contrary to Village Ordinance 166-99, Section 1 which states that rates and charges for the services of the Water/Sewage System will be fixed in an amount sufficient to pay the costs of operating and maintaining the System, the Water Fund had a negative balance at the end of fiscal year 2005 and throughout 2006, which could indicate the rates are not sufficient to pay the costs of operating and maintaining the system.

Contrary to Ohio Rev. Code Section 4123.25 the Bureau of Workers' Compensation report was not performed accurately during the audit period. Approximately \$22,000 in salary and wages were unreported.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

12. TRANSFERS

Transfers are used to move revenues from funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; to return money to the fund from which it was originally provided once a project is completed; and to transfer capital assets. No transfers occurred in 2005. Several transfers occurred in 2006. The Village made a transfer from the FEMA Fund to the Street Fund in the amount of \$4,264 in order to reimburse the Street Fund which had originally made the payments. A transfer was made from Water Improvement to Water Operating in the amount of \$3,536 in order to close out the fund. A transfer in the amount of \$50,795 was made from Wastewater Replacement to Sewer Operating in order to allocate excess funding over the debt covenant.

13. LOCAL INCOME TAX

The Village passed an income tax ordinance on September 6, 2005 to levy a 1% income tax on salaries, wages, commissions and other compensation and on net profits to provide funds for the purposes of general municipal operations, maintenance, new equipment, extension and enlargement of municipal services and capital improvements. The tax was imposed on and after January 1, 2006.

The Village levies a municipal income tax of 1% on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside 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. This income is credited to the general fund.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Village of Willshire
323 State Street
P.O. Box 110
Willshire, Ohio 45898

We have audited the accompanying cash-basis financial statements of Village of Willshire (the Village), Van Wert County, as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Village's financial statements, and have issued our report thereon dated October 31, 2007, wherein we noted the Village uses a comprehensive basis of accounting other than generally accepted accounting principles. We noted that there was substantial doubt about its ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness on the Village's internal control over financial reporting. Accordingly, we do not express an opinion 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 a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting as items 2006-001, 2006-003, 2006-004, 2006-006, 2006-007, 2006-008, 2006-013, 2006-014, 2006-015, 2006-017, and 2006-019.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

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 deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the following deficiencies described in the accompanying

Village of Willshire

Van Wert County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Page 2

schedule of findings and responses to be material weaknesses in internal controls over financial reporting as items 2006-003, 2006-006, 2006-007, 2006-008, 2006-013, 2006-014, 2006-015, & 2006-017.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed twelve instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Responses as items No. 2006-002, 2006-005, 2006-008, 2006-009, 2006-010, 2006-011, 2006-012, 2006-014, 2006-015, 2006-016, 2006-018, and 2006-020.

We noted certain noncompliance or other matters that we reported to the Village's management in a separate letter dated October 31, 2007.

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

This report is intended for the information and use of management, Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

Caudill & Associates, CPAs

Caudill & Associates, CPA's

October 31, 2007

VILLAGE OF WILLSHIRE
VAN WERT COUNTY

SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Significant Deficiency – Bank Reconciliations

In 2006 and 2005, bank reconciliations were not completed accurately. The Village's inability to get the books in balance with the bank was a result of several posting errors in the cash book. Furthermore, Village Council did not review and approve monthly reconciliations.

Failure by the Clerk/Treasurer to accurately perform and consistently present bank reconciliations to Village Council compromises the internal control environment of the Village.

The Clerk/Treasurer should perform accurate reconciliations on a monthly basis. Monthly reconciliations and monthly financial reports should be provided to Village Council by the Clerk/Treasurer at each regular meeting to facilitate the effective monitoring of Village financial activity. Furthermore, Village Council's review of monthly reconciliations and financial reports should be documented in the minutes.

Village Response:

The Village Council will review and approve all bank reconciliations and monthly financial reports and the Clerk/Treasurer will document the review in the minutes.

FINDING NUMBER 2006-002

Noncompliance Citation – Certification of Funds

Ohio Rev. Code Section 5705.41 (D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by Ohio Rev. Code Section 5705.41 (D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-002 (CONTINUED)

otherwise applicable requirement for approval of expenditures by the taxing authority.

100% of the expenditures tested were not properly certified in 2005 and 52% in 2006.

