



Dave Yost • Auditor of State



VILLAGE OF VANLUE  
HANCOCK COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of Vanlue  
Hancock County  
124 Center Street, P.O. Box 77  
Vanlue, Ohio 45890-0077

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of the Village of Vanlue, Hancock County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38

and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Vanlue, Hancock County, Ohio as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

***Emphasis of Matter***

As discussed in Note 1F to the financial statements, during 2011 the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

October 28, 2013

**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$4,727		\$4,727
Intergovernmental	34,279	\$14,971	49,250
Special Assessments		8,402	8,402
Fines, Licenses and Permits	725		725
Earnings on Investments	447	54	501
Miscellaneous	13,663		13,663
<i>Total Cash Receipts</i>	<u>53,841</u>	<u>23,427</u>	<u>77,268</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	10,964	11,060	22,024
Public Health Services	1,469		1,469
Leisure Time Activities	9,338		9,338
Community Environment	605		605
Transportation		10,850	10,850
General Government	26,733	866	27,599
Debt Service:			
Principal Retirement	1,000		1,000
Interest and Fiscal Charges	1,739		1,739
<i>Total Cash Disbursements</i>	<u>51,848</u>	<u>22,776</u>	<u>74,624</u>
<i>Excess of Receipts Over Disbursements</i>	1,993	651	2,644
<b>Other Financing Disbursements</b>			
Other Financing Uses	(224)		(224)
<i>Net Change in Fund Cash Balances</i>	1,769	651	2,420
<i>Fund Cash Balances, January 1</i>	<u>78,736</u>	<u>63,499</u>	<u>142,235</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		64,150	64,150
Unassigned	80,505		80,505
<i>Fund Cash Balances, December 31</i>	<u>\$80,505</u>	<u>\$64,150</u>	<u>\$144,655</u>

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

**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$199,373
Fines, Licenses and Permits	370
	199,743
<i>Total Operating Cash Receipts</i>	<i>199,743</i>
<b>Operating Cash Disbursements</b>	
Personal Services	22,432
Employee Fringe Benefits	7,137
Contractual Services	33,359
Supplies and Materials	15,628
	78,556
<i>Total Operating Cash Disbursements</i>	<i>78,556</i>
<i>Operating Income</i>	<i>121,187</i>
<b>Non-Operating Receipts (Disbursements)</b>	
Intergovernmental	250,147
Other Debt Proceeds	27,794
Miscellaneous Receipts	1,044
Capital Outlay	(258,295)
Principal Retirement	(103,144)
Interest and Other Fiscal Charges	(50,682)
	(133,136)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(133,136)</i>
<i>Net Change in Fund Cash Balances</i>	<i>(11,949)</i>
<i>Fund Cash Balances, January 1</i>	<i>284,439</i>
<i>Fund Cash Balances, December 31</i>	<i>\$272,490</i>

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



**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$4,531		\$4,531
Intergovernmental	46,341	\$29,798	76,139
Special Assessments		8,832	8,832
Fines, Licenses and Permits	225		225
Earnings on Investments	334	41	375
Miscellaneous	3,323		3,323
<i>Total Cash Receipts</i>	<u>54,754</u>	<u>38,671</u>	<u>93,425</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	10,802	5,476	16,278
Public Health Services	1,818		1,818
Leisure Time Activities	4,074		4,074
Community Environment	183		183
Transportation	1,518	32,142	33,660
General Government	38,804	1,103	39,907
Debt Service:			
Principal Retirement	1,000		1,000
Interest and Fiscal Charges	1,783		1,783
<i>Total Cash Disbursements</i>	<u>59,982</u>	<u>38,721</u>	<u>98,703</u>
<i>Excess of Disbursements Over Receipts</i>	(5,228)	(50)	(5,278)
<b>Other Financing Disbursements</b>			
Other Financing Uses	(5,113)		(5,113)
<i>Net Change in Fund Cash Balances</i>	(10,341)	(50)	(10,391)
<i>Fund Cash Balances, January 1</i>	<u>89,077</u>	<u>63,549</u>	<u>152,626</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		63,499	63,499
Unassigned	78,736		78,736
<i>Fund Cash Balances, December 31</i>	<u>\$78,736</u>	<u>\$63,499</u>	<u>\$142,235</u>

