



**Auditor of State
Betty Montgomery**

VILLAGE OF EDON
WILLIAMS COUNTY

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**Auditor of State
Betty Montgomery**

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

To the Mayor and Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

November 9, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Mayor and Village Council:

We have audited the accompanying financial statements of Village of Edon, Williams County, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of Edon, Williams County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

November 9, 2005

**VILLAGE OF EDON
WILLIAMS COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$35,908	\$10,506		\$46,414
Municipal Income Tax	182,299		\$100,661	282,960
Intergovernmental Receipts	82,597	48,427	105,002	236,026
Fines, Licenses, and Permits		100		100
Earnings on Investments	5,413	125		5,538
Miscellaneous	6,202			6,202
	<hr/>			
Total Cash Receipts	312,419	59,158	205,663	577,240
<hr/>				
Cash Disbursements:				
Current:				
Security of Persons and Property	130,991			130,991
Public Health Services	4,995			4,995
Leisure Time Activities	26,112			26,112
Transportation	41,647	62,434		104,081
General Government	83,761			83,761
Capital Outlay			366,966	366,966
	<hr/>			
Total Cash Disbursements	287,506	62,434	366,966	716,906
<hr/>				
Total Cash Receipts Over/(Under) Cash Disbursements	24,913	(3,276)	(161,303)	(139,666)
<hr/>				
Other Financing Receipts and (Disbursements):				
Other Debt Proceeds			117,651	117,651
Other Financing Uses	(3,721)			(3,721)
	<hr/>			
Total Other Financing Receipts and (Disbursements)	(3,721)		117,651	113,930
<hr/>				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	21,192	(3,276)	(43,652)	(25,736)
<hr/>				
Fund Cash Balances, January 1	(4,469)	29,091	184,787	209,409
<hr/>				
Fund Cash Balances, December 31	\$16,723	\$25,815	\$141,135	\$183,673

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$379,608
Operating Cash Disbursements:	
Personal Services	58,172
Fringe Benefits	20,206
Contractual Services	27,168
Supplies and Materials	97,044
Capital Outlay	6,924
Total Operating Cash Disbursements	209,514
Operating Income	170,094
Non-Operating Cash Receipts:	
Other Debt Proceeds	318,349
Property Tax and Other Local Taxes	41,595
Total Non-Operating Cash Receipts	359,944
Non-Operating Cash Disbursements:	
Debt Service - Principal	503,037
Debt Service - Interest	65,196
Total Non-Operating Cash Disbursements	568,233
Net Receipts Under Disbursements	(38,195)
Fund Cash Balances, January 1	26,707
Fund Cash Balances, December 31	(\$11,488)

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$21,294	\$11,065		\$32,359
Municipal Income Tax	119,532		\$78,280	197,812
Intergovernmental Receipts	81,708	35,323		117,031
Earnings on Investments	4,221	146		4,367
Miscellaneous	17,864			17,864
	<u>244,619</u>	<u>46,534</u>	<u>78,280</u>	<u>369,433</u>
Total Cash Receipts				
	244,619	46,534	78,280	369,433
Cash Disbursements:				
Current:				
Security of Persons and Property	126,092			126,092
Public Health Services	5,100			5,100
Leisure Time Activities	15,137			15,137
Transportation	36,193	47,416		83,609
General Government	81,994			81,994
Capital Outlay			29,968	29,968
	<u>264,516</u>	<u>47,416</u>	<u>29,968</u>	<u>341,900</u>
Total Cash Disbursements				
	264,516	47,416	29,968	341,900
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(19,897)</u>	<u>(882)</u>	<u>48,312</u>	<u>27,533</u>
Other Financing Receipts and (Disbursements):				
Other Financing Uses	(2,000)			(2,000)
Transfers-In		400		400
Transfers-Out	(400)			(400)
	<u>(2,400)</u>	<u>400</u>		<u>(2,000)</u>
Total Other Financing Receipts and (Disbursements)				
	(2,400)	400		(2,000)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(22,297)</u>	<u>(482)</u>	<u>48,312</u>	<u>25,533</u>
Fund Cash Balances, January 1	<u>17,828</u>	<u>29,573</u>	<u>136,475</u>	<u>183,876</u>
Fund Cash Balances, December 31	<u><u>(\$4,469)</u></u>	<u><u>\$29,091</u></u>	<u><u>\$184,787</u></u>	<u><u>\$209,409</u></u>

