



Dave Yost • Auditor of State

VILLAGE OF NORTH STAR
DARKE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of North Star
Darke County
P.O. Box 87
North Star, Ohio 45350

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Village of North Star, Darke County, (the Village) as of and for the years ended December 31, 2013 and 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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; 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(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of North Star, Darke County as of December 31, 2013 and 2012, 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(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

October 23, 2014

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes		\$3,424		\$3,424
Municipal Income Tax	\$21,744			21,744
Intergovernmental	25,129	10,231		35,360
Special Assessments			\$10,600	10,600
Charges for Services	2,625			2,625
Fines, Licenses and Permits	1,081			1,081
Earnings on Investments	423	175		598
Miscellaneous	15,120			15,120
Total Cash Receipts	<u>66,122</u>	<u>13,830</u>	<u>10,600</u>	<u>90,552</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	8,232			8,232
Public Health Services	520			520
Leisure Time Activities	16,786			16,786
Community Environment	26			26
Basic Utility Services	16,541			16,541
Transportation	3,482	11,883		15,365
General Government	30,039		311	30,350
Debt Service:				
Principal Retirement			11,538	11,538
Total Cash Disbursements	<u>75,626</u>	<u>11,883</u>	<u>11,849</u>	<u>99,358</u>
Excess of Receipts Over (Under) Disbursements	<u>(9,504)</u>	<u>1,947</u>	<u>(1,249)</u>	<u>(8,806)</u>
Other Financing Receipts (Disbursements):				
Transfers In			4,764	4,764
Transfers Out	(4,764)			(4,764)
Total Other Financing Receipts (Disbursements)	<u>(4,764)</u>		<u>4,764</u>	
Net Change in Fund Cash Balances	(14,268)	1,947	3,515	(8,806)
Fund Cash Balances, January 1	<u>256,253</u>	<u>131,135</u>	<u>20,113</u>	<u>407,501</u>
Fund Cash Balances, December 31:				
Restricted		133,082	23,628	156,710
Assigned	89,938			89,938
Unassigned (Deficit)	152,047			152,047
Fund Cash Balances, December 31	<u>\$241,985</u>	<u>\$133,082</u>	<u>\$23,628</u>	<u>\$398,695</u>

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

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$65,184
Total Operating Cash Receipts	65,184
Operating Cash Disbursements:	
Personal Services	9,515
Contractual Services	3,805
Other	95
Total Operating Cash Disbursements	13,415
Operating Income (Loss)	51,769
Non-Operating Receipts (Disbursements):	
Principal Retirement	(6,426)
Total Non-Operating Receipts (Disbursements)	(6,426)
Net Change in Fund Cash Balances	45,343
Fund Cash Balances, January 1	38,269
Fund Cash Balances, December 31	\$83,612

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

**VILLAGE OF NORTH STAR
DARKE 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>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts					
Property and Other Local Taxes	\$1,944	\$4,901			\$6,845
Municipal Income Tax	21,230				21,230
Intergovernmental	18,143	11,015		\$194,881	224,039
Special Assessments			\$10,414		10,414
Charges for Services	3,005				3,005
Fines, Licenses and Permits	1,028				1,028
Earnings on Investments	640	255			895
Miscellaneous	11,021				11,021
Total Cash Receipts	<u>57,011</u>	<u>16,171</u>	<u>10,414</u>	<u>194,881</u>	<u>278,477</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	2,388				2,388
Public Health Services	120				120
Leisure Time Activities	14,098				14,098
Community Environment	440				440
Basic Utility Services	23,010				23,010
Transportation	9,298	6,231			15,529
General Government	32,182		242		32,424
Capital Outlay				379,066	379,066
Debt Service:					
Principal Retirement			2,330		2,330
Total Cash Disbursements	<u>81,536</u>	<u>6,231</u>	<u>2,572</u>	<u>379,066</u>	<u>469,405</u>
Excess of Receipts Over (Under) Disbursements	<u>(24,525)</u>	<u>9,940</u>	<u>7,842</u>	<u>(184,185)</u>	<u>(190,928)</u>
Other Financing Receipts (Disbursements):					
Other Debt Proceeds				184,185	184,185
Total Other Financing Receipts (Disbursements)				<u>184,185</u>	<u>184,185</u>
Net Change in Fund Cash Balances	(24,525)	9,940	7,842		(6,743)
Fund Cash Balances, January 1	<u>280,778</u>	<u>121,195</u>	<u>12,271</u>		<u>414,244</u>
Fund Cash Balances, December 31:					
Restricted		131,135	20,113		151,248
Assigned	80,600				80,600
Unassigned (Deficit)	175,653				175,653
Fund Cash Balances, December 31	<u>\$256,253</u>	<u>\$131,135</u>	<u>\$20,113</u>	<u>\$0</u>	<u>\$407,501</u>

