

**VILLAGE OF WHARTON
WYANDOT COUNTY
Regular Audit
For the Years Ended December 31, 2012 and 2011**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Village Council
Village of Wharton
PO Box 266
Wharton, Ohio 43359

We have reviewed the *Independent Auditors' Report* of the Village of Wharton, Wyandot County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2011 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State
December 3, 2013

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VILLAGE OF WHARTON
WYANDOT COUNTY

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INDEPENDENT AUDITOR'S REPORT

October 30, 2013

Village of Wharton
Wyandot County
PO Box 266
Wharton, Ohio 43359

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the **Village of Wharton**, Wyandot 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 1B 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 1B 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 or cash flows 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 Wharton, Wyandot County, 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 permits, described in Note 1B.

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 30, 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.

Respectfully submitted,



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$ 13,657	\$ -	\$ 13,657
Intergovernmental	34,762	19,676	54,438
Fines, Licenses and Permits	2,443	-	2,443
Earnings on Investments	454	-	454
Miscellaneous	15,923	7	15,930
	<u>67,239</u>	<u>19,683</u>	<u>86,922</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons and Property	237	-	237
Public Health Services	1,466	-	1,466
Transportation	-	29,086	29,086
General Government	9,535	-	9,535
	<u>11,238</u>	<u>29,086</u>	<u>40,324</u>
Total Cash Disbursements			
<i>Net Change in Fund Cash Balances</i>	56,001	(9,403)	46,598
<i>Fund Cash Balances, January 1</i>	<u>(12,790)</u>	<u>103,258</u>	<u>90,468</u>
Fund Cash Balances, December 31			
Restricted	-	93,855	93,855
Unassigned	43,211	-	43,211
	<u>43,211</u>	<u>93,855</u>	<u>137,066</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 43,211</u>	<u>\$ 93,855</u>	<u>\$ 137,066</u>

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

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 300,755
Total Operating Cash Receipts	300,755
Operating Cash Disbursements:	
Personal Services	10,187
Contractual Services	238,552
Supplies and Materials	29,010
Total Operating Cash Disbursements	277,749
Operating Income	23,006
Non-Operating Receipts (Disbursements):	
Earnings on Investments	51
Other Debt Proceeds	123,925
Capital Outlay	(231,388)
Principal Retirement	(62,028)
Interest and Other Fiscal Charges	(5,258)
Other Financing Sources	720
Other Financing Uses	(497)
Total Non-Operating Receipts (Disbursements)	(174,475)
<i>Net Change in Fund Cash Balances</i>	(151,469)
<i>Fund Cash Balances, January 1</i>	494,984
<i>Fund Cash Balances, December 31</i>	\$ 343,515

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

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$ 11,567	\$ -	\$ 11,567
Intergovernmental	8,711	22,958	31,669
Fines, Licenses and Permits	2,376	-	2,376
Earnings on Investments	816	23	839
Miscellaneous	772	-	772
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	24,242	22,981	47,223
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Public Health Services	3,452	-	3,452
Transportation	-	8,588	8,588
General Government	38,464	-	38,464
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	41,916	8,588	50,504
	<hr/>	<hr/>	<hr/>
<i>Net Change in Fund Cash Balances</i>	(17,674)	14,393	(3,281)
	<hr/>	<hr/>	<hr/>
<i>Fund Cash Balances, January 1</i>	4,884	88,865	93,749
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31			
Restricted	-	103,258	103,258
Unassigned (Deficit)	(12,790)	-	(12,790)
	<hr/>	<hr/>	<hr/>
<i>Fund Cash Balances, December 31</i>	<u>\$ (12,790)</u>	<u>\$ 103,258</u>	<u>\$ 90,468</u>