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$466,331
Operating Cash Disbursements:	
Personal Services	55,600
Fringe Benefits	20,334
Contractual Services	27,500
Supplies and Materials	95,738
Capital Outlay	6,924
Total Operating Cash Disbursements	206,096
Operating Income	260,235
Non-Operating Cash Receipts:	
Property Tax and Other Local Taxes	41,228
Non-Operating Cash Disbursements:	
Debt Service - Principal	196,447
Debt Service - Interest	74,339
Total Non-Operating Cash Disbursements	270,786
Excess of Receipts Over Disbursements	30,677
Fund Cash Balances, January 1	(3,970)
Fund Cash Balances, December 31	\$26,707

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Edon, Williams County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general government services, including water and sewer utilities, park operations, street maintenance, and police services.

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

B. Basis of Accounting

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. This basis 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 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds 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.

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(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:

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

5. Enterprise Funds

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

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. 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) as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

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

A summary of 2004 and 2003 budgetary activity appears in Note 3.

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(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:

	2004	2003
Demand deposits	\$172,185	\$125,154
Certificates of deposit		110,962
Total deposits	\$172,185	\$236,116

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$330,000	\$312,419	(\$17,581)
Special Revenue	47,500	59,158	11,658
Capital Projects	168,000	323,314	155,314
Enterprise	447,000	739,552	292,552
Total	\$992,500	\$1,434,443	\$441,943

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$333,568	\$291,227	\$42,341
Special Revenue	76,578	62,434	14,144
Capital Projects	331,750	366,966	(35,216)
Enterprise	486,707	777,747	(291,040)
Total	\$1,228,603	\$1,498,374	(\$269,771)

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$263,000	\$244,619	(\$18,381)
Special Revenue	51,200	46,934	(4,266)
Capital Projects	88,000	78,280	(9,720)
Enterprise	456,200	507,559	51,359
Total	<u>\$858,400</u>	<u>\$877,392</u>	<u>\$18,992</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$275,239	\$266,916	\$8,323
Special Revenue	80,773	47,416	33,357
Capital Projects	221,372	29,968	191,404
Enterprise	457,683	476,882	(19,199)
Total	<u>\$1,035,067</u>	<u>\$821,182</u>	<u>\$213,885</u>

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. LOCAL INCOME TAX

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

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

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

6. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$1,693,176	2.2% to 7%
Ohio Public Works Commission Loans	312,717	0.00%
General Obligation Notes	436,000	4.75%
Total	\$2,441,893	

The Ohio Water Development Authority (OWDA) loans relate to the improvements made to the Village's water and sewer plant that were mandated by the Ohio Environmental Protection Agency. The OWDA has approved up to \$3,290,845 in loans to the Village for these projects. The loans will be repaid in semiannual installments of \$108,986, including interest, over 20 years. The scheduled payment amount below shows the principal balance of \$1,693,176 at December 31, 2004. The scheduled payment will be adjusted to reflect any revisions in amounts actually borrowed at the conclusion of the repayment of outstanding loans.

The Ohio Public Works Commission (OPWC) loans relate to the improvements made to the water lines and a sewer extension project. The loans do not carry an interest charge and will be repaid in semiannual installments of \$10,374 over 20 years. The principal balance of the loans is \$312,717 at December 31, 2004.

On December 17, 2004, the Village obtained an additional loan from Edon State Bank for \$436,000 to help consolidate a loan to repay an Ohio Water Development Authority (OWDA) loan used to prepare the plans and specifications for a Village water project, a loan to fund construction of a new. The loan will be repaid in quarterly installments of \$8,474, including interest, over twenty years. The scheduled payment amount below shows the principal balance of \$436,000 at December 31, 2004.

