



Mary Taylor, CPA
Auditor of State

VILLAGE OF WINDHAM
PORTAGE COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Windham
Portage County
9621 East Center Street
Windham, Ohio 44288

To the Village Council:

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 5, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Windham
Portage County
9621 East Center Street
Windham, Ohio 44288

To the Village Council:

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

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2006, or its changes in financial position or cash flows, where applicable 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 and reserves for encumbrances of the Village of Windham, Portage County, as of December 31, 2006, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2008, 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.

We conducted our audit to opine on the financial statements that collectively comprise the Village's financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

November 5, 2008

VILLAGE OF WINDHAM
PORTAGE COUNTY

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$102,246	\$12,008	\$114,254
Municipal Income Tax	521,708		521,708
Intergovernmental	154,202	78,398	232,600
Charges for Services	5,449	10,205	15,654
Fines, Licenses and Permits	42,338		42,338
Earnings on Investments		3,516	3,516
Miscellaneous	2,377	31,562	33,939
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	828,320	135,689	964,009
Cash Disbursements:			
Current:			
Security of Persons and Property	476,923	1,900	478,823
Community Environment	5	14,708	14,713
Basic Utility Service	3,210	2,195	5,405
Transportation	12,248	93,513	105,761
General Government	213,741	8,089	221,830
Debt Service:			
Redemption of Principal	83,333		83,333
Interest and Fiscal Charges	1,630		1,630
Capital Outlay		44,813	44,813
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	791,090	165,218	956,308
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	37,230	(29,529)	7,701
Other Financing Receipts / (Disbursements):			
Other Financing Sources	15,722		15,722
Other Financing Uses	(1,162)		(1,162)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	14,560	0	14,560
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>
	51,790	(29,529)	22,261
Fund Cash Balances, January 1 (See Note 11)	<hr/>	<hr/>	<hr/>
	3,096	210,572	213,668
Fund Cash Balances, December 31	<hr/> \$54,886 <hr/>	<hr/> \$181,043 <hr/>	<hr/> \$235,929 <hr/>
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$27	\$0	\$27

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

**VILLAGE OF WINDHAM
PORTGE COUNTY**

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

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$936,448
Miscellaneous	1,700
	938,148
Total Operating Cash Receipts	938,148
Operating Cash Disbursements:	
Personal Services	227,428
Employee Fringe Benefits	140,340
Contractual Services	1,643,371
Supplies and Materials	187,700
Other	16,260
	2,215,099
Total Operating Cash Disbursements	2,215,099
Operating Income/(Loss)	(1,276,951)
Non-Operating Cash Receipts:	
Intergovernmental	1,454,754
Earnings on Investments	1,249
Other Non-Operating Cash Receipts	6,577
	1,462,580
Total Non-Operating Cash Receipts	1,462,580
Non-Operating Cash Disbursements:	
Capital Outlay	3,506
Redemption of Principal	160,925
Interest and Other Fiscal Charges	56,369
	220,800
Total Non-Operating Cash Disbursements	220,800
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(35,171)
Transfers-In	200,191
Transfers-Out	(200,191)
	(35,171)
Net Receipts Over/(Under) Disbursements	(35,171)
Fund Cash Balances, January 1	231,118
Fund Cash Balances, December 31	\$195,947
Reserve for Encumbrances, December 31	\$3,414

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

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

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

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 Windham, Portage County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, police services and fire protection services.

Public Entity Risk Pool:

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. Note 8 to the financial statements provide additional information about this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

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

The Village values savings accounts 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.