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

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$ 273,597
	<u>273,597</u>
Total Operating Cash Receipts	<u>273,597</u>
Operating Cash Disbursements:	
Personal Services	6,458
Contractual Services	214,010
Supplies and Materials	11,755
	<u>232,223</u>
Total Operating Cash Disbursements	<u>232,223</u>
Operating Income	<u>41,374</u>
Non-Operating Receipts (Disbursements):	
Intergovernmental	156,989
Earnings on Investments	214
Other Debt Proceeds	311,941
Capital Outlay	(483,563)
Principal Retirement	(21,591)
Interest and Other Fiscal Charges	(2,074)
Other Financing Sources	300
Other Financing Uses	(251)
	<u>(38,035)</u>
Total Non-Operating Receipts (Disbursements)	<u>(38,035)</u>
<i>Net Change in Fund Cash Balances</i>	3,339
<i>Fund Cash Balances, January 1</i>	<u>491,645</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$ 494,984</u></u>

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

**VILLAGE OF WHARTON
WYANDOT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 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 Wharton, Wyandot County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides electric and sewer utilities, street maintenance repair, as well as other general government services.

The Village participates in the Public Entities Pool of Ohio (PEP) public entity risk pool. Note 7 to the financial statements provides additional information for these entities. This organizations is:

Public Entity Risk Pool:

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.

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

The Village Fiscal Officer invests all available funds of the Village in an interest-bearing checking account and certificates of deposit.

D. Fund Accounting

The Village uses fund accounting to segregate cash that is 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 WHARTON
WYANDOT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for and report the proceeds from specific 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 Fund:

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:

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and 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 commitments are made. The Village did not use the encumbrance method of accounting.

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

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance

In 2011, the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which had no effect on 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, 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.

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 DEPOSITS

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

	2012	2011
Demand deposits	\$ 380,581	\$ 485,452
Certificates of deposit	100,000	100,000
Total deposits	\$ 480,581	\$ 585,452

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

3. BUDGETARY ACTIVITY

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

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 19,800	\$ 67,239	\$ 47,439
Special Revenue	14,000	19,683	5,683
Enterprise	351,360	425,451	74,091
Total	\$ 385,160	\$ 512,373	\$ 127,213

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 67,211	\$ 11,238	\$ 55,973
Special Revenue	107,855	29,086	78,769
Enterprise	786,816	576,920	209,896
Total	\$ 961,882	\$ 617,244	\$ 344,638

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 21,012	\$ 24,242	\$ 3,230
Special Revenue	14,000	22,981	8,981
Enterprise	350,000	743,041	393,041
Total	\$ 385,012	\$ 790,264	\$ 405,252

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 7,010	\$ 41,916	\$ (34,906)
Special Revenue	103,237	8,588	94,649
Enterprise	850,818	739,702	111,116
Total	\$ 961,065	\$ 790,206	\$ 170,859

Contrary to Ohio law, appropriations exceeded estimated resources in the General Fund for 2012, in the Street Construction, Maintenance and Repair Fund in 2011 and in the Electric Fund in 2011. Also contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund for the year ended December 31, 2011. Also contrary to Ohio law, the Village did not provide supporting documentation that the Village performed an ordinance or resolution authorizing tax levies for the years ended December 31, 2012 and 2011. Also contrary to Ohio law, the Village did not properly modify its appropriations throughout the years ended December 31, 2012 and 2011.

4. DEBT

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest
OWDA - Loan #5667	\$ 209,634	1.50%
OWDA - Loan #5534	364,127	0.00%
	\$ 573,761	

In 2007, the Village entered an agreement to receive a loan from OWDA to cover the design and planning costs of two sewer projects. The remaining balance of this loan was received February 18, 2010 and total principal in the amount of \$219,082 was to be paid back over a 5-year period ending January 1, 2015. On July 23, 2010, the Village refinanced this loan agreement with OWDA, which extended the payback period to 30 years. Due to the refinancing agreement, the original 5-year loan was closed and recorded as principal retirement. The reissuance of the 30-year loan was recorded as proceeds of notes in the amount of \$220,041, which includes a \$959 refinancing fee charged by OWDA. The prior audit outstanding balance was incorrectly stated as \$220,041. The correct balance outstanding at the end of December 31, 2010 for Loan #5667 was should have been reflected as \$221,514.