Amortization of the above debt, including interest, follows:

Year ending December 31:	OWDA Loan	OPWC Loans	General Obligation Notes
2005	\$208,043	\$20,747	\$33,897
2006	208,347	20,747	33,897
2007	208,680	20,747	33,897
2008	209,042	20,747	33,897
2009	209,436	20,747	33,897
2010-2024	863,013	208,982	508,450
Total	\$1,906,561	\$312,717	\$677,935

8. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

9. RISK MANAGEMENT

Risk Pool Membership

The Village

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

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 of casualty losses and the lesser of 5% or \$50,000 of property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

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

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

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

10. CONTINGENCIES

The Village is a defendant in several lawsuits. The Village denies these charges and has instructed counsel to vigorously defend. At this time the Village is unable to state that an outcome unfavorable to the Village is either probable or remote, nor can the Village estimate what the range of potential loss would be in the event of unfavorable outcomes.

**VILLAGE OF EDON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

11. COMPLIANCE

- Contrary to Ohio law the Village did not post all funds spend on behalf of the Village. Also, contrary to Ohio law, the Village had deficit fund balances in the General Fund, Water Operating Fund, and Sewer Fund in 2003 and the Water Operating Fund at December 31, 2004.
- Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Sanitary Sewer Fund in 2003 and the Street Fund, Capital Improvement Fund, Ohio Public Works Fund, and the Water Fund in 2004.
- The Village violated Ohio law by posting more appropriations to the Village's appropriation ledger than was authorized by Council in the Water Fund and Sanitary Sewer Fund in 2003 and the Street Fund and Capital Improvements Fund in 2004.
- The Village violated Ohio law by not obtaining reduced amended certificates for the Water Fund and Sanitary Sewer Fund in 2003 and the Capital Improvement Fund in 2004.
- The Village also did not properly certify certain disbursements as required by Ohio law.
- The Village violated their agreement with the Ohio Water Development Authority since the Village did not assess adequate water and sewer charges to customers to provide for the payments required to remit their debt obligations.
- During 2004 and 2003, the Village did not assess penalties and interest on its delinquent income tax accounts or delinquent utility accounts as stipulated in the Village ordinances.

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**Auditor of State
Betty Montgomery**

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

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

To the Mayor and Village Council:

We have audited the financial statements of the Village of Edon, Williams County, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated November 9, 2005, 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 that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated November 9, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-008. In a separate letter to the Village's management dated November 9, 2005, we reported a matter related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

November 9, 2005

VILLAGE OF EDON
WILLIAMS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003

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

FINDING NUMBER 2004-001

Noncompliance Citation

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

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

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

- In 2004, the Village did not post \$80,902 of funds, spent on behalf of the Village by the Ohio Public Works Program, to the Capital Projects fund. This caused revenues and disbursements to be understated by \$80,902 and resulted in audit adjustments to the financial statements.
- In 2003, the Village advanced \$19,000 and \$13,000 from the Capital Projects Fund to the General Fund and Water Operating Fund, respectively. The monies advanced to the General Fund were used for the general operation of the Village and the monies advanced to the Water Operating Fund were used to pay for the debt of the water fund. There is no statutory authority for the Capital Projects Fund to expend monies for the general operations of the Village or the Water Fund. Furthermore, of the \$32,000 of advances in 2003, only \$8,000 advanced to the General Fund was approved by a formal resolution of Council stating that the transaction was an advance and the fund from which repayment would be made.

In 2004, the Village advanced \$9,000 from the Capital Projects Fund to the Water Operating Fund. The monies advanced to the Water Operating Fund were used to pay for the debt payments for the water fund. There is no statutory authority for the Capital Projects Fund to expend monies for water debt payments of the Village. This advance was approved by Council.

**FINDING NUMBER 2004-001
(Continued)**

As a result of the lack of statutory authority for making these advances, an adjustment was necessary to reduce the General Fund by \$19,000 and the Water Operating Fund by \$13,000 and to increase the Capital Projects Fund by \$32,000 for 2003. In addition, these adjustments, (with which management agrees) are reflected in the accompanying financial statements. This resulted in a deficit fund balance of (\$4,469) in the General Fund as of December 31, 2003 and a deficit fund balance of (\$13,158) in the Water Operating Fund as of December 31, 2004.

- The General Fund had a deficit balance of \$1,243 in July 2003. The Water Operating Fund had a deficit balance of \$20,427 in July 2003 and the Sewer Operating Fund had a deficit balance of \$12,224 in July 2003.

