

Village of Coalton
Jackson County
Regular Audit
For the Year Ended December 31, 2012



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Dave Yost • Auditor of State

Village Council
Village of Coalton
P.O. Box 98
Coalton, Ohio 45621

We have reviewed the *Independent Auditors' Report* of the Village of Coalton, Jackson County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2012 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 Coalton is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

October 31, 2013

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Village of Coalton
Jackson County
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For the Year Ended December 31, 2012

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Independent Auditor's Report

Village Council
Village of Coalton
P.O. Box 98
Coalton, Ohio 45621

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Coalton, Jackson County, (the Village) as of and for the year ended December 31, 2012.

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 of 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, or changes in financial position or cash flows thereof for the year 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 Coalton, Jackson County, as of December 31, 2012, and its combined cash receipts and disbursements for the year 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 1.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole. The schedule of federal awards expenditures (the schedule) presents additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subjected to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 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.



Natalie Millhuff-Stang, CPA, President/Owner
Millhuff-Stang, CPA, Inc.

August 27, 2013

Village of Coalton
Jackson County
Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2012

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Property and Other Local Taxes	\$14,944	\$19,997	\$34,941
Licenses, Permits, and Fees	28,314	0	28,314
Intergovernmental	41,533	30,197	71,730
Charges for services	0	20,516	20,516
Earnings on Investments	26	271	297
Miscellaneous	90	0	90
Total Cash Receipts	84,907	70,981	155,888
Cash Disbursements:			
Current:			
General Government	36,673	3,020	39,693
Security of Persons and Property	54,477	20,343	74,820
Transportation	0	21,252	21,252
Public Health Services	0	299	299
Community Environment	0	7,362	7,362
Basic Utility Services	0	540	540
Capital Outlay	0	1,386	1,386
Debt Service:			
Redemption of Principal	0	6,579	6,579
Interest and Other Fiscal Charges	0	888	888
Total Cash Disbursements	91,150	61,669	152,819
Total Cash Receipts Over (Under) Cash Disbursements	(6,243)	9,312	3,069
Other Financing Sources (Uses):			
Transfers In	0	5,000	5,000
Transfers Out	(7,589)	0	(7,589)
Special Item	2,152	0	2,152
Extraordinary Item	1,000	0	1,000
Total Other Financing Sources (Uses)	(4,437)	5,000	563
Excess of Cash Receipts and Other Financing Sources Over (Under) Cash Disbursements and Other Financing Uses	(10,680)	14,312	3,632
Fund Cash Balances, January 1 - As Restated	118,018	133,864	251,882
Fund Cash Balances, December 31			
Nonspendable:			
Unclaimed Monies	722	0	722
Restricted for:			
Cemetery	0	18,173	18,173
Disaster Relief	0	8,457	8,457
Fire Operations	0	13,916	13,916
Road Maintenance and Improvements	0	40,003	40,003
Housing Rehab	0	2,713	2,713
Vehicles/Buildings	0	64,914	64,914
Unassigned	106,616	0	106,616
Fund Cash Balances, December 31	\$107,338	\$148,176	\$255,514

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

Village of Coalton
Jackson County
Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2012

	Proprietary Fund Type	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$230,211	\$0	\$230,211
Miscellaneous	87	0	87
Total Cash Receipts	230,298	0	230,298
Operating Cash Disbursements:			
Personal Services	37,201	0	37,201
Employee Fringe Benefits	6,523	0	6,523
Contractual Services	140,493	0	140,493
Supplies and Materials	23,039	0	23,039
Total Cash Disbursements	207,256	0	207,256
Operating Income	23,042	0	23,042
Non-Operating Cash Receipts:			
Intergovernmental	2,531,452	0	2,531,452
Debt Proceeds	1,288,645	0	1,288,645
Other Non-Operating Receipts	0	34,695	34,695
Total Non-Operating Cash Receipts	3,820,097	34,695	3,854,792
Non-Operating Cash Disbursements:			
Redemption of Principal	318,880	0	318,880
Interest and Other Fiscal Charges	19,283	0	19,283
Capital Outlay	3,749,743	0	3,749,743
Other Non-Operating Disbursements	550	36,052	36,602
Total Non-Operating Cash Disbursements	4,088,456	36,052	4,124,508
Excess of Cash Receipts Under Cash Disbursements Before Interfund Transfers	(245,317)	(1,357)	(246,674)
Transfers In	2,589	0	2,589
Net Receipts Under Disbursements	(242,728)	(1,357)	(244,085)
Fund Cash Balances, January 1 - As Restated	545,652	1,644	547,296
Fund Cash Balances, December 31	<u>\$302,924</u>	<u>\$287</u>	<u>\$303,211</u>

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

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 1 – Summary of Significant Accounting Policies

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Coalton, Jackson County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Mayor is elected to a four-year term, and votes only to break a tie. The Village provides general government services, police services and street construction, repair and maintenance, as well as water, sewer and trash utilities. The Village also appropriates funds to support a volunteer fire department.