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. Special Revenue Funds

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

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

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

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

Enterprise Debt Service Reserve Fund - This fund records and maintains record of compliance with a debt covenant with the Mortgage Revenue Bonds listed in Note 6.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. EQUITY IN POOLED CASH 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:

	2006
Demand deposits	\$356,318
Savings Accounts	75,558
Total deposits and investments	431,876

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Village to a successful claim by the FDIC.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2006 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$843,105	\$844,042	\$937
Special Revenue	327,815	135,689	(192,126)
Capital Projects	8,746	0	(8,746)
Enterprise	3,077,672	2,600,919	(476,753)
Total	\$4,257,338	\$3,580,650	(\$676,688)

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

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

3. BUDGETARY ACTIVITY – (Continued)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$843,105	\$792,279	\$50,826
Special Revenue	327,815	165,218	162,597
Capital Projects	8,746	0	8,746
Enterprise	3,077,672	2,636,090	441,582
Total	\$4,257,338	\$3,593,587	\$663,751

Contrary to Ohio law, at December 31, 2006, the State Highway Fund (\$3,281), Income Tax Fund (\$102), and Sewer Debt Service Fund (\$90,726) had a cash deficit balances.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Village.

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

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

5. LOCAL INCOME TAX

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

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

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$1,082,392	2.00%
Mortgage Revenue Bonds	724,000	5.75%
Total	\$1,806,392	

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

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

6. DEBT – (Continued)

The Ohio Water Development Authority (OWDA) loan relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

In 2005, the Village began the East Center Street Sewer Expansion Project in which they have borrowed a total amount of \$705,000 from the Ohio Water Development Authority (OWDA). As of December 31, 2006, the Village has received \$705,000. The United States Department of Agriculture (USDA) will issue bonds in the amount of \$705,000 to pay the loan in full during 2007.

The Mortgage Revenue Bonds are for waterworks system improvements and payable to the USDA. Property and revenue of the utility facilities have been pledged to pay these debts. The Village has agreed to set utility rates sufficient to cover the USDA debt service requirements.

As required by the mortgage revenue bond covenant, the Village has established and funded a debt service reserve fund, included within the enterprise fund as the water debt service reserve fund. The balance in the fund at December 31, 2006 is \$43,026.

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

Year ending December 31:	OWDA Loan	USDA Mortgage Revenue Bonds
2007	\$885,892	61,723
2008	155,536	61,630
2009	155,536	61,480
2010	77,768	62,273
2011 – 2015		309,203
2016 – 2021		309,020
2022 – 2026		309,808
2027 – 2027		123,948
Total	\$1,274,732	\$1,299,085

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2006, OP&F participants contributed 10% of their wages. For 2006, the Village contributed to OP&F an amount equal to 24% of full-time police members' wages. For 2006, OPERS members contributed 9% of their gross salaries and the Village contributed an amount equaling 13.7% of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

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

8. RISK MANAGEMENT

Risk Pool Membership

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 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 15% casualty and the 10% property portions the Plan retains. The Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

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

	2006	2005
Assets	\$9,620,148	\$8,219,430
Liabilities	<u>(3,329,620)</u>	<u>(2,748,639)</u>
Members' Equity	<u>\$6,290,528</u>	<u>\$5,470,791</u>

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

9. SUBSEQUENT EVENTS

The Village of Windham filed a lawsuit against the Township of Windham in the Portage County Court of Common Pleas. The case filed by the Village of Windham pertains to the Village Fire Department, an alleged Township Fire District and the Taxing authority of Portage County. At the present time the case is pending and no depositions have been taken and no dispositions have been made. The Village could realize additional revenue for its fire department depending upon the ruling of the Court.

VILLAGE OF WINDHAM
PORTAGE COUNTY

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

10. LEGAL COMPLIANCE

In addition to the noncompliance appearing in Note 3, the Village did not comply with Sections 733.262 & 733.28 of the Ohio Revised Code relating to guidelines the fiscal officers duties and certifying the availability of funds prior to a purchase commitment.