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

**VILLAGE OF NORTH STAR
DARKE COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$63,411
Miscellaneous	2,129
Total Operating Cash Receipts	65,540
Operating Cash Disbursements:	
Personal Services	6,022
Contractual Services	5,249
Other	663
Total Operating Cash Disbursements	11,934
Operating Income (Loss)	53,606
Non-Operating Receipts (Disbursements):	
Intergovernmental	538,922
Other Debt Proceeds	510,915
Capital Outlay	(577,186)
Principal Retirement	(519,498)
Total Non-Operating Receipts (Disbursements)	(46,847)
Net Change in Fund Cash Balances	6,759
Fund Cash Balances, January 1	31,510
Fund Cash Balances, December 31	\$38,269

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

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

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 North Star, Darke County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides sewer utilities, park operations, and street construction and repair. The Village contracts with the Darke County Sheriff's department to provide security of persons and property. The Village contracts with North Star Fire Association to receive fire protection services.

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

B. Accounting Basis

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

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

C. Deposits and Investments

The Village's certificates of deposit are valued at cost.

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

State Highway Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing state highway.

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Funds:

Main Street Fund – This fund receives sidewalk assessments to pay the debt incurred for construction of a new road.

Star Road Phase I Fund – This fund receives sidewalk assessments to pay the debt incurred for construction of a new road.

Star Road Phase II Fund – This fund receives sidewalk assessments to pay the debt incurred for construction of a new road.

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project fund:

East Star Road Fund – This fund receives Ohio Public Work Commission monies. The monies are being used to construct a new road.

5. 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:

Sewer Operating Fund - This fund receives charges for services collected by Darke County from residents to cover sewer service costs for a sanitary sewer service placed into operation during 2011.

Sewer Capital Project Fund - This fund receives Community Development Block Grant (Administered by Darke County on behalf of the Village) and Ohio Water Development Authority loans to pay for the construction costs of the sewer project.

E. Budgetary Process

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

1. Appropriations

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

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2013 and 2012 budgetary activity appears in Note 3.

F. Fund Balance

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. Non-spendable

The Village classifies assets as *non-spendable* 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.

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

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.

G. Property, Plant, and Equipment

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2013	2012
Demand deposits	\$227,552	\$191,383
Certificates of deposit	179,749	179,379
Other time deposits (savings and NOW accounts)	75,006	75,008
Total deposits	\$482,307	\$445,770

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$44,000	\$66,122	\$22,122
Special Revenue	12,900	13,830	930
Debt Service	9,209	15,364	6,155
Enterprise	19,476	65,184	45,708
Total	\$85,585	\$160,500	\$74,915

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$155,550	\$80,390	\$75,160
Special Revenue	16,300	11,883	4,417
Debt Service	10,610	11,849	(1,239)
Enterprise	216,476	19,841	196,635
Total	\$398,936	\$123,963	\$274,973

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$100,000	\$57,011	(\$42,989)
Special Revenue		16,171	16,171
Debt Service		10,414	10,414
Capital Projects	7,988	379,066	371,078
Enterprise	515,723	1,115,377	599,654
Total	<u>\$623,711</u>	<u>\$1,578,039</u>	<u>\$954,328</u>

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$152,563	\$81,536	\$71,027
Special Revenue	2,000	6,231	(4,231)
Debt Service	2,400	2,572	(172)
Capital Projects		379,066	(379,066)
Enterprise	3,000	1,108,618	(1,105,618)
Total	<u>\$159,963</u>	<u>\$1,578,023</u>	<u>(\$1,418,060)</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Debt Service fund by \$1,239 for the year ended December 31, 2013 and Special Revenue, Debt Service, Capital Projects and Enterprise Funds by \$4,231, \$172, \$379,066 and \$1,015,618, respectively for the year ended December 31, 2012.