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

Basis of Accounting

These financial statements follow the accounting basis the Auditor of State of Ohio 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.

Cash and Investments

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

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:

General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

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

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

Fire Fund – This fund receives fire contract and service fee monies for the operation and maintenance of the Village's fire department.

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

CIB Sales Tax Fund – This fund receives sales taxes from the County to be used for permanent improvement purposes.

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 and also received various grant and loan proceeds for capital improvements.

Sewer Fund – This fund receives charges for services from residents to cover sewer service costs and also received various grant and loan proceeds for capital improvements.

Fiduciary Funds

Fiduciary funds include trust funds and agency funds. The Village has no trust funds.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village had the following significant Agency Fund:

Mayor's Court Fund – This fund receives fine money, a portion of which is paid into the Village's General Fund for maintaining the security of persons and property within the Village. The other portion of the fines received into this account is paid to the State of Ohio and any other agency as required by law.

Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

Appropriations

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

Estimated Resources

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

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

Encumbrances

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

A summary of the 2012 budgetary activity appears in Note 3.

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.

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.

Fund Balances

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

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

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.

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.

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.

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.

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 1 – Summary of Significant Accounting Policies (Continued)

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.

Note 2 – Equity in Pooled Cash and Investments

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

	2012
Demand Deposits	\$540,385
Certificates of Deposit	18,340
Total Deposits	\$558,725

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution.

Note 3 – Budgetary Activity

Budgetary activity, except for agency funds, for the year ending December 31, 2012 follows:

Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$108,665	\$88,059	(\$20,606)
Special Revenue	136,430	75,981	(60,449)
Enterprise	188,642	4,050,395	3,861,753
Total	\$433,737	\$4,214,435	\$3,780,698

Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$87,915	\$98,739	(\$10,824)
Special Revenue	61,620	61,669	(49)
Enterprise	755,020	4,295,712	(3,540,692)
Total	\$904,555	\$4,456,120	(\$3,551,565)

Note 4 – Property Taxes

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.

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.

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 4 – Property Taxes (Continued)

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

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

Note 5 – Debt

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Mortgage Revenue Bonds (FmHA)	\$201,286	5.00%
OWDA #6054	771,393	1.50%
OPWC CT38J	325,000	0.00%
OPWC CO04N	164,925	0.00%
Milton Bank Trash Truck Loan	28,100	4.75%
Mortgage Revenue Bonds (USDA)	587,000	2.375%
Total	<u>\$2,077,704</u>	

The Farmers Home Administration (FmHA) Mortgage Revenue Bonds relate to a water and sewer plant project mandated by the Ohio Environmental Protection Agency. These bonds are to be paid from user charges for the utilities.

Ohio Water Development Authority (OWDA) loan #4022, initially approved for \$175,000, is for the expansion and complete reconstruction of the Village's sewer processing facility. As of December 31, 2012, the Village had drawn \$175,000 of the loan principal. The Village has also been assessed \$36,205 in capitalized interest. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and repaid the debt. This loan was repaid in full during 2012.

Ohio Water Development Authority (OWDA) loan #5443, initially approved for \$140,000, is for Water System Design. As of December 31, 2012, the Village had drawn \$94,939 of the loan principal. The Village has also been assessed \$5,201 in capitalized interest and \$57 in accrued late charges. The loan activity is reflected in the Water Enterprise Fund which received the proceeds and repaid the debt. This loan was repaid in full during 2012.

Ohio Water Development Authority (OWDA) loan #6054, initially approved for \$970,000, is for the Waterline Replacement Project. As of December 31, 2012, the Village had drawn \$771,393 of the loan principal and capitalized interest, in the amount of \$7,782. The loan activity is reflected in the Water Enterprise Fund which received the proceeds and will repay the debt. The loan has not been finalized as of December 31, 2012, and therefore, an amortization schedule has not been established.

Ohio Public Works Commission (OPWC) loan #CT38J, initially approved for \$325,000, is for the Coalton/Glenroy Sanitary Sewer Improvement Project. As of December 31, 2012, the Village has drawn the full amount of the loan. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds of the debt. Annual payments of \$8,125 are due throughout the term of the loan beginning in 2013 and ending on January 1, 2032.

