

***VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Village Council
Village of Russia
232 West Main Street
Russia, Ohio 45363

We have reviewed the *Report of Independent Accountants* of the Village of Russia, Shelby County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2005. 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 *Report of Independent Accountants* 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 *Report of Independent Accountants* 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 Russia is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 26, 2007

This Page is Intentionally Left Blank.

**VILLAGE OF RUSSIA
SHELBY COUNTY
For the Years Ending December 31, 2005 and 2004**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1-2
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – All Governmental Fund Types, For the Year Ended December 31, 2005	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – All Proprietary and Similar Fiduciary Fund Types, For the Year Ended December 31, 2005	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – All Governmental Fund Types, For the Year Ended December 31, 2004	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – All Proprietary and Similar Fiduciary Fund Types, For the Year Ended December 31, 2004	6
Notes to the Financial Statements	7-15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	16-17
Schedule of Findings	18-19
Schedule of Prior Audit Findings	20

This Page is Intentionally Left Blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Russia
Shelby County
232 West Main Street
Russia, Ohio 45363

To Village Council:

We have audited the accompanying financial statements of the Village of Russia, Shelby County, Ohio as and for the years ended December 31, 2005 and 2004. 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. 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, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 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 the 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 years ended December 31, 2005 and 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, 2005 and 2004, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Russia, Shelby County, as of December 31, 2005 and 2004, 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 years ended December 31, 2005 and 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 January 23, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and 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.

Charles E. Harris & Associates, Inc.

January 23, 2007

VILLAGE OF RUSSIA
SHELBY 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

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Receipts:					
Property and Other Local Taxes	\$ 21,131	-	-	-	\$ 21,131
Municipal Income Taxes	363,821	-	-	\$ 148,565	512,386
Intergovernmental	65,670	\$ 31,196	-	-	96,866
Special Assessments	-	17,285	\$ 9,533	-	26,818
Fines, Licenses and Permits	4,909	-	-	-	4,909
Interest	22,226	577	-	-	22,803
Other	3,228	6,743	-	-	9,971
Total Receipts	480,985	55,801	9,533	148,565	694,884
Disbursements:					
Security of Persons & Property	34,981	8,868	-	-	43,849
Public Health Services	3,422	-	-	-	3,422
Leisure Time Activities	14,348	-	-	-	14,348
Community Environment	163	-	-	-	163
Basic Utility Services	5,134	-	-	-	5,134
Transportation	-	30,127	-	-	30,127
General Government	165,163	-	454	14,380	179,997
Capital Outlay	-	-	-	284,597	284,597
Debt Service:					
Principal Payment	-	-	2,790	-	2,790
Interest and Fiscal Charges	-	-	1,466	-	1,466
Total Disbursements	223,211	38,995	4,710	298,977	565,893
Receipts Over(Under) Disbursements	257,774	16,806	4,823	(150,412)	128,991
Other Financing Sources/(Uses):					
Transfers out	(64,387)	-	-	-	(64,387)
Total Other Financing Sources/(Uses)	(64,387)	-	-	-	(64,387)
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	193,387	16,806	4,823	(150,412)	64,604
Fund Balance 1/1/2005	156,559	17,276	5,459	232,526	411,820
Fund Balance 12/31/2005	\$ 349,946	\$ 34,082	\$ 10,282	\$ 82,114	\$ 476,424

See accompanying Notes to the Financial Statements.

VILLAGE OF RUSSIA
SHELBY COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 124,685	-	\$ 124,685
Total Operating Cash Receipts	<u>124,685</u>	<u>-</u>	<u>124,685</u>
Operating Cash Disbursements:			
Personal Services	19,923	-	19,923
Contractual Services	28,974	-	28,974
Supplies and Materials	26,935	-	26,935
Capital Outlay	7,284	-	7,284
Total Operating Cash Disbursements	<u>83,116</u>	<u>-</u>	<u>83,116</u>
Operating Income (Loss)	41,569	-	41,569
Non-Operating Cash Receipts			
Other Non-Operating Cash Receipts	-	\$ 5,325	5,325
Municipal Income Taxes	255,760	-	255,760
Total Non-Operating Cash Receipts	<u>255,760</u>	<u>5,325</u>	<u>261,085</u>
Non-Operating Disbursements			
Other Non-Operating Cash Disbursements	-	(5,325)	(5,325)
Debt Service:			
Principal Payment	(32,919)	-	(32,919)
Interest and Other Fiscal Charges	(46,841)	-	(46,841)
Total Non-Operating Cash Disbursements	<u>(79,760)</u>	<u>(5,325)</u>	<u>(85,085)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements Before Interfund Transfers	217,569	-	217,569
Transfers in	<u>64,387</u>	<u>-</u>	<u>64,387</u>
Net Receipts Over/(Under) Disbursements	281,956	-	281,956
Fund Cash Balances, January 1, 2005	<u>377,654</u>	<u>-</u>	<u>377,654</u>
Fund Cash Balances, December 31, 2005	<u>\$ 659,610</u>	<u>\$ -</u>	<u>\$ 659,610</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF RUSSIA
SHELBY 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

