



Dave Yost • Auditor of State

VILLAGE OF CENTERVILLE
GALLIA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Centerville
Gallia County
56 Broad Street
P.O. Box 8
Centerville, Ohio 45685

To the Village Council:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Council'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 qualified audit opinion.

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

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Basis for Qualified Opinion

Charges for services receipts are reported at \$28,080 and \$27,808 for the years ended December 31, 2012 and 2011 respectively, which is 100 percent of total Enterprise Fund operating receipts for the years ended December 31, 2012 and 2011. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as charges for services receipts in the Enterprise Funds. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Centerville, Gallia County, Ohio, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matters

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

The accompanying financial statements have been prepared assuming the Village will continue as a going concern. As discussed in Note 9 to the financial statements, the Village has suffered recurring net losses and has a deficit balance in the Sanitary Sewer Fund. These conditions raise substantial doubt about the Village's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 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.

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

January 2, 2014

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**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$19		\$19
Intergovernmental	47,128	\$2,940	50,068
Charges for Services	15,837		15,837
Miscellaneous	2,637		2,637
<i>Total Cash Receipts</i>	<u>65,621</u>	<u>2,940</u>	<u>68,561</u>
Cash Disbursements			
Current:			
Security of Persons and Property	11,226		11,226
Transportation		129	129
General Government	44,316		44,316
Debt Service:			
Principal Retirement	3,995		3,995
Interest and Fiscal Charges	1,419		1,419
<i>Total Cash Disbursements</i>	<u>60,956</u>	<u>129</u>	<u>61,085</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>4,665</u>	<u>2,811</u>	<u>7,476</u>
Other Financing Receipts (Disbursements)			
Transfers Out	(2,074)		(2,074)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(2,074)</u>	<u>0</u>	<u>(2,074)</u>
<i>Net Change in Fund Cash Balances</i>	2,591	2,811	5,402
<i>Fund Cash Balances, January 1</i>	<u>9,486</u>	<u>9,513</u>	<u>18,999</u>
Fund Cash Balances, December 31			
Restricted		12,324	12,324
Unassigned (Deficit)	12,077		12,077
<i>Fund Cash Balances, December 31</i>	<u>\$12,077</u>	<u>\$12,324</u>	<u>\$24,401</u>

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

VILLAGE OF CENTERVILLE
GALLIA COUNTY

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

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$28,080</u>
<i>Total Operating Cash Receipts</i>	<u>28,080</u>
Operating Cash Disbursements	
Personal Services	1,155
Employee Fringe Benefits	125
Contractual Services	21,936
Supplies and Materials	<u>2,607</u>
<i>Total Operating Cash Disbursements</i>	<u>25,823</u>
<i>Operating Income (Loss)</i>	<u>2,257</u>
Non-Operating Receipts (Disbursements)	
Principal Retirement	(4,305)
Interest and Other Fiscal Charges	<u>(3,962)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(8,267)</u>
<i>Income (Loss) before Transfers</i>	(6,010)
Transfers In	<u>2,074</u>
<i>Net Change in Fund Cash Balance</i>	(3,936)
<i>Fund Cash Balances, January 1</i>	<u>(3,541)</u>
<i>Fund Cash Balances, December 31</i>	<u><u>(\$7,477)</u></u>

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

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$2,452		\$2,452
Intergovernmental	66,110	\$2,777	68,887
Charges for Services	15,388		15,388
Fines, Licenses and Permits	34		34
Miscellaneous	2,272		2,272
<i>Total Cash Receipts</i>	<u>86,256</u>	<u>2,777</u>	<u>89,033</u>
Cash Disbursements			
Current:			
Security of Persons and Property	29,630		29,630
Community Environment	9,000		9,000
Transportation		7,750	7,750
General Government	33,428		33,428
Debt Service:			
Principal Retirement	3,792		3,792
Interest and Fiscal Charges	1,961		1,961
<i>Total Cash Disbursements</i>	<u>77,811</u>	<u>7,750</u>	<u>85,561</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>8,445</u>	<u>(4,973)</u>	<u>3,472</u>
Other Financing Receipts (Disbursements)			
Other Financing Sources	2,466		2,466
<i>Total Other Financing Receipts (Disbursements)</i>	<u>2,466</u>	<u>0</u>	<u>2,466</u>
<i>Net Change in Fund Cash Balances</i>	10,911	(4,973)	5,938
<i>Fund Cash Balances, January 1</i>	<u>(1,425)</u>	<u>14,486</u>	<u>13,061</u>
Fund Cash Balances, December 31			
Restricted		9,513	9,513
Unassigned (Deficit)	9,486		9,486
<i>Fund Cash Balances, December 31</i>	<u>\$9,486</u>	<u>\$9,513</u>	<u>\$18,999</u>