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 5 – Debt (Continued)

Ohio Public Works Commission (OPWC) loan #CO04N, initially approved for \$300,000, is for the Water Distribution System Renovations Project. As of December 31, 2012, the Village had drawn \$164,925 of the loan. The loan activity is reflected in the Water Enterprise Fund which received the proceeds of the debt. The loan has not been finalized as of December 31, 2012, and therefore, an amortization schedule has not been established.

The trash truck loan is a loan with The Milton Banking Company for the purchase of a trash truck. The original amount of the loan was \$77,180. Semi-annual payments in the amount of \$7,467 are due throughout the term of the loan.

Sanitary Sewer System Mortgage Revenue Bonds, Series 2011, relate to a sanitary sewer system improvement project, and which is funded through the United States Department of Agriculture (USDA). These bonds are to be paid from user charges for the utilities.

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

Year Ending December 31:	Mortgage Revenue Bonds	OPWC Loan CT38J	Trash Truck Loan
2012	\$33,368	\$16,250	\$14,934
2013	43,068	16,250	14,856
2014	43,038	16,250	0
2015	43,003	16,250	0
2016	43,063	16,250	0
2017-2021	215,292	81,250	0
2022-2026	202,111	81,250	0
2027-2031	131,480	81,250	0
2032-2036	118,122	0	0
2037-2041	118,147	0	0
2042-2046	118,141	0	0
2047-2051	94,454	0	0
Total	<u>\$1,203,287</u>	<u>\$325,000</u>	<u>\$29,790</u>

Note 6 - Retirement Systems

The Village’s law enforcement officers belong to the Ohio Police & Fire Pension Fund (OP&F). Other employees and elected officials belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans’ benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. For 2012, OPERS members contributed 10% of their gross salaries, with the Village contributing an amount equal to 14% of participants’ gross salaries. The Village has paid all contributions required through December 31, 2012.

Note 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.

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 7 – Risk Management (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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), 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, 2010, 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, 2011 and 2010 (the latest information available):

	2011	2010
Assets	\$33,362,404	\$34,952,010
Liabilities	(14,187,273)	(14,320,812)
Net Assets	<u>\$19,175,131</u>	<u>\$20,631,198</u>

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$13 million and \$12.9 million of estimated incurred claims payable. The assets above also include approximately \$12.1 million and \$12.4 million of unpaid claims to be billed to approximately 455 member governments in the future, as of December 31, 2011 and 2010, 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 \$15,000.

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.

Contributions to PEP		
2012	2011	2010
\$16,192	\$14,779	\$15,686

Village of Coalton
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2012

Note 7 – Risk Management (Continued)

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.

Note 8 – Compliance

- The Village did not always properly certify the availability of funds contrary to Ohio Revised Code Section 5705.41(D).
- The Village had expenditures in excess of appropriations contrary to Ohio Revised Code Section 5705.41(B).
- The Village had appropriations in excess of estimated resources contrary to Ohio Revised Code Section 5705.39.
- The Village had appropriations in excess of available resources contrary to Ohio Revised Code Section 5705.36.
- The Village did not comply with cash management requirements for its Community Development Block Grant and Water and Waste Disposal Systems for Rural Communities programs in accordance with OHCP Management Rules and Regulations, Section (A)(3)(f), and 7 CFR 1780.45(d), respectively.

Note 9 – Contingent Liabilities

The Village is not currently party to pending litigation.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. 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.

Note 10 – Restatement of Beginning Fund Cash Balances

The Village voided previously recorded charges and checks which resulted in the following effects to beginning fund balances:

	General	Special Revenue	Enterprise
Beginning Fund Balance, As Reported, 12/31/11	\$115,987	\$133,831	\$545,541
Restatements	2,031	33	111
Beginning Fund Balance, As Restated, 12/31/11	\$118,018	\$133,864	\$545,652

Village of Coalton
Jackson County
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2012

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity's Number	Federal CFDA Number	Disbursements
United States Department of Agriculture			
<i>Direct from Federal Government:</i>			
Water and Waste Disposal Systems for Rural Communities - Grant	N	10.760	\$1,531,153
Water and Waste Disposal Systems for Rural Communities - Loan	N	10.760	<u>238,673</u>
Total Water and Waste Disposal Systems for Rural Communities			<u>1,769,826</u>
Total United States Department of Agriculture			<u>1,769,826</u>
United States Department of Defense			
<i>Passed through the US Army Corps of Engineers:</i>			
North Dakota Environmental Infrastructure (Section 594) - ARRA	N/A	12.118	<u>217,411</u>
Total United States Department of Defense			<u>217,411</u>
United States Department of Housing and Urban Development			
<i>Passed through the Ohio Department of Development:</i>			
Community Development Block Grants	C-P-10-2IP-1	14.228	217,820
Community Development Block Grants	C-W-09-2IP-1	14.228	<u>224,106</u>
Total Community Development Block Grants			<u>441,926</u>
Total United States Department of Housing and Urban Development			<u>441,926</u>
Total Federal Expenditures			<u><u>\$2,429,163</u></u>