The Clerk-Treasurer posted fictitious receipts in anticipation of future revenues, which she subsequently reversed. The deficit balances occurred when the Auditor of State disallowed these nonexistent transactions. Posting receipts in this manner circumvents the UAN internal control that prohibits a fund from having a negative balance. Furthermore, this procedure obscures a cash flow problem that should be addressed by Village Council.

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

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

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.

We also reported negative fund balances in the management letter of our audit of the 2002 and 2001 financial statements.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Revised Code §5705.41(B) prohibits a subdivision from making an expenditure unless it has been properly appropriated. Expenditures exceeded appropriations in the following funds:

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

<u>Fund</u>	<u>Appropriation Authority</u>	<u>Actual Disbursements</u>	<u>Variance</u>
As of December 31, 2003:			
Sanitary Sewer Fund	\$271,205	\$294,270	(\$23,065)
As of December 31, 2004:			
Street Fund	\$36,461	\$36,711	(\$250)
Capital Improvement Fund	301,750	366,966	(65,216)
Ohio Public Works Fund	-	80,902	(80,902)
Water Fund	155,728	471,308	(315,580)

Expenditures in excess of appropriations may result in deficit spending. We recommend that expenditures and appropriations be frequently reviewed by the Council and that necessary adjustments be made to prevent expenditures from exceeding appropriations. These adjustments should be formally approved by the Council in the minutes and the Clerk-Treasurer should only make amendments to the computerized appropriations ledger based on these formally documented approvals.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code §5705.40 provides that appropriation measures may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. The legally adopted appropriations were different than the posted appropriations in the following funds:

<u>Fund</u>	<u>Approved Appropriations</u>	<u>Posted Appropriations</u>	<u>Variance</u>
As of December 31, 2003:			
Water Fund	\$150,829	\$156,029	\$5,200
Sanitary Sewer Fund	271,205	339,605	68,400
As of December 31, 2004:			
Capital Improvement Fund	\$301,750	\$311,750	\$10,000

Posting more appropriations than authorized by Council could lead to deficit spending. We recommend that only post Council approved appropriation measures be posted to the accounting system.

We also reported this matter in the management letter of our audit of the 2002 and 2001 financial statements.

FINDING NUMBER 2004-004

Noncompliance Citation

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

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

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

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

	Actual Resources	Estimated Resources	Total Appropriations
<u>2004</u>			
General Fund	\$231,653	\$247,203	\$249,000
Permissive Motor Vehicle License Tax Fund	-	3,000	3,000
Capital Projects Fund	3,661	10,000	10,000
Sewer System Capital Improvements Fund	103,999	117,000	117,000
Enterprise Deposit Fund	820	1,000	1,000
<u>2003</u>			
Permissive Motor Vehicle License Tax Fund	\$0	\$2,000	\$2,000
Capital Projects Fund	4,624	10,000	10,000
Water Tower Capital Improvement Fund	97,802	166,299	166,299

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

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

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Rev. 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.

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 (\$1,000 prior to April 7, 2003) 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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

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

Twenty-four of the 60 transactions tested (i.e. 40%) 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. Of the purchase orders tested, 10 purchase orders were not signed prior to the transactions occurring and 14 purchase orders were never signed. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2004-005
(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 Clerk-Treasurer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

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

We also reported this matter in the management letter of our audit of the 2002 and 2001 financial statements.

FINDING NUMBER 2004-006

Noncompliance Citation

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

Village revenues generated from water and sewer charges to customers are not adequate to provide for payments required to remit their debt obligations to the Ohio Water Development Authority. This has resulted in the Village designating seventeen percent of the Village income tax revenues and Sanitation revenues to the Water Fund and Sewer Fund to subsidize its debt obligations payments.

We recommend the Village Board of Public Affairs review the Village water and sewer rates charged to customers and approve amendments to rates that will generate an adequate amount of revenues that will provide for payments to meet its debt obligation payments to Ohio Water Development Authority.

FINDING NUMBER 2004-007

Noncompliance Citation

Village of Edon Ordinance 7-96 states that billing for water services provided to Village residents shall be paid by the residents within ten days from the billing date. If payment is remitted to the Village after ten days from the billing date, a ten percent penalty shall be applied on any unpaid portion of the bill. In addition, Village of Edon Ordinance 9-95 states that any resident whose utility bill is in arrears in the amount of \$100 or greater shall be subject to shut-off without notification.