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

4. DEBT (Continued)

On January 27, 2011, the Village entered into zero interest loan agreement #5534 with the Ohio Water Development Authority for a wastewater system upgrade. This loan has not been fully disbursed as of December 31, 2012, and no amortization schedule is available for its repayment.

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

Year ending December 31:	OWDA #5667
2013	\$ 4,598
2014	9,196
2015	9,197
2016	9,196
2017	9,197
2018-2022	45,983
2023-2027	45,983
2028-2032	45,983
2033-2037	45,983
2038-2041	32,188
Total	<u>\$ 257,504</u>

An amortization schedule for OWDA Loan #5534 has not been presented, as all funds have not yet been disbursed as of December 31, 2012.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. 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.

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

6. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OPERS members contributed 10.0% of their gross salaries, and the Village contributed an amount equaling 14.0% of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

7. 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.

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 (the latest information available):

	<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>

**VILLAGE OF WHARTON
WYANDOT COUNTY**

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

7. RISK MANAGEMENT (Continued)

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 \$4,000.

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.

<u>Contributions to PEP</u>	
<u>2012</u>	<u>2011</u>
\$4,302	\$2,986

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.

8. ECONOMIC DEPENDENCY – MAJOR CUSTOMERS

The Village sold approximately 47% of its electric to two customers during 2012 and approximately 26% during 2011. Also, sales to those customers aggregated approximately \$104,000 and \$71,000 during 2012 and 2011, respectively.

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

October 30, 2013

Village of Wharton
Wyandot County
PO Box 266
Wharton, Ohio 43359

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United State and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Village of Wharton**, Wyandot 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 30, 2013, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits and the Village adopted provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

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 opinions 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 audit findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 findings 2012-001 through 2012-007 described in the accompanying schedule of audit findings to be material weaknesses.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of audit findings as items 2012-005 through 2012-007.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 30, 2013.

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.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

VILLAGE OF WHARTON
WYANDOT COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-001

Material Weakness

Posting Receipts and Disbursements

Receipts and disbursements should be posted to the fund and line item accounts as established by Ohio Administrative Code Section 117-7-01.

Receipts and disbursements were not always posted correctly. For example:

- Cable franchise fees recorded as Property and Other Local Taxes instead of Licenses, Permits and Fees in 2012 and 2011
- KWH taxes recorded as Intergovernmental instead of Property and Other Local Taxes in 2012 and 2011
- Real estate and property taxes recorded as Intergovernmental instead of Property and Other Local Taxes in 2012 and 2011
- Estate tax settlement recorded as Property and Other Local Taxes instead of Intergovernmental in 2012
- Debt Proceeds and the corresponding Capital Outlay disbursements were not recorded in 2012 and 2011
- Principal and interest payments were incorrectly recorded as Capital Outlay disbursements in 2012 and 2011
- On-behalf payments were not recorded as Intergovernmental receipts and Capital Outlay disbursements in 2011

This resulted in several reclassification entries being made to the Village's financial statements. The accompanying financial statements reflect all reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all receipts and disbursements are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to Ohio Administrative Code Section 117-7-01 and/or the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements.

Management's Response – We did not receive a response from officials to this finding.

VILLAGE OF WHARTON
WYANDOT COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-002

Material Weakness

Cash Reconciliation

The Village did not properly perform bank reconciliations for the years ended December 31, 2012 and 2011.

The Village maintains a separate bank statement for its Electric Fund. Shortly after the end of every month, the Village records the amount credited to the bank statement as electric utility receipts within its fiscal system. This causes the Village's bank balance and book balance to be the exact same. Also, the Village is not timely posting receipts and disbursements to its fiscal system as they occur.