We recommend the Village implement policies to ensure that all purchases first have monies certified by the Fiscal Officer before purchasing or ordering an item. We also recommend the use of a “then and now” certificate in instances of emergency or absence of proper authority.

Village Response:

Village officials will monitor the proper certifying of expenditures more closely.

FINDING NUMBER 2006-003

Noncompliance Citation/Significant Deficiency/Material Weakness – Creation of Capital Projects Fund

Per AOS Technical Bulletin 2002-004, all local governments participating in Issue II Funds (single or multi-project grant) must, for each project awarded, establish a capital projects fund to account for both the Issue II monies and local matching funds. It is not necessary to obtain authorization from the AOS to establish the funds because authority exists under Section 5705.09 of the Ohio Rev. Code.

During our test of non-payroll disbursements and confirmable revenue, it was noted that the Village received Issue II funding from OPWC during 2006 and posted the receipts and disbursements to the State Highway Fund (2021). This could result in receipts and disbursements being materially misstated.

We recommend the Village post all future Issue II receipts to a capital projects fund.

Village Response:

Village officials will post all future Issue II receipts to a capital projects fund.

FINDING NUMBER 2006-004

Significant Deficiency – Time Sheet Supervision

In 2006 and 2005, timesheets for non-salary employees were not signed by a supervisor. Failure to review and authorize timesheets could lead to errors and discrepancies in hours compensated. The Council should develop and adopt appropriate procedures to ensure that all time sheets are properly reviewed and authorized.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-004 (CONTINUED)

Village Response:

Village officials will develop and adopt appropriate procedures to ensure that all time sheets are properly reviewed and authorized.

FINDING NUMBER 2006-005

Noncompliance Citation – Form 1099

U.S.C. 1.6041-1 states that a Village must report any sub-contractor payments totaling \$600 or more in a year to the IRS on Form 1099. In 2005 and 2006, payments made to sub-contractors over \$600 were not reported to the IRS.

In 2005, \$43,080 was not reported and in 2006, \$7,313 was not reported.

We recommend that the Village obtain copies of employer identification numbers or social security numbers of every service vendor or sub-contractor and report it on a 1099s-Misc form if amounts equal \$600 or more within a calendar year.

Village Response:

Village officials will file Form 1099 for any sub-contractor payments totaling \$600 or more within a calendar year.

FINDING NUMBER 2006-006

Noncompliance Citation/Significant Deficiency/Material Weakness – Creation of CDBG Projects Fund

AOS Bulletin 2000-008 states that when a Village applies for participation in a CDBG funded project, the Village should record receipts and disbursements for the amount of the project payments made on behalf of the Village.

During testing, we noted the County applied for and received CDBG Grant monies on behalf of the Village. The County then paid the contractor on the Village's behalf. However, the Village did not post the expenses or receipts of the monies.

We recommend the Village create a special revenue fund for the purpose of recording the receipts and expenditures of the CDBG grant.

Village Response:

Village officials will create a special revenue fund for the purpose of recording the receipts and expenditures of the CDBG grant.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-007

Significant Deficiency/Material Weakness – Water/Sewage Rates

Water/Sewage rates approved by the Board of Public Affairs and Village Council are set forth in ordinances formally approved by these governing bodies. However, the rates are stated per increments of one thousand and do not include an explanation of rates for usage of partial thousands.

The lack of a clear and precise ordinance to govern the charge of utility services could lead to a misunderstanding of the intent of the governing bodies for the amounts to be charged for utility services.

We recommend the Board of Public Affairs and Village Council assure that a clear and precise ordinance exists to govern the charge of utility services.

Village Response:

The Board of Public Affairs and Village Council will assure that a clear and precise ordinance exists to govern the charge of utility services. Furthermore, the company providing the utility software program will be consulted concerning utility rates currently programmed into the system.

FINDING NUMBER 2006-008

Significant Deficiency/Material Weakness/Noncompliance Citation – Negative Fund Balances

Ohio Rev. Code Section 5705.10 states money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, negative fund balances indicates that money from one fund was used to cover the expenses of another fund.

The Village had negative fund cash balances as of December 31, 2005 (General Fund, Water Operating Fund and Waste Water Operating Fund) and negative cash balances as of December 31, 2006 (General Fund and Water Operating Fund).