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Receipts:					
Property and Other Local Taxes	\$ 19,388	-	-	-	\$ 19,388
Municipal Income Taxes	302,705	-	-	\$ 123,893	426,598
Intergovernmental	36,021	\$ 24,746	-	-	60,767
Special Assessments	-	14,031	\$ 8,676	-	22,707
Fines, Licenses and Permits	3,142	-	-	-	3,142
Interest	1,576	29	-	-	1,605
Other	6,582	4,400	-	19,766	30,748
Total Receipts	369,414	43,206	8,676	143,659	564,955
Disbursements:					
Security of Persons & Property	29,396	4,443	-	-	33,839
Public Health Services	3,354	-	-	-	3,354
Leisure Time Activities	10,025	-	-	-	10,025
Community Environment	912	-	-	-	912
Basic Utility Services	4,946	-	-	-	4,946
Transportation	-	25,258	-	-	25,258
General Government	150,393	-	407	-	150,800
Capital Outlay	-	-	-	239,372	239,372
Debt Service:					
Principal Payment	5,075	-	4,991	-	10,066
Interest and Fiscal Charges	343	-	1,980	-	2,323
Total Disbursements	204,444	29,701	7,378	239,372	480,895
Receipts Over/(Under) Disbursements	164,970	13,505	1,298	(95,713)	84,060
Other Financing Sources/(Uses):					
Transfers out	(55,334)	-	-	-	(55,334)
Total Other Financing Sources/(Uses)	(55,334)	-	-	-	(55,334)
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	109,636	13,505	1,298	(95,713)	28,726
Fund Balance 1/1/2004	46,923	3,771	4,161	328,239	383,094
Fund Balance 12/31/2004	\$ 156,559	\$ 17,276	\$ 5,459	\$ 232,526	\$ 411,820

See accompanying Notes to the Financial Statements.

VILLAGE OF RUSSIA
SHELBY COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$ 113,839	-	\$ 113,839
Total Operating Cash Receipts	<u>113,839</u>	<u>-</u>	<u>113,839</u>
Operating Cash Disbursements:			
Personal Services	20,889	-	20,889
Contractual Services	4,901	-	4,901
Supplies and Materials	26,742	-	26,742
Capital Outlay	5,972	-	5,972
Total Operating Cash Disbursements	<u>58,504</u>	<u>-</u>	<u>58,504</u>
Operating Income (Loss)	55,335	-	55,335
Non-Operating Cash Receipts			
Other Non-Operating Cash Receipts	-	\$ 2,535	2,535
Municipal Income Taxes	105,242	-	105,242
Total Non-Operating Cash Receipts	<u>105,242</u>	<u>2,535</u>	<u>107,777</u>
Non-Operating Cash Disbursements			
Other Non-Operating Cash Disbursements	-	(2,535)	(2,535)
Debt Service:			
Principal Payment	(31,224)	-	(31,224)
Interest and Other Fiscal Charges	(48,473)	-	(48,473)
Total Non-Operating Cash Disbursements	<u>(79,697)</u>	<u>(2,535)</u>	<u>(82,232)</u>
Excess of Receipts and Nonoperating Receipts Over (Under) Disbursements and Nonoperating Disbursements Before Interfund Transfers	80,880	-	80,880
Transfers In	<u>55,334</u>	<u>-</u>	<u>55,334</u>
Net Receipts Over/(Under) Disbursements	136,214	-	136,214
Fund Cash Balances, January 1, 2004	<u>241,440</u>	<u>-</u>	<u>241,440</u>
Fund Cash Balances, December 31, 2004	<u>\$ 377,654</u>	<u>\$ -</u>	<u>\$ 377,654</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Russia, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected, six-member Council. The Village provides street maintenance and water utilities operations, park operations, and police protection services. The Village appropriates General Fund money to support a volunteer fire department.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH AND INVESTMENTS

The Village maintains all available cash in an interest-bearing checking account and a certificate of deposit.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

Governmental Fund Types:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

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

- Street Construction Maintenance & Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.
- Street Lights Fund – This fund receives special assessment monies for constructing, maintaining and repairing Village street lights.