11. PRIOR PERIOD ADJUSTMENTS

Errors relating to carrying outstanding checks and posting of revenues in the prior year balance lead to a decreased General Fund balance at the end of calendar 2005. The total adjustment at the end of calendar 2005 in the amount of \$94,557 has been made to the General Fund at the beginning of the year as follows:

	General Fund
Fund Cash Balances, January 1, 2006	(\$91,461)
Adjustment for errors	<u>94,557</u>
Adjusted Fund Cash Balances, January 1, 2006	\$3,096

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VILLAGE OF WINDHAM
PORTAGE COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/ Pass Through Grantor Program Title	Grant/Pass Through Number	Federal CFDA Number	Federal Receipts	Federal Disbursements
<u>U.S. Department of Agriculture</u>				
<i>Direct Assistance:</i>				
Water and Waste Disposal Systems for Rural Communities	92-03	10.760	555,000.00	555,000.00
Water and Waste Disposal Systems for Rural Communities	92-05	10.760	150,000.00	150,000.00
Water and Waste Disposal Systems for Rural Communities	00-04	10.760	<u>282,569.00</u>	<u>267,271.00</u>
Total U.S. Department of Agriculture			<u>987,569.00</u>	<u>972,271.00</u>
<u>U.S. Department of Housing and Urban Development (HUD)</u>				
<i>Passed Through Ohio Department of Development:</i>				
Community Development Block Grant – State's Program	C-W-03-213-1	14.228	<u>495,000.00</u>	<u>495,000.00</u>
Total U.S. Department of Housing and Urban Development (HUD)			<u>495,000.00</u>	<u>495,000.00</u>
Total Federal Assistance			<u>1,482,569.00</u>	<u>1,467,271.00</u>

The accompanying notes to this schedule are an integral part of this schedule.

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

**YEAR ENDED DECEMBER 31, 2006
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**

NOTE A-SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Village of Windham's federal award programs. The schedule has been prepared on the cash basis of accounting.



Mary Taylor, CPA

Auditor of State

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

Village of Windham
Portage County
9621 East Center Street
Windham, Ohio 44288

To the Village Council:

We have audited the financial statements of the Village of Windham (the Village) as of and for the year ended December 31, 2006, and have issued our report thereon dated November 5, 2008 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-003 through 2006-006.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe findings numbers 2006-003 through 2006-006 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated November 5, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2006-001 through 2006-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated November 5, 2008.

We intend this report solely for the information and use of the audit committee, management, Members of Council, federal awarding agencies and pass through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

November 5, 2008



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Village of Windham
Portage County
9621 East Center Street
Windham, Ohio 44288

To the Village Council:

Compliance

We have audited the financial statements of the Village of Windham (the Village) as of and for the year ended December 31, 2006, and have issued our report thereon dated November 5, 2008 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village 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*.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village of Windham complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

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A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to administer a federal program such that there is more than a remote likelihood that the Village's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Village's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, Members of Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

November 5, 2008

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Water Waste Disposal Systems for Rural Communities 10.760, Community Development Block Grant 14.228
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

VILLAGE OF WINDHAM
PORTAGE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

Finding for Recovery - Public Monies Illegally Expended

During 2005 and 2006, former Fiscal Officer, Shelley Craine, received various reimbursements for items that she personally purchased for the Village. Two such reimbursements did not contain documentation of the original purchase/payment. These reimbursements totaled \$213.99. Additionally, Ms. Craine was unable to provide such documentation when asked. The warrants for these reimbursements were issued on June 30, 2005 and February 10, 2006 and the amount of overpayment is detailed below:

Overpayment Type	Total Amount Overpaid
Unsupported Expenditures	<u>\$ 213.99</u>
Total Overpayment	<u>\$ 213.99</u>

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended are hereby issued against Shelley Craine, former Fiscal Officer, and Liberty Mutual, her surety, in the amount of two hundred and thirteen dollars and ninety-nine cents (\$213.99), and in favor of the Village of Windham's General Fund.