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

VILLAGE OF CENTERVILLE
GALLIA COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$27,808</u>
<i>Total Operating Cash Receipts</i>	<u>27,808</u>
Operating Cash Disbursements	
Personal Services	1,166
Employee Fringe Benefits	139
Contractual Services	16,860
Supplies and Materials	<u>2,009</u>
<i>Total Operating Cash Disbursements</i>	<u>20,174</u>
<i>Operating Income (Loss)</i>	<u>7,634</u>
Non-Operating Receipts (Disbursements)	
Principal Retirement	(3,450)
Interest and Other Fiscal Charges	<u>(3,723)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(7,173)</u>
<i>Net Change in Fund Cash Balance</i>	461
<i>Fund Cash Balance, January 1</i>	<u>(4,002)</u>
<i>Fund Cash Balance, December 31</i>	<u><u>(\$3,541)</u></u>

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

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Centerville, Gallia County (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides services that include maintenance of street lighting, and fire protection, and sewer utilities. The Village also contracts with the Gallia County Sheriff's Office to provide police protection.

The Village participates in the Public Entities Pool of Ohio (PEP), a public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

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

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

C. Deposits

During the period the Village maintained an interest bearing checking account.

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 Fund:

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

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

3. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

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

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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

F. Fund Balance

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

1. Nonspendable

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

VILLAGE OF CENTERVILLE
GALLIA COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

2. Equity in Pooled Deposits

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

	2012	2011
Demand deposits	\$16,924	\$15,458

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

3. Budgetary Activity

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

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$61,860	\$65,621	\$3,761
Special Revenue	2,700	2,940	240
Enterprise	27,600	30,154	2,554
Total	\$92,160	\$98,715	\$6,555

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$62,000	\$63,030	(\$1,030)
Special Revenue	7,700	129	7,571
Enterprise	24,073	34,090	(10,017)
Total	\$93,773	\$97,249	(\$3,476)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$75,450	\$88,722	\$13,272
Special Revenue	2,700	2,777	77
Enterprise	30,000	27,808	(2,192)
Total	\$108,150	\$119,307	\$11,157

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$73,000	\$77,811	(\$4,811)
Special Revenue	6,900	7,750	(850)
Enterprise	30,000	27,347	2,653
Total	\$109,900	\$112,908	(\$3,008)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$1,030 and in the Sanitary Sewer Fund by \$10,017 for the year ended December 31, 2012 and in the General Fund by \$4,811 and the Street Construction, Maintenance and Repair Fund by \$1,750 for the year ended December 31, 2011. Also contrary to Ohio law, at December 31, 2012 and 2011, the Sanitary Sewer Fund had a cash deficit balance of \$7,476 and \$3,541, respectively.

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.

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

4. Property Tax (Continued)

Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Sanitary Sewer Loan - General Obligation	\$69,725	5.50%
Ohio Public Works Commission Loan	\$13,598	0.00%
Fire Truck Loan - General Obligation	24,408	5.25%
Total	\$107,731	

In 2008, the Village entered into a new loan agreement to purchase a 1996 Fire Truck for \$25,558 and retire the remainder of the Real Estate General Obligation Loan. The loan originally totaling \$42,000 will be repaid through monthly payments of \$451.17, including interest. The Village's taxing authority collateralizes the General Obligation Notes. See Note 8 for additional information regarding the refinancing of this note in 2013.

In 2005, the Village entered into a loan agreement with OPWC for upgrades to the sewer system. The original amount of loan was \$25,686 at 0%. The loan will be paid off through semiannual payments of \$755.47. The OPWC loan is to be repaid with collections from the sanitary sewer system.

In 2003, the Village entered into new loan agreements on a sewer construction project. The Sanitary Sewer Loan was for \$85,000 at 5.50%. The loan will be paid off in monthly installments of \$500 including interest. The loan is to be repaid with collections from the sanitary sewer system. See Note 8 for additional information regarding the refinancing of this note in 2013.