Debt Service Funds: These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant Debt Service Funds:

- East Main Street Special Assessment Fund – This fund receives special assessment monies to be used to pay East Main Street debt.
- North Street Special Assessment Fund – This fund receives special assessment monies to be used to pay North Street debt.
- West Main Street Special Assessment Fund – This fund receives special assessment monies to be used to pay West Main Street debt.

Capital Projects Funds: This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Projects Fund:

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

- Capital Improvement Fund - This fund receives income tax receipts to be used for capital improvements.

Proprietary Fund Types:

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 fund:

- Sewer Fund – This fund receives charges for services from residents to cover the cost of providing this utility.
- Utilities Install Fund – This fund receives income tax receipts to be used for the construction of water plant.

Fiduciary Fund Types:

Fiduciary Funds: Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. The agency fund is used to account for funds held by the Village in a trustee capacity or agent for individuals or private organizations. The Village had the following significant Fiduciary Fund:

- Mayor's Court Fund (Agency Fund) – this fund records the activity of the Village Mayor's Court transactions.

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Clerk-Treasurer, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS – (Continued)

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Clerk by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Clerk sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if Clerk-Treasurer identifies increases or decreases in revenue. The amounts reported in the budgetary footnote reflect the amounts in the final amended certificates issued during 2004 and 2005.

Budget receipts, as shown in Note 5, do not include the unencumbered fund balances as of January 1, 2004 and 2005. However, those fund balances are available for appropriation.

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E. BUDGETARY PROCESS - (Continued)

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the fund level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding year without being re-appropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 5.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. CASH AND INVESTMENTS

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

	<u>2005</u>	<u>2004</u>
Demand deposits	\$ 386,034	\$ 289,474
Certificates of deposit	<u>\$ 750,000</u>	<u>\$ 500,000</u>
Total deposits	<u>\$ 1,136,034</u>	<u>\$ 789,474</u>

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

2. CASH AND INVESTMENTS – (Continued)

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation or (2) collateralized by securities specifically pledged by the financial institution to the Village or (3) collateralized by the financial institution's public entity deposit pool.

3. PROPERTY TAXES

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2001.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as Intergovernmental Receipts.

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

The property owners, who must file a list of such property to the County by each April 30, assess tangible personal property tax.

The Shelby County Treasurer collects property tax on behalf of all taxing Villages within the county. The Shelby County Auditor periodically remits to the taxing Village their portions of the taxes collected.

4. DEFINED BENEFIT PENSION PLAN

The Village's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

4. DEFINED BENEFIT PENSION PLAN – (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross wages. The Village has paid all contributions required through December 31, 2005.

5. BUDGETARY ACTIVITY

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 303,725	\$ 480,985	\$ 177,260
Special Revenue	50,054	55,801	5,747
Debt Service	11,000	9,533	(1,467)
Capital Projects	326,500	148,565	(177,935)
Enterprise	382,250	444,832	62,582

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 275,291	\$ 287,598	\$ (12,307)
Special Revenue	62,749	38,995	23,754
Debt Service	16,126	4,710	11,416
Capital Projects	456,026	298,977	157,049
Enterprise	400,839	162,876	237,963

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 242,450	\$ 369,414	\$ 126,964
Special Revenue	44,200	43,206	(994)
Debt Service	11,000	8,676	(2,324)
Capital Projects	316,500	143,659	(172,841)
Enterprise	245,000	274,415	(29,415)

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 274,780	\$ 259,778	\$ 15,002
Special Revenue	43,568	29,701	13,867
Debt Service	14,829	7,378	7,451
Capital Projects	489,667	239,372	250,295
Enterprise	390,977	138,201	252,776

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

6. DEBT

Debt outstanding at December 31, 2005 was as follow:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority	\$ 629,779	7.21%
Ohio Public Works Commission Loan	8,253	0.00%
North Street Note	<u>13,956</u>	6.755%
Total	<u>\$ 651,988</u>	

The prior audit ending debt balance, for OWDA loan, as of December 31, 2003 was overstated by \$601.