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

**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$198,595
Fines, Licenses and Permits	937
	199,532
<i>Total Operating Cash Receipts</i>	
<b>Operating Cash Disbursements</b>	
Personal Services	25,554
Employee Fringe Benefits	6,410
Contractual Services	35,610
Supplies and Materials	11,551
	79,125
<i>Total Operating Cash Disbursements</i>	
<i>Operating Income</i>	120,407
<b>Non-Operating Receipts (Disbursements)</b>	
Intergovernmental	37,399
Sale of Bonds	1,876,000
Other Debt Proceeds	48,170
Miscellaneous Receipts	2,095
Capital Outlay	(39,682)
Principal Retirement	(1,902,703)
Interest and Other Fiscal Charges	(51,645)
	(30,366)
<i>Total Non-Operating Receipts (Disbursements)</i>	
<i>Net Change in Fund Cash Balances</i>	90,041
<i>Fund Cash Balances, January 1</i>	194,398
<i>Fund Cash Balances, December 31</i>	\$284,439

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

**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011**

**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 Vanlue, Hancock 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 and park operations. The Village contracts with the Vanlue Fire Department to receive fire protection services.

The Village participates in the Public Entities Pool of Ohio, a public entity risk pool. Note 8 to the financial statements provides additional information for 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. Deposits 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.

**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 accounts for and reports all financial resources not accounted for and reported in another fund.

VILLAGE OF VANLUE  
HANCOCK COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

Street Lighting Fund – This fund receives special assessment revenue to fund street lighting.

Permissive Motor Vehicle License Tax Fund - This fund receives permissive 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 Fund - This fund receives charges for services from residents to cover water service costs.

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

Enterprise Improvement Fund - This fund receives loan and grant proceeds from the United States Department of Agriculture and the Ohio Public Works Commission to finance a water utility project. A utility surcharge will be charged to repay the loans.

Water Capital Project Fund - This fund receives loan proceeds from the United States Department of Agriculture and the Ohio Water Development Authority to finance a water utility project. A utility surcharge will be charged to repay the loans.

**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**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. Appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

**F. Fund Balance**

In 2011, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned. This change has no effect on the previously stated fund balances.

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors,

VILLAGE OF VANLUE  
HANCOCK COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant, and Equipment**

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

**2. Equity in Pooled Deposits**

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

	<u>2012</u>	<u>2011</u>
Demand deposits	\$159,156	\$169,138
Other time deposits (savings and NOW accounts)	<u>257,989</u>	<u>257,536</u>
Total deposits	<u><u>\$417,145</u></u>	<u><u>\$426,674</u></u>

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

**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$54,411	\$53,841	(\$570)
Special Revenue	26,400	23,427	(2,973)
Enterprise	507,000	478,728	(28,272)
Total	\$587,811	\$555,996	(\$31,815)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$57,071	\$52,072	\$4,999
Special Revenue	35,100	22,776	12,324
Enterprise	559,236	490,677	68,559
Total	\$651,407	\$565,525	\$85,882

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$57,793	\$54,754	(\$3,039)
Special Revenue	41,400	38,671	(2,729)
Enterprise	2,660,724	2,163,196	(497,528)
Total	\$2,759,917	\$2,256,621	(\$503,296)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$146,870	\$65,095	\$81,775
Special Revenue	104,949	38,721	66,228
Enterprise	2,848,549	2,073,155	775,394
Total	\$3,100,368	\$2,176,971	\$923,397

**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

**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. Miscellaneous Receipts**

In 2012, miscellaneous receipts in the General Fund consist of an insurance settlement for storm damage and a reimbursement from another entity for shared costs.

**6. Debt**

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Loan #CT430 (Lift Station)	\$27,794	0.00%
General Obligation Bonds (USDA #02)	38,750	4.375%
USDA Loan #04 (Water System)	1,876,000	2.50%
OWDA Loan #5731 (Water System)	46,059	1.50%
OPWC Loan #CM08J (Water System)	196,875	0.00%
Total	<u>\$2,185,478</u>	

The Ohio Public Works Commission (OPWC) loan #CT430 is for the replacement of the wastewater pump lift station. The Village will repay the loan of \$27,794 in semiannual installments of \$695 over 20 years. The loan is collateralized by sewer receipts.

The Village issued general obligation bonds (USDA loan #02) to finance the purchase of a new town hall in 2007.

The USDA loan #04 relates to the new water distribution system. As of December 31, 2012, the Village received \$1,876,000. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover USDA debt service requirements. The mortgage revenue bond covenant requires the Village to establish and fund a debt service reserve fund, included as a water debt reserve fund. The Village created this fund in 2013.



**VILLAGE OF VANLUE  
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

The OWDA loan #5731 relates to a cooperative agreement with the OWDA. The loan is for the construction of the water treatment plant and distribution system. The Village will repay the loan of \$48,816 in semiannual installments of \$1,013, including interest, over 30 years. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OPWC loan #CM08J relates to the water distribution system. The Village will repay the loan of \$225,000 in semiannual installments of \$5,625 over 20 years. The loan is collateralized by water receipts.