N-direct from the federal government

N/A-pass-through entity number not available

The accompanying notes are an integral part of this schedule.

**Village of Coalton
Jackson County**

*Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2012*

Note 1 – Significant Accounting Policies

The accompanying schedule of federal awards expenditures (the schedule) includes the federal grant activity of the Village and has been prepared on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 – Matching Requirements

Certain Federal programs require that the Village contribute non-federal funds (matching funds) to support the Federally-funded programs. The Village complied with applicable matching requirements. The expenditure of non-federal matching funds is not included in the schedule.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Village Council
Village of Coalton
P.O. Box 98
Coalton, Ohio 45621

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Village of Coalton, Jackson County, (the Village) as of and for the year ended December 31, 2012, and the related notes to the financial statements and have issued our report thereon dated August 27, 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-5 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2012-2 through 2012-4 and 2012-6.

Village's Responses to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Village's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, President/Owner
Millhuff-Stang, CPA, Inc.

August 27, 2013

**Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance
Required by OMB Circular A-133**

Independent Auditor's Report

Village Council
Village of Coalton
P.O. Box 98
Coalton, Ohio 45621

Report on Compliance for Each Major Federal Program

We have audited the Village of Coalton's, Jackson County, (the Village) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Village's major federal programs for the year ended December 31, 2012. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Village's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Village's compliance.

Opinion on Each Major Federal Program

In our opinion, the Village complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-7. Our opinion on each major federal program is not modified with respect to this matter.

The Village's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Village is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Village's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2012-7 to be a material weakness.

The Village's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Village's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Village of Coalton
Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance
Required by OMB Circular A-133
Page 3

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Natalie Millhuff-Stang". The signature is written in a cursive, flowing style.

Natalie Millhuff-Stang, CPA, President/Owner
Millhuff-Stang, CPA, Inc.

August 27, 2013

**Village of Coalton
Jackson County**
*Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Year Ended December 31, 2012*

Section I – Summary of Auditor’s Results

<i>Financial Statements</i>	
Type of financial statement opinion:	Dual (Adverse/Unmodified)
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes
<i>Federal Awards</i>	
Internal control over major program(s):	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any auditing findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
Identification of major program(s):	Community Development Block Grant (CFDA #14.228) Water and Waste Disposal Systems for Rural Communities (CFDA #10.760)
Dollar threshold used to distinguish between type A and type B programs:	Type A: >\$300,000 Type B: all others
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2012-1

Material Weakness – Financial Reporting

A monitoring system by the Village should be in place to prevent or detect misstatements and misclassifications for the accurate presentation of the Village’s financial statements. The Village misstated, misclassified, and failed to record various receipts and disbursements, including on-behalf payments by grantors and lenders. Also, the Village maintained a bank account which was not recorded within the Village’s records. Material misstatements, misclassifications, and omissions have been corrected in the accompanying financial statements. The Village should implement additional monitoring procedures to ensure transactions are properly recorded and reported in the financial statements.

Client Response:

The new fiscal officer brings all financial statements, such as reconciled bank statements and receipt and payment registers, to council to sign off on monthly.

Village of Coalton
Jackson County
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Year Ended December 31, 2012

Finding 2012-2

Noncompliance – Proper Encumbrance of Funds

Ohio Revised Code Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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

1. "Then and Now" Certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.
2. Blanket Certificate – The fiscal officer 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 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 Village may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not properly certify the availability of funds for purchase commitments for several expenditures tested. Failure to properly certify the availability of funds can result in overspending funds, negative fund cash balances, or unauthorized or improper disbursements. 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.

Client Response:

Blanket purchase orders have been implemented by the new fiscal officer semi-annually to make certain funds are available prior to billing.

Village of Coalton
Jackson County
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Year Ended December 31, 2012

Finding 2012-3

Noncompliance – Expenditures in Excess of Appropriations

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. The Village had expenditures in excess of appropriations in a number of funds. Failure to monitor budgets subjects the Village to the risk of improper spending or overspending. The Village should implement the appropriate procedures, such as periodic comparisons of expenditures to appropriations, to ensure that expenditures are limited to authorized/appropriated amounts.