FINDING NUMBER 2006-002

Finding for Recovery – Compensation Overpayments

Village of Windham Ordinance 155.06(a) states that all full-time employees of the Village shall have added to their regular compensation a supplemental amount of five dollars (\$5.00) per month for each year completed as a full-time Village employee. Karen Barnard's longevity rate from January 1, 2005 through October 2005 was thirty dollars (\$30.00) per month and from October 2005 through October 2006 was thirty-five dollars (\$35.00) per month. Our testing indicated, however, that Ms. Barnard received a total of fifty-five dollars (\$55.00) additional longevity pay from January 1, 2005 through December 31, 2006.

Village of Windham Ordinance 1313 provides that overtime pay for Village employees shall be calculated at the rate of one and one half times the employee's base rate of pay for hours worked in excess of forty hours per week. Karen Barnard's base rate of pay for the period January 1, 2005 through December 31, 2006 was \$10.82 per hour and her overtime rate would be \$16.23 dollars per hour. Our tests revealed that in three separate instances Ms. Barnard was paid for overtime using a rate of \$24.48 per hour; and that in seven separate instances Ms. Barnard was paid for overtime using a rate of \$16.32 per hour. This resulted in an overpayment of one hundred twenty-four dollars and seventy-six cents (\$124.76).

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

As a result, Ms. Barnard was overpaid a total of \$179.76. The overpayment consisted of an excess of \$55.00 in longevity pay and \$124.76 in overtime pay. This overpayment is detailed below:

Overpayment Type	Total Amount Overpaid
Longevity Overpayment	\$ 55.00
Overtime Overpayment	<u>124.76</u>
Total Overpayment	<u>\$ 179.76</u>

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp., 120 Ohio St. 47 (1929); 1980 Op. Atty Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 OP. Atty Gen. No. 80-074.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Karen Barnard, Village employee, Shelley Craine, former Fiscal Officer, and Liberty Mutual, her surety jointly and severally in the amount of one hundred and seventy-nine dollars and seventy-six cents (\$179.76), and in favor of the Village of Windham's General Fund, in the amount of one hundred seventy-nine dollars and seventy-six cents (\$179.76).

FINDING NUMBER 2006-003

Material Noncompliance Citation / Significant Deficiency / Material Weakness

Ohio Revised Code Section 733.262, provides that a village fiscal officer appointed under this section shall perform the duties provided by law for the village clerk and treasurer and any other duties consistent with the nature of the office. **Ohio Revised Code Section 733.28** requires the village clerk keep the books of the village, exhibit accurate statements of all moneys received and expended, of all property owned by the village and income derived there from, and all taxes and assessments.

The Village utilizes the Uniform Accounting System (UAN) provided by the Auditor of State (AOS). Specific account codes maintained within the UAN system that are proscribed by the AOS are required to be used by the Village. These account codes are listed within the UAN Manual also provided by the AOS.

As noted in the 2005 audit report, throughout 2005 and the first three months of 2006 the Village fiscal officer was inconsistent in posting revenue and expenditures to the UAN accounting system. This resulted in three hundred sixteen adjustments to the cash reconciliation during that fifteen month period which affected fifteen of twenty two funds. The net adjustment to the accounting system and audit report was a negative \$253,460.58 and the adjustments ranged from a positive \$78,161.80 to a negative \$155,536.24 to differing funds. The audit adjustments were the result of the following: not posting interest earned, revenue placed in the bank but not posted to UAN, posting the same revenue twice in the UAN, posting revenue to the incorrect funds, and not posting the following expenditures to the accounting system: wire transferred disbursements for utilities, wire transfers for debt, wire transferred retirement system payments, and bank charge backs.

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

Additionally, the Village fiscal officer made an additional forty-seven incorrect postings ranging from a positive \$75.01 to a negative \$77,787.92 to the UAN System which impacted the fund balances of the various funds maintained by the Village. Those adjustments have been made to the UAN Accounting System and incorporated into the 2005 and 2006 financial statements.

Not posting and incorrectly posting transactions to the UAN system contributed to the difficulties in the reconciliation of Village accounts and lead to weaknesses in monitoring financial condition of the Village.