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

Year ending December 31:	<u>OWDA Loans</u>	<u>USDA Loans</u>	<u>OPWC Loans</u>
2013	\$875	\$78,573	\$12,640
2014	2,027	78,529	12,640
2015	2,027	79,486	12,639
2016	2,027	79,276	12,640
2017	2,027	79,311	12,640
2018-2022	10,133	395,127	63,198
2023-2027	10,133	393,949	63,199
2028-2032	10,133	389,884	35,073
2033-2037	10,133	379,321	
2038-2042	7,093	379,335	
2043-2047		379,351	
2048-2051		303,490	
Total	<u>\$56,608</u>	<u>\$3,015,632</u>	<u>\$224,669</u>

**7. Retirement System**

The Village's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which includes postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

**8. Risk Management**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

**VILLAGE OF VANLUE  
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**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Assets	\$34,389,569	\$33,362,404
Liabilities	<u>(14,208,353)</u>	<u>(14,187,273)</u>
Net Position	<u>\$20,181,216</u>	<u>\$19,175,131</u>

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village's share of these unpaid claims collectible in future years is approximately \$12,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

VILLAGE OF VANLUE  
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NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2012 AND 2011  
(Continued)

<u>Contributions to PEP</u>	
<u>2012</u>	<u>2011</u>
\$13,846	\$14,672

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**9. Contingent Liabilities**

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Vanlue  
Hancock County  
124 Center Street, P.O. Box 77  
Vanlue, Ohio 45890-0077

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Vanlue, Hancock County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated October 28, 2013 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, and wherein the Village adopted Governmental Accounting Standards Board Statement No. 54 in 2011.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-002 described in the accompanying schedule of findings to be a material weakness.

***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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State

Columbus, Ohio

October 28, 2013

VILLAGE OF VANLUE  
HANCOCK COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-001

**Noncompliance Citation**

**Ohio Revised Code § 5705.41(D)(1)** provides in part that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such 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 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 primary exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, each of which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

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

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

Of the transactions tested, 47% were not certified by the Fiscal Officer at the time the commitments were incurred, and there was no evidence the Council followed the aforementioned exceptions. Rather, for these instances, the fiscal certificate was signed after the goods or services had been ordered or an invoice already received. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

### **FINDING NUMBER 2012-001 (Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Fiscal Officer should certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

The Fiscal Officer should certify the full purchase amounts to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires for the authorization of disbursements. The Fiscal Officer should sign the certification prior to incurring a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

### **FINDING NUMBER 2012-002**

#### **Material Weakness**

##### **Monitoring Village Financial Activity**

The small size of the Village's staff does not allow for an adequate segregation of duties; the Fiscal Officer must perform all accounting functions. It is therefore important Village Council (or other committee) monitor financial activity closely. Errors were noted in the posting of debt related revenues and expenditures to the financial statements that required 4 audit reclassifications ranging in amounts of \$168 to \$80,000. The accompanying financial statements were adjusted or reclassified to reflect these amounts in the proper accounts. The financial statements contained material errors such as the following:

- In 2011, a reimbursement of \$39,356 for water related expenditures was incorrectly posted to Charges for Services instead of Other Debt Proceeds in the Enterprise Fund.
- In 2011, a debt payment in the Enterprise Fund incorrectly allocated \$1,000 to Interest and Fiscal Charges instead of Principal.
- In 2012, OPWC loan and grant activity was incorrectly recorded in the Enterprise Fund resulting in an understatement of Intergovernmental Revenue by \$55,626, and overstatement of Other Debt Proceeds by \$52,206, and an overstatement of Miscellaneous Receipts by \$3,420.
- In 2012, OPWC and OWDA activity was incorrectly recorded in the Enterprise Fund which included Capital Outlay expenditures in the amount of \$63,774 incorrectly posted as Interest and Fiscal Charges, and Principal payments of \$16,394 which were incorrectly recorded as Interest and Fiscal Charges and Contractual Services in the amounts of \$16,226 and \$168, respectively.

To help ensure the financial position of the funds presented to Village Council is complete and accurate we recommend:

- The Fiscal Officer post all transactions in accordance with the guidance established by the Ohio Village Officer's Handbook and the Uniform Accounting Network Manual issued by the Auditor of State.
- Council adopt procedures for reviewing the financial statements for accuracy.

**Officials' Response:** We did not receive a response from Officials to the findings reported above.



VILLAGE OF VANLUE  
HANCOCK COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2012 AND 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-001	Ohio Revised Code § 5705.41(D) for improper certification of funds.	No	Not corrected. Reissued as Finding 2012-001 in this report.

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**VILLAGE OF VANLUE**

**HANCOCK 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 12, 2013**