Client Response:

A financial report will be presented to council every meeting, which will include an appropriation status report.

Finding 2012-4

Noncompliance – Appropriations in Excess of Estimated Resources

Ohio Revised Code Section 5705.39 states that total appropriations from each fund shall not exceed the total estimated resources. The Village had appropriations in excess of estimated resources in a number of funds. Failure to monitor budgets subjects the Village to the risk of improper spending or overspending. The Village should implement the appropriate procedures to ensure that appropriations are limited to estimated resources.

Client Response:

We do monitor revenues and expenditures but due to unforeseen circumstances we had to use carryover money to cover some of our expenses pertaining to the projects.

Finding 2012-5

Material Weakness – Budgetary Information Within UAN

Accurate budgetary information within the Village's accounting system is pertinent to ensure that the Village has accurate and complete information for decision-making processes. Variances were identified between budgetary items were entered into the accounting system and formally adopted budgetary measures. The Village should implement the appropriate procedures, such as reconciling budgetary information within the accounting system to formally approved budgets, to ensure that budgetary information is presented accurately and completely.

Client Response:

The new fiscal officer and council clerk will work together to make certain all bases are covered. Also, the new fiscal officer has council sign bank reconciliations and bills to be paid monthly.

Finding 2012-6

Noncompliance – Appropriations in Excess of Available Resources

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

**Village of Coalton
Jackson County**
*Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Year Ended December 31, 2012*

Finding 2012-6 (Continued)

Noncompliance – Appropriations in Excess of Available Resources (Continued)

The Village had appropriations in excess of available resources in a number of funds as of year-end. The Village was subject to the risk of deficit spending since collections were not as high as expected and appropriations were not lowered in line with available resources. The Village should implement procedures to ensure that appropriations are monitored in relation to available resources and that the proper amendments to estimated resources and appropriations are adopted to ensure that the Village does not spend in excess of what is available for expenditure.

Client Response:

Council will be presented a financial packet at every meeting, which includes a cash summary report by fund, an appropriation status report, and payment and receipt registers to be approved.

Section III – Federal Award Findings and Questioned Costs

Finding 2012-7

Noncompliance/Material Weakness – Cash Management

Major Federal Programs Affected:

- Community Development Block Grant (CFDA #14.228) – United States Department of Housing and Urban Development – Passed through the Ohio Department of Development
- Water & Waste Disposal Systems for Rural Communities (CFDA #10.760) – United States Department of Agriculture

Criteria:

- Community Development Block Grant – OHCP Management Rules and Regulations, Section (A)(3)(f) states that grantees must develop a cash management system to ensure compliance with the Fifteen-Day Rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds.
- Water & Waste Disposal Systems for Rural Communities – 7 CFR 1780.45(d) states that advances will be made only as needed to cover disbursements required by the borrower over a 30-day period.

Condition:

- The Village held funds for periods greater than allowable periods under both programs. Failure to adhere to compliance regulations could result in reduced funding or questioned costs.

Recommendation:

- The Village should implement the appropriate procedures ensure that funds only be drawn down to the extent they can be spent within allowable periods.

Corrective Action:

This project is coming to an end and is reviewed and immediately funded when invoices are received with the new fiscal officer.

Village of Coalton
Jackson County
Schedule of Prior Audit Findings
OMB Circular A-133 Section .315(b)
For the Year Ended December 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-1	Material Weakness – Misclassifications in the Financial Statements	No	Reissued as Finding 2012-1
2011-2	Noncompliance – ORC 5705.41(D) – Proper Encumbrance of Funds	No	Reissued as Finding 2012-2
2011-3	Noncompliance – ORC 5705.41(B) – Expenditures in Excess of Appropriations	No	Reissued as Finding 2012-3
2011-4	Noncompliance – ORC 5705.39 – Appropriations in Excess of Estimated Resources	No	Reissued as Finding 2012-4
2011-5	Material Weakness – Budgetary Information within UAN	No	Reissued as Finding 2012-5
2011-6	Noncompliance – OMB Circular A-133 Section .320(a) – Nine Month Deadline for Single Audits	Yes	
2011-7	Noncompliance/Material Weakness/Questioned Costs – Allowable Costs/Cost Principles – CDBG	Yes	
2011-8	Noncompliance/Material Weakness – Cash Management – CDBG	No	Reissued as Finding 2012-7



Dave Yost • Auditor of State

VILLAGE OF COALTON

JACKSON 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**