We recommend the Village establish control procedures to assure the fiscal officer keep accurate statements of all receipts and disbursements of the Village.

FINDING NUMBER 2006-004

Material Noncompliance Citation / Significant Deficiency / Material Weakness

Ohio Revised Code Section 5705.10(H) states, in part, that money paid into any fund shall be used only for the purpose for which the fund is established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During our audit period, the following adjustments were made to the accounting records and financial statements resulting in the negative Fund balances which follow:

State Highway Fund	\$ 4,133
Income Tax Fund	\$ 102
Sewer Debt Service Fund	\$ 155,536

On December 31, 2006 the following funds had negative fund balances resulting from these adjustments:

State Highway Fund	(\$ 3,281)
Income Tax Fund	(\$ 102)
Sewer Debt Service Fund	(\$ 90,726)

The Village Fiscal Officer should monitor disbursements to ensure overspending does not occur and to assure monies are being used for the purpose for which the funds were established.

FINDING NUMBER 2006-005

Significant Deficiency / Material Weakness – Payroll Weaknesses

The Village had eighty-eight employees during 2006. Fifteen were full time the remaining seventy-three employees were part time. Of the eighty-eight employees there were thirteen employees were underpaid for a total of \$2,544.33 and 7 employees were overpaid for a total of \$43.88 during calendar 2006. In addition, one employee provided a check in advance of the normal pay period by two weeks and included one week of vacation pay without Council approval. A listing of the employees has been provided to management during the post audit.

The sheer number of payroll errors took place in the first fifteen months of the audit from January 1, 2005 through March 31, 2006. Although there were errors in 2006 they decreased substantially from mid-April forward.

FINDING NUMBER 2006-005
(Continued)

The errors in payroll included the following:

- Employee folders were not updated to include critical information such as pay rate information or changes in pay rate information. In addition, the folders did not include retirement information such as final payout information. Two employees had entered into agreement to receive back pay but their employee folders did not contain the information for a clear understanding of the allowable payroll.
- The incorrect hourly rate was paid to nine employees. The hourly rates were incorrectly calculated and were off from \$.02 to \$.88 per hour during the period.
- The incorrect overtime rate was paid to eleven employees. The overtime rates were incorrectly calculated and were off from \$.01 to \$3.75 per hour during the period.
- The incorrect amount of longevity was paid to twelve employees. Full time employees do not earn longevity or license fees on the third pay in any month where there are three pays. However, one full time employees during 2006 received longevity in the third pay in June. Also, the years of service were not correctly applied to longevity during the audit period.
- The incorrect amount of license reimbursement was paid to three employees.
- The fiscal officer paid herself two weeks in advance on April 21, 2006 for a pay that should have been paid on May 5, 2006. In addition, her effective resignation date was Friday, April 21, 2006. In resigning she worked only one week during her last pay period. Her last pay included one addition week of vacation pay without the permission of Council.
- During 2006, all employees with six months or more working for the police department qualifies for uniform allowance. According to the fiscal officer and records reviewed while performing payroll testing, the payment made to these employees for uniform allowances were paid without requirement to provide receipts. Therefore, the amount paid should have been included in the taxable gross wages of each employee's FORM W-2, but was not.

We recommend the fiscal officer ensure the following:

- Employee folders are updated to include all pertinent information such as; Name, Hiring authorization (i.e., Resolution), Position and authorized salary rate, Department(s) and fund(s) to which salary will be charged, deduction authorizations, such as deferred compensation programs or charitable contributions, retirement system participation, Federal withholding authorization Form W-4, and State & local income tax withholding authorization.
- The correct hourly rate is input in the payroll module of the accounting system.
- The correct overtime rate multiplier is input in the payroll module of the accounting system.
- The correct amount of longevity is paid to all full time employees.
- The correct amount of license reimbursement is paid to all employees eligible.
- No advance pays or vacation payout are provided to any employee without express approval of Council.
- When required, uniform allowance is included in the taxable gross wages of employees.