The Ohio Water Development Authority (OWDA) and the Ohio Public Works Commission (OPWC) loans were issued to pay for improvements to the sewer system within the Village. The loans are being repaid in semi-annual installments of \$40,090 and \$485, including interest, respectively. The OWDA and OPWC loans are collateralized by the Village's taxing authority.

The North Street Note was issued to pay for road improvements and is being repaid in annual installments of \$2,790 with interest being repaid semi-annually.

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

	OWDA LOAN	OPWC LOAN	North Street Loan
Year Ending December 31:			
2006	\$ 80,180	\$ 1,456	\$ 4,012
2007	80,180	971	3,768
2008	80,180	971	3,524
2009	80,180	971	3,278
2010	80,180	971	3,036
2011-2015	400,900	2,913	0
2016-2018	<u>160,959</u>	<u>0</u>	<u>0</u>
Total	<u>\$962,759</u>	<u>\$ 8,253</u>	<u>\$17,618</u>

VILLAGE OF RUSSIA
SHELBY COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2004 and 2005

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained insurance for the following risks:

- Comprehensive property and general liability;
- Commercial Umbrella Liability;
- Law Enforcement Liability;
- Public Officials Liability; and
- Commercial Auto Liability.

8. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5% 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's third party administrator quarterly, as required.

9. CONTINGENT LIABILITIES/ SUBSEQUENT EVENTS

The Village has entered into a contract with a Choice One Engineering in the amount of \$310,082 to provide engineering services related to the construction of a new water plant.

Management believes there are no pending claims or lawsuits.

10. PRIOR PERIOD ADJUSTMENT

In prior years, the Village included general income tax receipts and payment of the administration of this activity in an Expendable trust fund. The January 1, 2004 fund balance of \$269 and the related activity was reclassified to the General Fund.

11. BUDGETARY NONCOMPLIANCE

Contrary to **Ohio Rev. Code Section 5705.41(D)**, the Village did not obtain prior certification for expenditures.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Russia
Shelby County
232 West Main Street
Russia, Ohio 45363

To Village Council:

We have audited the financial statements of the Village of Russia, Shelby County, Ohio (Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated January 23, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2005-VRSC-01 and 2005-VRSC-02.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated January 23, 2007.

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, grant agreements, and other matters, 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 several instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2005-VRSC-01 and 2005-VRSC-02.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated January 23, 2007.

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

Charles E. Harris and Associates, Inc.

January 23, 2007

VILLAGE OF RUSSIA
SHELBY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-VRSC-01

Noncompliance Citation/Material Weakness

Ohio Revised Code Section 5705.41 (D)(1), requires, in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

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.

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

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

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

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.

**VILLAGE OF RUSSIA
SHELBY COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2005 AND 2004**

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

**FINDING NUMBER 2005-VRSC-01
(Continued)**

During 2005 and 2004, the Fiscal Officer did not certify any tested expenditure prior to incurring the obligation. It was also found that none of the three exceptions noted above were utilized for the items to be found in noncompliance. To avoid overspending, the Village should certify the availability of funds prior to incurring the obligation for expenditure.

We recommend the Village's management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required certification should be utilized to certify the availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase.

The Fiscal Officer will review budgetary requirements, including purchasing and make improvements as necessary.

FINDING NUMBER 2005-VRSC-02

Noncompliance Citation/Material Weakness

The Fiscal Officer incorrectly allocated income tax receipts and refunds. The Income Tax Ordinance states to which funds income tax receipts and refunds are to be allocated and the applicable percentages. During 2004 and 2005, the Fiscal officer did not follow the ordinance's stated allocation. The financial statements have been adjusted to reflect the correct income tax allocation. The Village is in agreement with this and has adjusted its books accordingly.

We recommend that the Village and Fiscal Officer follow the Income Tax Ordinance.

The Fiscal Officer will properly allocate debt income tax receipts and refunds in the future.

VILLAGE OF RUSSIA
SHELBY COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2003-001	Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not certify any expenditures.	NO	Citation re-issued as finding number 2005- VRSC-01.



Mary Taylor, CPA
Auditor of State

VILLAGE OF RUSSIA

SHELBY 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
APRIL 5, 2007