4. PROPERTY TAX

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

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

5. LOCAL INCOME TAX

The Village levies a municipal income tax, effective July 1, 2010, of .5 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

6. DEBT

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan #5473	\$115,667	0%
Ohio Public Works Commission Loan - Main St	\$9,277	0%
Ohio Public Works Commission Loan - Star Road Phase I	\$20,322	0%
Ohio Public Works Commission Loan - Star Road Phase II	174,976	0%
Total	\$320,242	

The Ohio Water Development Authority (OWDA) Loan #5473 relates to a sanitary sewer system construction project through the Water Pollution Control Loan Fund ("WPCLF"). The loan will be repaid in semi-annual installments over twenty years at zero percent interest. The loan matures in 2032 with semiannual installments of \$3,213.

The Ohio Public Works Commission (OPWC) loans relate to improvements to Main Street and Star Road Phase I and II. All loans will be repaid in semiannual installments over twenty years. The Main Street loan matures in 2024 with semiannual installments of \$464. The Star Road Phase I loan matures in 2028 with semiannual installments of \$701 and the Star Road Phase II loan matures in 2033 with semiannual installments of \$4,603.

Amortization of the above debt is scheduled as follows:

Year ending December 31:	OWDA Loan	OPWC Loan - Main St	OPWC Loan - Star Road Phase I	OPWC Loan - Star Road Phase II
2014	\$3,213	\$464	\$701	\$4,605
2015	6,426	928	1,402	9,209
2016	6,426	928	1,402	9,209
2017	6,426	928	1,402	9,209
2018	6,426	928	1,402	9,209
2019-2023	32,130	4,639	7,008	46,046
2024-2028	32,130	462	7,005	46,046
2029-2033	22,490			41,443
Total	\$115,667	\$9,277	\$20,322	\$174,976

7. RETIREMENT SYSTEMS

The Village's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a 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 2013 and 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

VILLAGE OF NORTH STAR
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Errors and omissions.

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Dave Yost • Auditor of State

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

Village of North Star
Darke County
PO Box 87
North Star, Ohio 45350

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Village of North Star, Darke County, (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2014, wherein we noted the Village followed financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-001 to 2013-006.

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www.ohioauditor.gov

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

October 23, 2014

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

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

FINDING NUMBER 2013-001

1. Maintaining the Accounting Records – Noncompliance/Material Weakness

Ohio Revised Code Section 733.28 requires the Village Clerk to keep the books of the Village, exhibit accurate statements of all monies received and expended, of all the property owned by the Village and the income derived therefrom, and of all taxes and assessments.

The Village did not properly keep the Village books and improperly rolled up the receipts and disbursements to the financial statements. The following errors were noted on the Village's annual reports:

- 2013 and 2012 cash journal entries did not agree to the receipt journal and appropriation ledger entries.
- In 2012, the General Fund receipts were overstated by \$9,721 (17%) and disbursements were overstated by \$34,162 (42%). The Special Revenue Fund receipts were understated by \$1,028 (6%) and disbursements were understated by \$4,339 (70%). The Debt Service Fund receipts were understated by \$182 (2%) and disbursements were understated by \$241 (9%). In the Enterprise Fund, receipts and disbursements were both understated by \$821,375 (74%) and \$842,296 (76%), respectively, due to the Village receiving funding through Ohio Water Development Authority for a sewer project that was paid directly to the vendor and debt which was forgiven.
- In 2013, the General Fund receipts were understated by \$472 (1%) and disbursements were overstated by \$12,364 (16%). The Special Revenue fund receipts were overstated by \$2,254 (16%) and disbursements were overstated by \$1,584 (5%). Debt Service Fund receipts were overstated by \$69,571 (82%) and disbursements were overstated by \$20,472 (63%). The Capital Project expenditures were overstated by \$3,213 (100%). The Enterprise Fund receipts were understated by \$65,184 (100%) and disbursements were understated by \$19,841 (100%), due to not showing the proper activity of the sewer operation that is being billed and collected by the Darke County on behalf of the Village.
- The January 1, 2013 reported General Fund balance was \$1,300 greater than the December 31, 2012 reported balance. Additionally, the January 1, 2013 reported Special Revenue, Capital Projects, Debt Service and Enterprise Fund balances were \$3,982, \$5,261, \$49,638, and \$59,190, respectively, greater than the December 31, 2012 balances.