By relying strictly on the bank statements, the Village will not recognize any discrepancies that may exist between the bank's records and the Village's records. Also, by not timely posting transactions to the Village's fiscal system, it becomes difficult to monitor the true cash fund balances within the Village, due to timing differences between when the transaction occurs and when the transaction is recorded by the bank.

We recommend that the Village reconcile its bank accounts to the accounting system at the end of every month and post all transactions when they actually occur.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2012-003

Material Weakness

Utility Billing, Collections and Adjustments

A policy over non-cash adjustments and write-offs and a formal review process over the system generated utility reports are essential to ensure proper financial reporting. The Village should maintain a policy over non-cash adjustments and write-offs, as to limitations on amounts that can be adjusted and approval of such adjustments. The Village should also review all system generated utility reports to ensure amounts, such as collections, late fees assessed, as well as customer balances are accurate.

The Village Fiscal Officer currently inputs all collections into the Village's utility system, such as consumption, collections, and adjustments to resident accounts. However, no review of the information input into the system is completed other than by the Fiscal Officer. If a discrepancy is found, the Fiscal Officer goes into the utility system and makes the changes, usually via a miscellaneous charge, which does not require any approval from higher authority.

Failure to have an oversight review of the billings, collections, and approval of non-cash adjustments with an appropriate trail of evidence may result in improper billings and the Village may not bill and receive the correct amounts. Further, the lack of a formal review hinders management's ability to effectively monitor usage and the related revenues.

**VILLAGE OF WHARTON
WYANDOT COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-003 (Continued)

Utility Billing, Collections and Adjustments (Continued)

We recommend the Village develop a formal review process over the system-generated utility reports with an independent, documented review. Any discrepancies discovered during the review process need to be documented, and then corrected after a proper documented approval is obtained. We also recommend the Village develop a policy over non-cash adjustments that can be made to an account, as well as proper approval by a Council member.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2012-004

Material Weakness

Village Council Oversight

Appropriate financial reports were not provided to the Village Council to assist Council in monitoring financial operations. There is also a lack of control and direction regarding the accounting system and overall fiscal management.

The Village Council should monitor the financial operations of the Village regularly. Such monitoring should include review of budget versus actual data, detailed receipt reports, detailed expenditure reports, review and approval of salary schedules, and cash journals.

Monitoring should be performed to ensure that management's objectives are being achieved, including operational, legal compliance, and financial control objectives. Effective monitoring should entail identifying unexpected results or exceptions (including significant compliance exceptions), investigating underlying causes, and taking corrective action.

To assist management in detecting potential material financial and/or compliance transactions that may affect financial operations, we recommend the Village Council become more involved in the review and monitoring of the Village financial operations. Some of the methods of monitoring may consist of, but may not be limited to, the following:

- Regular review of monthly budget to actual figures;
- Regular review of financial report summaries of sufficient detail (monthly detailed receipts, expenditures, and fund balance reports and their respective fluctuations);
- Review of receipts/disbursements with independently accumulated information (budgets, past performance, etc.);
- Review of unusual or significant items, long outstanding items, and;
- Review of monthly bank reconciliations.

Management's Response – We did not receive a response from officials to this finding.

VILLAGE OF WHARTON
WYANDOT COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-005

Material Weakness/Noncompliance

Purchase Orders

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the clerk is attached thereto. The clerk must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a clerk's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate - If the clerk can certify that both at the time that the contract or order was made ("then"), and at the time that the clerk is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority (Village Council) can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2009) may be paid by the clerk 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 District.
2. Blanket Certificate – clerks may prepare "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current 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. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the clerk for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The Village Fiscal Officer did not issue any such certificates for the years ended December 31, 2012 and 2011.

To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred by the Village. 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. When prior certification is not possible, "then and now" certification should be used.

Management's Response – We did not receive a response from officials to this finding.

VILLAGE OF WHARTON
WYANDOT COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-006

Material Weakness/Noncompliance

Negative Fund Balance

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

The Village had a negative fund balance in the General Fund at December 31, 2011 in the amount of \$12,790.