Implementation of the recommendation may aid Council in providing the proper pay to each employee and accurate reporting and payment of deductions and wages.

FINDING NUMBER 2006-006

Significant Deficiency / Material Weakness – Enterprise Deposit Fund

The Village's Enterprise Deposit Fund was established to collect and hold customer deposits when a water service account is opened. These monies are not the property of the Village. The Village simply holds the money in a custodial manner until customers close their water service account. At December 31, 2006, the Enterprise Deposit Fund's fund balance was \$74,654.

However, when reviewing the Village's Utility Billing Deposit Report in their SSI Utility Billing System at December 31, 2006, the amount reflected for customer deposits was \$34,407. Based upon the U/B Deposit Report, the Enterprise Deposit Fund balance is over funded by \$40,247 at December 31, 2006.

The overfunding is a result of the fiscal officer's paying the refunds from the Water and Sewer Operating Funds, respectively, as opposed to paying from the Deposit Fund.

We recommend for Council to make the balances of the Enterprise Deposit Fund and the customer deposits from their SSI Utility Billing System (Utility Billing Deposit Report) equal. The excess balance from the Enterprise Deposit Fund in the amount of \$40,247 may be transferred back to the Water and Sewer Operating funds, respectively. All of this should be done through a formal ordinance with the advice and assistance of the Village's Solicitor.

We also recommend the Village maintain the same manner of accounting as all other funds through the following:

- If a customer has a zero balance owed for water and sewer, the Village should issue the reimbursement from Enterprise Deposit Fund to the customer for the total amount of the deposit,
- If the customer has a balance owed for water and sewer and there will be a remainder in the deposit fund which will need to be reimbursed to the customer then transfer the amount needed to meet the outstanding owed amount to the water or sewer funds, respectively, and then refund the customer from the Enterprise Deposit Fund the remaining balance.
- If the customer has their water service shut off and there is an amount owed that is greater than the deposit amount then transfer the entire deposit amount to the respective water or sewer fund and when the customer pays the remaining balance credit the customer's accounts following the normal procedure for receipting utility billing receipts.

Implementation may aid in more accountability and an accurate fund balance in the Enterprise Deposit Fund.

Officials Response: Except for the Deposit Fund misstatement noted in Finding 2006-006 with the SSI Billing System and the negative fund balances noted in Finding 2006-004, all other material citations and reportable conditions have been addressed through the end of 2006 and during 2007. The Enterprise Deposit Fund was corrected during calendar 2008.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**VILLAGE OF WINDHAM
PORTAGE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-001	Finding for Recovery overpayment of wages	Yes	Repaid in fiscal year 2008.
2005-002	Revised Code Sections 733.262 and 733.28 village clerk to keep the books of the village, exhibit accurate statements of all monies received and expended.	No	Repeated 2006-003
2005-003	Revised Code Section 5705.39 Appropriations exceeding estimated resources	Yes	
2005-004	Revised Code Section 5705.41(B) disbursements, plus outstanding encumbrances exceeded total appropriations	Yes	
2005-005	Revised Code Section 5705.41(D) Certification of the availability of funds	Partially Corrected	Management Letter
2005-006	Revised Code Section 145.47 penalties paid to Ohio Public Employees Retirement System	Yes	
2005-007	Revised Code Section 5705.10 negative fund cash balances	No	Repeated 2006-004
2005-008	Income Tax Weaknesses	Partially Corrected	Management Letter
2005-009	Cash Disbursement Weaknesses	Partially Corrected	Management Letter
2005-010	Payroll Weaknesses	No	Repeated 2006-005
2005-011	Enterprise Deposit Fund	No	Repeated 2006-006



Mary Taylor, CPA
Auditor of State

VILLAGE OF WINDHAM

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 25, 2008**