The Village's accounting records contained various errors and miss-postings for 2013 and 2012 which resulted in material errors to the financial statements as noted above. The cumulative fund adjustments were posted as noted below to the 2013 financial statements to correct the fund balances:

<u>Fund</u>	<u>December 31, 2013 Balance as Reported</u>	<u>Adjustment</u>	<u>December 31, 2013 Audited Balance</u>
General Fund	\$206,008	\$35,977	\$241,985
Street Construction, Maintenance & Repair Fund	132,952	(6,586)	126,366
State Highway Fund	7,839	(1,123)	6,716
Main St Debt Fund	11,523	1,644	13,167
Star Road Phase I Debt Fund	9,466	995	10,461
East Star Road Fund	2,048	(2,048)	
Sewer Operating Fund		51,437	51,437
Sewer Capital Fund		32,175	32,175
Sewer Debt Fund	\$101,437	(101,437)	

**FINDING NUMBER 2013-001
(Continued)**

The Village should take due care in posting financial activity and review the Village Handbook for proper posting of various revenue and disbursements along with AOS Bulletins 2002-004 and 2000-008 for the proper accounting treatment and budgetary requirements for on behalf money received from Darke County and Ohio Water Development Authority. This will result in the Council having accurate information to make informed financial decisions.

FINDING NUMBER 2013-002

2. Finding for Recovery – Repaid Under Audit

The Village of North Star Council approved Fiscal Officer rate of pay for \$5,000 per year, paid quarterly, beginning January 1, 2012 per the record of proceedings dated April 13, 2011. Carolyn Wilker was appointed as Fiscal Officer effective October 1, 2012. Carolyn Wilker was paid \$1,400 for the 4th quarter of 2012. This resulted in an overpayment of \$150 to Carolyn Wilker in 2012.

In 2013, Carolyn Wilker was paid \$1,400 each quarter which resulted in an overpayment of \$600 to Carolyn Wilker in 2013. This resulted in a total overpayment of \$750 for 2012 and 2013 wages.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Carolyn Wilker in the amount of \$750 and in favor of the Village of North Star, Darke County General Fund, in the amount of \$750.

Upon notification of the error by the Auditor of State's office, the Village notified the Fiscal Officer and she repaid to the Village \$700 on October 2, 2014 per receipt #4160 and \$50 on October 4, 2014 with receipt #4162.

FINDING NUMBER 2013-003

3. Finding for Recovery – Repaid Under Audit

The Village of North Star Council approved Council rate of pay of \$70 per meeting per the record of proceedings dated April 13, 2011, paid quarterly, beginning with those elected for the term beginning January 1, 2012. In 2012, per the record of proceedings, Council held three meetings recorded on October 10, 2012, November 14, 2012 and December 12, 2012 for the 4th quarter.

There was no documentation to support that Shawn Wehrkamp attended the October 10, 2012 meeting per the record of proceedings, although he was paid for three meetings for the 4th quarter. Further, there was no indication that the overpayment was for an otherwise proper public purpose. As a result, a total overpayment was made to Shawn Wehrkamp in the amount of \$70 for 2012 wages.

**FINDING NUMBER 2013-003
(Continued)**

In accordance with the foregoing facts and pursuant to **Ohio Revised Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Shawn Wehrkamp in the amount of \$70, and in favor of the Village of North Star, Darke County General Fund, in the amount of \$70.

Upon notification of the error by the Auditor of State's office, the Village notified Council Member Shawn Wehrkamp and he repaid to the Village \$70 on October 2, 2014 per receipt #4160.

FINDING NUMBER 2013-004

4. Finding for Recovery – Repaid Under Audit

The Village of North Star Council approved Fiscal Officer rate of pay of \$5,000 per year, paid quarterly, beginning January 1, 2012 per the record of proceedings dated April 13, 2011. Jessica Schmackers, former Fiscal Officer, was paid \$1,400 each quarter until she resigned in October 1, 2012. This resulted in an overpayment of \$450 to Jessica Schmackers, former Fiscal Officer, in 2012.