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

Year ending December 31:	Sanitary Sewer Loan	OPWC Loan	Fire Truck Loan
2013	\$71,651	\$756	\$5,414
2014		1,511	5,414
2015		1,511	5,414
2016		1,511	5,414
2017		1,511	5,414
2018-2022		6,798	902
Total	\$71,651	\$13,598	\$27,972

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

6. Retirement System

The Village's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multi-employer plan. This plan provides retirement benefits, including post retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code

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

7. Risk Management

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

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

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

Casualty and Property Coverage

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

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

Financial Position

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

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

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

7. Risk Management (Continued)

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$13.1 million and \$13.0 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village's share of these unpaid claims collectible in future years is approximately \$6,800.

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

<u>Contributions to PEP</u>	
<u>2012</u>	<u>2011</u>
\$7,914	\$7,971

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

8. Sanitary Sewer Note Retirement

The Village obtained an \$85,000 Sanitary Sewer general obligation note in June 2003, which was used to retire the \$70,000 Sanitary Sewer General Obligation Note with the balance being used for repairs to the Sanitary Sewer System through customer usage charges. Customer charges were not sufficient to generate the funds required to make the final balloon payment due prior to June 15, 2013. The Village issued a new note on July 12, 2013 for \$92,084 which was used to pay off the Sanitary Sewer Note balance of \$69,668, as well as the balance of the Fire Truck Note of \$22,032. The Village must now make monthly payments of \$902 for an additional ten years.

9. Going Concern

Expenses have exceeded revenues for the years of 2005, 2006, 2007, 2008, 2009, 2010 and 2012 in the Sanitary Sewer Fund. The Sanitary Sewer fund continues to reflect a deficit fund balance through the end of 2012.

While the Village is in a positive cash balance position, most of the cash is in the Special Revenue Funds. The use of these funds is limited by statute and, therefore, the Village is not permitted to use these monies to remedy the deficit balances.

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

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

9. Going Concern (Continued)

The Village Council is looking into various ways for the Sanitary Sewer Fund to operate efficiently. The Auditor of State has various remedies available to it, the most severe of which include placing the Village on fiscal watch or fiscal emergency. The Village does not know if such action will be taken. The Village has contracted the Auditor of State's Local Government Services to assist in implementing procedures for the Sanitary Sewer Fund to operate efficiently.

The accompanying financial statements do not include any adjustments that might be necessary if the Village is unable to continue as a going concern.



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 Centerville
Gallia County
56 Broad Street
P.O. Box 8
Centerville, Ohio 45685

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Centerville, Gallia County, Ohio (the Village), as of and for the years ended December 31, 2012, and 2011, and the related notes to the financial statements, and have issued our report thereon dated January 2, 2014 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit. We also noted the Village has adopted Governmental Accounting Standards Board Statement No. 54. We also noted the Village did not provide adequate supporting documentation for 100% of Sewer Fund receipts.

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 certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider findings 2012-004 and 2012-005 described in the accompanying Schedule of Findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-006 through 2012-008 described in the accompanying Schedule of Findings to be significant deficiencies.

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 2012-001 through 2012-003.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

January 2, 2014

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Noncompliance

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

The Sanitary Sewer Fund had a negative fund balance of (\$7,476) at December 31, 2012 and (\$3,540) at December 31, 2011.

We recommend the Village Council and Fiscal Officer monitor their fund balances and the expenditures and revenues to prevent the Sanitary Sewer Fund from becoming further negative.

FINDING NUMBER 2012-002

Noncompliance

Ohio Rev. Code Section 5705.41(B) provides that no subdivision or taxing unit shall make any expenditures of money unless the same has been properly appropriated.

During 2012, actual expenditures exceeded appropriations in the General Fund by \$1,030 and the Sanitary Sewer Fund by \$10,017. During 2011, actual expenditures exceeded appropriations in the General Fund by \$4,811 and the Street Fund by \$1,750.

We recommend the Fiscal Officer modify appropriations with the Council members and County Budget Commission approval before incurring obligations that would cause expenditures to exceed appropriations. The Fiscal Officer should deny any payments until the legislative authority has passed the necessary changes to the appropriation measure.

FINDING NUMBER 2012-003

Noncompliance

Ohio Rev. 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.