**FINDING NUMBER 2004-007
(Continued)**

The Clerk-Treasurer did not assess the ten percent penalty on any Village resident water service accounts that remitted payment after ten days from the billing date. As of December 31, 2004 we noted eighty-five delinquent utility accounts. Of these delinquent accounts, thirty-one were over \$100 including three that were over \$1,000 in 2004. As of December 31, 2003, we noted eighty delinquent utility accounts. Twenty-four were over \$100, including one over \$900. This contributed to delinquencies of \$12,625.76 and \$10,949.68 at the end of 2004 and 2003, respectively. There was no evidence of water being shut off for any of these delinquent accounts.

This has contributed to the Village's inability to collect enough utility revenues to fund utility debt payments without assistance from other revenue sources.

In order to provide better collection of services provided to Village residents for water, sewer, and sanitation, we recommend:

- The Clerk-Treasurer assess a ten percent penalty on all Village resident water service accounts that remit payment to the Village after ten days from the billing date as stated in the Village Ordinance.
- The Board of Public Affairs (the Board) should consider discontinuing utility service when arrears exceed \$100. The utility services should not be turned on until the arrears have been paid in full;
- The Clerk-Treasurer compile a monthly list of delinquent utility accounts, which should be presented and approved by the Board of Public Affairs;
- The Board consider submitting delinquent accounts to a collection agency or to its legal counsel for further action, when other actions are unsuccessful; and
- The Board determine if any delinquent accounts are deemed to be uncollectible and the Board should forward a list of uncollectible accounts to Council and request the accounts be written off. The Board should then initial the delinquent account report and record any action taken in their minute records. Any customers who had their utilities disconnected should be included in a monthly report, which should also be initialed by the Board.

FINDING NUMBER 2004-008

Noncompliance Citation

Village Ordinance Chapter Number 181.07(a) states "All taxes imposed by this Chapter, including taxes withheld or required to be held from wages and other income by an employer, and remaining unpaid after they have become due, shall bear interest on the amount of the unpaid tax at a rate of ten percent (10%) per annum. Also, Section (b) of the aforementioned ordinances imposes a penalty for failure to file returns in the amount of \$25 if not more than 30 days late, \$50 if the return is filed after 30 days late. A penalty of \$100 shall be imposed for any taxpayer who fails to timely file twice in three years. The taxpayer upon whom taxes are imposed by this chapter, and the employer required by this chapter to deduct, withhold and pay taxes imposed by this chapter shall be liable, in addition thereto, to a penalty of three percent (3%) of the amount of the unpaid tax for each month or fraction of a month for the first eighteen (18) months of non-payment or twenty-five dollars (\$25.00), whichever is greater. The Board of Review may abate any interest or penalties assessed to taxpayers under recommendation to the board of review.

FINDING NUMBER 2004-008
(Continued)

The Clerk-Treasurer did not assess any interest or penalties on late payments, nor were there any records of abatements by the board of review in 2003 and 2004. This could result in individuals not filing tax returns or filing late with a resultant loss of revenues.

We recommend that a record of non-filers be made, and applicable interest and penalties be assessed on all taxpayers for filings and payments made after the due date. We also recommend that Council monitor interest and penalties to ensure proper assessment and payment. In cases where Board of Review waives interest and penalties, we recommend that it be documented.

**VILLAGE OF EDON
WILLIAMS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Village Ordinance § 181.07, regarding assessing interest and penalties on delinquent income taxes.	No	Not corrected. Reissued as Finding 2004-008.
2002-002	Village Ordinance 7-96, regarding assessing penalties on delinquent utilities	No	Not corrected. Reissued as Finding 2004-007.
2002-003	OWDA Cooperative Agreement for State Planning Projects § 3.2(a) regarding charging adequate utility rates to provide for the payment of debt obligations.	No	Not corrected. Reissued as Finding 2004-006.
2002-004	Reportable Condition regarding the duties to be performed to ensure the collection of income taxes owed to the Village.	No	Partially corrected. Reported in the Management Letter.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VILLAGE OF EDON

WILLIAMS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2005**