We recommend the Village monitor fund balances closely, decrease expenses and increase such rates as water and sewer. Furthermore, we recommend the Village limit spending in funds experiencing cash flow problems to essential purchases only.

Village Response:

Village officials will monitor fund balances closely and limit spending to essential purchases only.

FINDING NUMBER 2006-009

Noncompliance Citation – Certifying Tax Levies

Ohio Rev. Code Section 5705.34 states that each taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies. Each such authority is to certify the levies to the county auditor before

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-009 (CONTINUED)

October 1st unless a later date is approved by the tax commissioner.

Due to the lack of documentation in the minutes, we were unable to determine if the taxing authority authorized the necessary rates and certified them to the County Auditor on or before the required date.

We recommend the Village certify all tax levies before October 1st as required by 5705.34 and document the certification in the Village minutes.

Village Response:

Village officials will certify all tax levies before October 1st and document this in the Village minutes.

FINDING NUMBER 2006-010

Noncompliance Citation – Amended Certificate of Estimated Resources

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Rev. Code Section 5705.36 provides that an increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. Ohio Rev. Code Section 5705.36 provides that a reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

Estimated receipts exceeded actual receipts in several funds at December 31, 2005 & 2006 causing actual resources to fall below the level of appropriation.

We recommend the Village Clerk obtain a reduced certificate of estimated resources when it is determined that estimated receipts will be less than actual receipts causing resources to fall below the level of appropriation.

Village Response:

The Clerk/Treasurer will secure an amended certificate of estimated resources when it is determined that estimated receipts will be less than actual receipts.

FINDING NUMBER 2006-011

Noncompliance Citation – Appropriations Exceeding Estimated Resources

Ohio Rev. Code Section 5705.39 states that the total appropriations from each fund shall not exceed the total estimated revenue.

The Village had several funds in 2005 (General, Fire, and Water) and in 2006 (General, Water, Waste

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-011 (CONTINUED)

Water, and Waste Water Replacement) that had amended and final appropriations which exceeded its original and final certificates of estimated resources.

We recommend the Clerk/Treasurer monitor the Village's estimated resources versus appropriations. This should be monitored on a regular basis to determine if an amendment is necessary.

Village Response:

The Clerk/Treasurer will monitor the Village's estimated resources versus appropriations on a regular basis.

FINDING NUMBER 2006-012

Noncompliance Citation – Expenditures Exceeding Appropriations

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been appropriated.

There were several instances noted throughout the audit period in which expenditures exceeded appropriations at both the fund level and legal level of control. In 2005, the Fire and Street Funds were noncompliant. In 2006, the CDBG and Issue II Funds were noncompliant.

The Village Clerk should deny payment requests and not certify the availability of funds exceeding appropriations. The Village Clerk may request Council to approved increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Village Response:

The Village Clerk will deny payment requests and not certify the availability of funds exceeding appropriations.

FINDING NUMBER 2006-013

Significant Deficiency/Material Weakness – Income Tax Reconciliation

In 2006, the Village did not monitor the activities of the 3rd party income tax administrator. Deposits were not made timely and Village officials did not reconcile income tax payments to the bank statements.

Internal control standards indicate that activity of a 3rd party administrator should be monitored regularly. Failure to do so results in an internal control weakness.

We recommend Village officials monitor monthly activity of the 3rd party administrator and reconcile the total payments received to the bank deposits in order to assure accuracy.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-013 (CONTINUED)

Village Response:

Village officials will more closely monitor activity of the 3rd party administrator and reconcile to the bank statements on a monthly basis.

FINDING NUMBER 2006-014

Significant Deficiency/Material Weakness/Noncompliance Citation – Ohio Rev. Code Section 733.28

Ohio Rev. Code Section 733.28 states, in part, that the village clerk shall keep the books of the village, exhibit accurate statements of all moneys received and expended, of all the property owned by the village and the income derived there-from, and of all taxes and assessments.

The Village did not account for all transactions on the books of the Village or the financial statements as follows: 1) a debt payment on a note payable for \$5,111 was not recorded; 2) interest payments from the water operating fund, in the amount of \$13,957 were not recorded; 3) CDBG grant monies in the amount of \$290,000 were not recorded; 4) Issue II monies from the Ohio Public Works Commission in the amount of \$811,616 were not recorded.