A negative cash fund balance is an indication that revenues from other sources were used to pay obligations of these funds. Fund activity should be monitored by the Fiscal Officer to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

We recommend the Village monitor their fund balances to ensure that money from various funds is not used to pay obligations of other funds.

Management's Response – We did not receive a response from officials to this finding

FINDING NUMBER 2012-007

Material Weakness/Noncompliance

Budgetary Controls

The budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations. Ohio Rev. Code Section 5705 deals with a variety of budgetary requirements that all subdivisions must comply with in order to ensure fiscal responsibility.

In performing the audit we noted several violations of budgetary law which, although they do not in and of themselves, result in errors in financial reporting, may lead to the Village making financial decisions based on incorrect or incomplete information. We noted the following:

- Violations of 5705.34 relating to certification of levies to the County Auditor;
- Violations of 5705.39 indicating appropriations cannot exceed estimated resources;
- Violations of 5705.40 relating to amending appropriations throughout the year;
- Violations of 5705.41(B) stating no subdivision is to expend money unless it has been appropriated (expenditures exceeded appropriations)

In addition, The Village did not have a control procedure in place to ensure that appropriations and estimated receipts, as authorized by the Village Council, were reconciled to the appropriations and estimated receipts posted to the accounting system. This resulted in incorrect amounts posted to the accounting system and information available to Village officials to monitor year-to-date total comparison of budgeted amounts versus actual amounts was not accurate. We recommend the Village implement procedures to ensure appropriations and estimated receipts are accurately posted to the accounting system and reconciled to the amounts approved by the budget commission after each amendment.

VILLAGE OF WHARTON
WYANDOT COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-007 (Continued)

Budgetary Controls (Continued)

Council does not monitor for budgetary compliance. Although Council approves a temporary and permanent budget for revenue and disbursements, the Council does not receive monthly reports of budget and actual information. Council also has not assured that the accounting system is adequate to incorporate budgetary requirements.

Council should review the requirements of ORC section 5705 to be familiar with these laws and to make sure the Village is complying with applicable sections. We recommend the Village establish a procedure that ensures budgetary forms are submitted to the County accurately and timely. This could include a checklist of forms and due dates. If the Council does not consider this necessary steps should be taken to make sure amounts are encumbered (purchase orders are used and assigned to each purchase prior to ordering), certifications of available funds are done by the Fiscal Officer prior to purchasing and unencumbered balances are tracked for each line item.

Management's Response – We did not receive a response from officials to this finding.

**VILLAGE OF WHARTON
WYANDOT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED 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; <i>Explain</i>
2010-VOW-001	Financial Statement Presentation	No	Repeated as Finding 2012-001
2010-VOW-002	Supporting Documentation	Yes	
2010-VOW-003	Cash Reconciliation	No	Repeated as Finding 2012-002
2010-VOW-004	Utility Billing, Collections and Adjustments	No	Repeated as Finding 2012-003
2010-VOW-005	Village Council Oversight	No	Repeated as Finding 2012-004
2010-VOW-006	ORC Section 5705.34	No	Repeated as Finding 2012-007
2010-VOW-007	ORC Section 5705.38	Yes	
2010-VOW-008	ORC Section 5705.36	Yes	
2010-VOW-009	ORC Section 5705.36 (A)(4)	No	Repeated as Finding 2012-007
2010-VOW-010	ORC Section 5705.39	No	Repeated as Finding 2012-007
2010-VOW-011	ORC Section 5705.41 (B)	No	Repeated as Finding 2012-007
2010-VOW-012	ORC Section 5705.40	No	Repeated as Finding 2012-007
2010-VOW-013	ORC Section 5705.41 (D)	No	Repeated as Finding 2012-005
2010-VOW-014	ORC Section 9.38	No	Partially Corrected, Repeated in Management Letter



Dave Yost • Auditor of State

VILLAGE OF WHARTON

WYANDOT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 17, 2013