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

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

Noncompliance – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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 of the amount due. The Village has thirty days from receipt of the "then and now" certificate to approve 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 Certificates - Fiscal officers may prepare so-called "blanket" certificates not running beyond 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 anyone particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
3. Super Blanket Certificate - The Village may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the 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 exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Thirty-three percent of the transactions tested in 2012 and 2011 were not certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

We recommend the Village obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-004

Material Weakness

The Village offers sewage services to its residents for a flat rate. There are tracking sheets kept which only indicate the customer name, amount owed and how much was paid for that month. There were no receipts or other support for the transactions. Beginning in July 2012, a carbon copy of the deposit slips was kept which listed all amounts collected and included the customer check number, if paid by check. We noted in the minutes that there were some delinquent accounts; however, we did not find records to support the delinquent accounts. We also noted that late fees were not consistently applied from month to month and without receipt support we could not determine which accounts should have a late fee applied. Further we could not test timely deposits due to not all deposit slips being on file.

Inadequate supporting documentation eliminates a significant control point, obscures the audit trail and provides for the opportunity for errors and irregularities occurring and not being detected by management in a timely manner.

We recommend the Village keep all documentation to support sewer collections and delinquent accounts. The Village should keep ledgers showing billed amounts, paid amounts, dates paid and amounts due by customer for each month as well as keep deposit slips and a receipts ledger for all amounts paid.

FINDING NUMBER 2012-005

Material Weakness

In 2003, the Village refinanced a \$70,000 general obligation note and borrowed an additional \$15,000. The proceeds of the \$85,000 were used to pay off the \$70,000 note, and the balance was used to repair the pump in the sanitary sewer system. The note was payable upon demand, but if no demand is made, monthly payments of \$500 were required through May 2013, with a final balloon payment due by June 15, 2013. The payments for this note are made from the Sanitary Sewer Fund from revenues generated by user fees for sanitary sewer service. The Village currently generates approximately \$2,000 per month in user fees, with over \$1,000 per month being payable to the Village of Rio Grande for operating the sewer plant. The remaining \$1,000 per month is used to maintain the sewer system as well as pay the required \$500 monthly loan payment. The Village was unable to generate sufficient revenues to repay the final balloon payment by June 15, 2013. However, the Village issued a new note on July 12, 2013 for \$92,084, which was used to pay off the Sanitary Sewer Note balance of \$69,668 as well as the balance of the Fire Truck Note of \$22,032. The Village must now make monthly payments of \$902 for an additional ten years.

According to the loan agreement, if the Village were to default on this loan, the lending financial institution may demand immediate payment of all unpaid principal, interest and other charges; set off this debt against any right the Village has to payment of money from this financial institution, including any deposits account balance the Village has with the financial institution; demand security, additional security, or additional parties to be obligated to pay this note as a condition for not using any other remedy; refuse to have under state or federal law. The Village maintains its checking account with the same financial institution; therefore, the stated above lending institution would have the right to seize the Village's account balance if a default occurs.

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-005 (Continued)

Material Weakness (Continued)

We recommend the Village Council develop a plan to generate sufficient revenues to pay the general obligation note and maintain a reserve balance in the event the sanitary sewer system is in need of substantial repairs. Potential solutions for generating additional revenue include but are not limited to levying a new tax, implementing a user based fee as opposed to a flat rate, or pursuing grant funding.

FINDING NUMBER 2012-006

Significant Deficiency

The Village Council has not established effective internal control processes for monitoring of Village financial activity. Examples of deficiencies in monitoring controls include the following:

- Monthly bank reconciliations with supporting documentation were not presented to council.
- Finance and payroll reports were not presented to Council.
- Checks were signed by only one signatory.
- Checks listed in computer system in different check number than they cleared the bank.
- Old outstanding checks were not voided in system.
- Budget vs. Actual reports were not reviewed by Council.

We recommend Council establish effective internal control processes and address each of the above noted control weaknesses. This could include such things as receiving a monthly report package (budget vs. actual reports as well as revenue and expense reports), reviewing the monthly bank reconciliation and support, having a set time for reviewing and issuing payroll and non-payroll disbursements, setting a timeline for old outstanding checks to be voided from the system, and requiring two signatures on all checks. This will help council effectively monitor the Village's financial position and will aid in the timely detection of errors or irregularities.