During our test of debt, disbursements, and receipts it was noted the Village Clerk/Treasurer posted several receipts, disbursements and debt payments to the incorrect line item and/or to the incorrect fund. This resulted in many reclassifications.

The Village should record all transactions in the books of the Village. We recommend the Clerk/Treasurer review the UAN manual chart of accounts to determine the correct coding of receipts and disbursements. Reference can be also be made to the Village Officer's Handbook and AOS Bulletin 97-001 with regards to accounting for debt issuances and repayment.

Village Response:

Village officials will ensure all transactions are recorded to the Village books. Reference will be made to the UAN manual chart of accounts, Village Officer's Handbook, and AOS Bulletin 97-001 with regards to accounting for debt issuances and repayment.

FINDING NUMBER 2006-015

Significant Deficiency/Material Weakness/Noncompliance Citation – Ohio Rev. Code Section 5705.10

Ohio Rev. Code Section 5705.10 provides, in part, that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made and 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.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-015 (CONTINUED)

In 2006, the Village posted the proceeds received from the Ohio Public Works Commission to the State Highway Fund rather than the Capital Projects Issue II Fund. This required an audit adjustment to correctly post the revenues to the Capital Project Funds. The accompanying financial statements reflect the above noted adjustment and the adjustments have been posted to the accounting records of the Village. The Village should review the village manual and the chart of accounts to determine the proper funds and codes for posting of revenues.

Village Response:

Village officials will ensure that all revenue derived from a special levy is credited to a special fund for the purpose for which the levy was made.

FINDING NUMBER 2006-016

Noncompliance Citation – Village Ordinance 166-99, Section 1

Village Ordinance 166-99, Section 1, states that rates and charges for the services of the System will be fixed in an amount sufficient to pay the costs of operating and maintaining the System and to provide an amount of revenues adequate for the payment of principal and interest, debt service reserve requirements, replacements and improvement requirements, and all other requirements.

The Water Fund had a negative balance at the end of fiscal year 2005 and throughout 2006, which could indicate the rates are not sufficient to pay the costs of operating and maintaining the system and to provide revenues to provide payment of principal and interest and fund the required reserve accounts.

The Village officials should review the water rates to assure enough revenue is collected to comply with this requirement.

Village Response:

In 2006, Village Council adopted a Financial Recovery Plan which included an approved increase in utility rates for 2007 through 2011.

FINDING NUMBER 2006-017

Significant Deficiency/Material Weakness - General, Water, and Sewer Fund Revenues/Expenditures

Both the General Fund and Water Fund had negative balances throughout 2005 and at the end of fiscal year 2006 which indicates that revenues are not adequate to cover the general expenditures of the Village and/or expenditures are not properly distributed across funds to properly absorb each fund's share of the costs. Also water and sewer rates are not sufficient to pay the costs of operating and maintaining the systems and to provide revenues to provide payment of principal and interest and fund the required reserve accounts.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-017 (CONTINUED)

The Village Council, Mayor and Clerk should evaluate the revenues and expenditures of the General fund and determine what actions need to be taken to alleviate the negative balances and the Board of Public Affairs, Village Council, Mayor and Clerk should evaluate the revenues and expenditures of the Water Fund and determine if an increase in rates is required.

Village Response:

In 2006, Village Council adopted a Financial Recovery Plan which included, among other things, an approved increase in utility rates for 2007 through 2011, monthly levels of expenditures and encumbrances pursuant to division (B)(2) of Section 118.07 of the Ohio Revised Code, and a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State.

FINDING NUMBER 2006-018

Noncompliance Citation – Ohio Rev. Code Section 4123.25

Ohio Rev. Code Section 4123.25 states that no employer shall knowingly misrepresent to the bureau of workers' compensation the amount or classification of payroll upon which the premium under this chapter is based. Whoever violates this division shall be liable to the state in an amount determined by the administrator of worker's compensation for not more than ten times the amount of the difference between the premium paid and the amount the employer should have been paid. The liability to the state under this division may be enforced in a civil action in the name of the state, and all sums collected under this division shall be paid into the state insurance fund.

In 2005, the Bureau of Workers' Compensation report was not performed accurately during the audit period. Approximately \$22,000 in salary and wages were unreported.

The Village should ensure that all Bureau of Workers' Compensation reports be performed in an accurate and timely manner based upon the payroll expenditures and proper job classification.