In accordance with the foregoing facts and pursuant to **Ohio Revised Code Section 117.28**, a Finding for Recovery for public monies illegally expended is hereby issued against Jessica Schmackers, former Fiscal Officer in the amount of \$450 and in favor of the Village of North Star, Darke County General Fund, in the amount of \$450.

Upon notification of the error by the Auditor of State's office, the Village notified the former Fiscal Officer, Jessica Schmackers, and she repaid to the Village \$450 on October 22, 2014 per receipt #9-2014.

FINDING NUMBER 2013-005

5. Expenditures Exceeding Appropriations - Noncompliance

Ohio Revised Code Section 5705.41(B) prohibits expenditures unless the funds have been properly appropriated. This statute prohibits expenditures from exceeding appropriations.

The Village had expenditures in excess of the amounts appropriated in 2012 in the Special Revenue (\$4,231), Debt Service (\$172), Capital Project (\$379,066) and Enterprise Fund (\$1,105,618) and in 2013 in the Debt Service Fund (\$1,239). Allowing expenditures in excess of amounts properly appropriated by the Council could allow deficit fund balances to occur.

The fiscal officer should closely monitor the Village budgetary financial reports throughout the year so the expenditures do not exceed the appropriations at the legal level of control. Additionally, Village Council should periodically review budgeted to actual activity to prevent expenditures from exceeding appropriations.

FINDING NUMBER 2013-006

6. Properly Certifying the Availability of Funds / Blanket Certificates - Noncompliance

Ohio Revised Code § 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

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

- **"Then and Now" Certificate** - If the fiscal officer can certify that both at the time 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 Council (the Council) can authorize the drawing of a warrant for the payment of the amount due. The Council has thirty days from the receipt of the "then and now" certificate to approve payment by resolution. Amounts of less than \$100 may be paid by the fiscal officer without a resolution upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Council.
- **Blanket Certificate** - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriations.
- **Super Blanket Certificate** - The Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification 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 of North Star did not properly certify the availability of funds prior to purchase commitment for any of the expenditures tested in 2012 and 55% of the expenditures tested in 2013. The Village filled out the purchase orders, however, no account was assigned to the purchase order and the purchase orders were not included in the appropriation ledger and were not assigned to any appropriation / expenditure account. Failure to properly certify the availability of funds can result in overspending funds and could lead to negative cash fund balances. In addition, the Village did not have a maximum amount established by resolution or ordinance for blanket certificates.

FINDING NUMBER 2013-006
(Continued)

Unless the expectations noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, the Village should certify that the funds are or will be available prior to the obligation. When prior certification is not possible, "then and now" certification may, if appropriate, be used. In addition, the Village Council should approve a maximum amount for blanket certificates.

Official's Response:

We did not receive responses from Officials to the Findings above.

**VILLAGE OF NORTH STAR
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2011-001	Ohio Revised Code Section 733.28 – Maintaining Accounting Records	No	Not Corrected; Reissued as Finding Number 2013-001
2011-002	Ohio Revised Code Section 5705.41(D) – properly certifying the availability of funds	No	Not Corrected; Reissued as Finding Number 2013-006
2011-003	Finding Repaid Under Audit – Overpayment of Wages	Yes	
2011-004	Finding Repaid Under Audit – Overpayment of Wages and Improper Expenditure Reimbursement	Yes	
2011-005	Finding Repaid Under Audit – Overpayment of Wages	Yes	
2011-006	Finding Repaid Under Audit – Overpayment of Wages	Yes	
2011-007	Finding Repaid Under Audit – Overpayment of Wages	Yes	
2011-008	Finding Repaid Under Audit – Overpayment of Wages	Yes	
2011-009	Ohio Revised Code Section 5705.41(B) – Expenditures Exceeding Appropriations	No	Not Corrected: Reissued as Finding 2013-005
2011-010	Bank Reconciliations	Yes	
2011-011	Deposits of Public Money	Partially Corrected	Included in separate letter to Management



Dave Yost • Auditor of State

VILLAGE OF NORTH STAR

DARKE 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 13, 2014**