FINDING NUMBER 2012-007

Significant Deficiency

The Fiscal Officer did not prepare accurate monthly reconciliations of bank balances to book balances. Outstanding checks, deposits in transit and other reconciling items were not detailed to enable a proper reconciliation to be performed. We noted several checks posted to the check register as one number however, cleared the bank as another number. The lack of proper reconciliations among the bank statements, cashbook and ledgers resulted in numerous errors which remained undetected and/or uncorrected until the audit.

We recommend the Fiscal Officer prepare detailed bank reconciliations that include all bank account balances being reconciled to total fund balances. Copies of bank reconciliations should be presented to the Village Council for the Council's review and use in managing the Village. The Fiscal Officer should reconcile activity entered in the receipts ledger and appropriations ledger to the cash book.

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-008

Significant Deficiency

Receipts and expenditures should be posted to the fund and line item accounts as established by Ohio Administrative Code. During 2012 and 2011, several receipts and debt payments were not posted to accurate classifications based on the source of the receipt or loan agreements. These errors caused adjustment and reclassification entries for 2011 and 2012. The audited financial statements reflect all material adjustments and reclassifications as follows:

In 2012:

- Gasoline tax receipts totaling \$241 were posted to the General Fund rather than the Street Construction, Maintenance, and Repair Fund of \$223 and the State Highway Fund of \$18.
- Charges for Services of \$9,320 were posted as Miscellaneous Revenue in the General Fund.
- Debt payment reclassifications were made in the General Fund to reduce interest and increase principal by \$233 and in the Sanitary Sewer Fund to reduce principal and increase interest by \$404.

In 2011:

- An advance repayment of \$6,000 from the Street Construction, Maintenance, and Repair Fund to the General Fund was eliminated due to the initial advance being eliminated in the prior audit. As a result of this elimination, the beginning balance of the General Fund was reduced by \$6,000 (to agree to the prior report) and the advance in was reduced by \$6,000 while the Street Construction, Maintenance and Repair Fund beginning balance was increased by \$6,000 (to agree to the prior report) and the advance out was decreased by \$6,000.
- Charges for Services of \$10,440 were posted as Miscellaneous Revenue in the General Fund.
- Debt payment reclassifications were made in the General Fund to reduce principal and increase interest by \$249 and in the Sanitary Sewer Fund to reduce interest and increase principal by \$360.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management review revenue items. Such review should include procedures to ensure that all sources of revenues are properly identified and classified on the financial statements. Management should also review debt payments for proper classification. Finally, management should review the bank reconciliations monthly to make sure all transactions are being recorded and no unexplained differences or long outstanding items exist.

We recommend the Fiscal Officer refer to Ohio Administrative Code and/or Ohio Village Handbook for guidance to determine the proper establishment for receipt accounts and posting of receipts as well as review loan payments for proper classification.

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

**VILLAGE OF CENTERVILLE
GALLIA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-001	Revenues were posted to inaccurate line items.	No.	See Finding 2012-008 in the accompanying Schedule of Findings
2010-002	Illegal advances were made	Yes	
2010-003	Ohio Rev. Code Section 5705.10	No	See Finding 2012-001 in the accompanying Schedule of Findings
2010-004	Ohio Rev. Code Section 149.351(A)	Yes	
2010-005	Debt unable to be paid	No	See Finding 2012-005 in the accompanying Schedule of Findings
2010-006	Bank Reconciliations not accurate	No	See Finding 2012-007 in the accompanying Schedule of Findings
2010-007	Management Monitoring Internal Control inadequate	No	See Finding 2012-006 in the accompanying Schedule of Findings
2010-008	Ohio Rev. Code Section 5705.39	No	See management letter comment.
2010-009	Ohio Rev. Code Section 5705.41(B)	No	See Finding 2012-002 in the accompanying Schedule of Findings
2010-010	Ohio Rev. Code Section 5705.41(D)	No	See Finding 2012-003 in the accompanying Schedule of Findings
2010-011	Posting Estimated Resources and Appropriations	No	See management letter comment.
2010-012	Complete Voucher Packages	No	See management letter comment.
2010-013	Purchase Order Tracking	Yes	



Dave Yost • Auditor of State

VILLAGE OF CENTERVILLE

GALLIA 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
JANUARY 23, 2014**