Village Response:

Village officials will ensure that all Bureau of Workers' Compensation reports are performed accurately and timely based upon the payroll expenditures and proper job classification.

FINDING NUMBER 2006-019

Significant Deficiency – Segregation of Duties

In an entity the size of the Village of Willshire, it is usually not cost effective to employ the basic internal controls necessary to provide management with reasonable assurance that all related procedures are functioning properly. The Clerk/Treasurer is responsible for all functions relating to the financial accounting records.

Without a proper separation of duties, there is the possibility that errors or irregularities could occur and not

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-019 (CONTINUED)

be detected in the normal course of business.

In order to reduce the risk of errors and/or irregularities, the Village Council should develop internal control procedures that make, to the best extent possible, the segregation of duties for the receipting, expenditure, and cycles, and for the reconciliation of records. In addition, to further reduce the risk, the Village Council should appoint a financial review committee, whose members are independent of the Clerk and have some financial expertise, to periodically review the financial records and re-perform some of the procedures done by the Clerk. To achieve this, the following may be performed:

- a. Reconciliation of the bank statement and investments with the cashbook balance to ensure that the amounts correspond. Also, that the balance of the cashbook includes all active and invested money under the control of the Village.
- b. Review the following month's bank statement to verify that the prior month's reconciling items, such as deposits-in-transit and outstanding checks were accurately stated.
- c. Verify that the monthly and year-to-date totals are being maintained in the cashbook, receipt and appropriations ledgers and that they are in agreement.
- d. Billings from payroll withholdings, retirement systems, insurances and utilities be reviewed to ensure that the obligations of the Village are being paid in a timely manner.
- e. Verify that the sum of the duplicate receipts agrees to the bank deposits.
- f. Verify that invoice paid agree to authorized vouchers and checks.
- g. Review the budget versus actual data for receipts and expenditures.
- h. Verify that the financial amounts presented in the monthly financial report agree to the supporting records – the financial report should be formally approved by the audit committee (finance committee) or the Council as a whole.

In addition to performing such a review, the reviewers' signatures or initials should be affixed to the documents, or other evidence should be retained documenting such reviews were performed. It may also be part of the minutes. Further, the finance committee should review the various reports available through the accounting systems and determine which reports would be beneficial to review to help assure that transactions are being completely and accurately recorded.

Village Response:

The Village Council will develop internal control procedures that make, to the best extent possible, the segregation of duties for the receipting, expenditure, and cycles, and for the reconciliation of records.

**VILLAGE OF WILLSHIRE
VAN WERT COUNTY**

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

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

FINDING NUMBER 2006-020

Noncompliance Citation – Ohio Rev. Code Section 5705.40

The Ohio Rev. Code Section 5705.40 states any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation.

There were several instances noted throughout the year and at year end in which expenditures exceeded appropriations at both the fund level and legal level of control. In 2005, the Fire and Street Funds were noncompliant and in 2006, the CDBG and Issue II Funds were noncompliant.

The Village did not pass any amended or supplemental appropriation measures either year.

The Village should pass amendments in order to avoid expenditures exceeding appropriations.

Village Response:

Village officials will pass appropriation amendments in order to avoid expenditures exceeding appropriations.

**Village of Willshire
Van Wert County**
*Schedule of Prior Audit Findings
For the Fiscal Years Ended 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; Explain:
2004-001	ORC Section – 733.28	No	Repeated as Finding 2006-014
2004-002	ORC Section – 5705.10	No	Repeated as Finding 2006-015
2004-003	ORC Section – 5705.39	No	Repeated as Finding 2006-011
2004-004	ORC Section – 5705.41(B)	No	Repeated as Finding 2006-012
2004-005	ORC Section – 5705.41(D)	No	Repeated as Finding 2006-002
2004-006	ORC Section – 5705.10 Negative Fund Balances	No	Repeated as Finding 2006-008
2004-007	ORC Section 133.10	N/A	Finding No Longer Valid
2004-008	Village Ordinance 166-99, Section 1	No	Repeated as Finding 2006-016
2004-009	General, Water, and Sewer Fund Revenues/Expenditures	No	Repeated as Finding 2006-017
2004-010	Debt Issuance	Yes	Corrected



Mary Taylor, CPA
Auditor of State

VILLAGE OF WILLSHIRE

VAN WERT 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 18, 2007**