

Village of New London

Financial Condition

As of

December 31, 2012 and 2013

Together with Auditor's Report



Dave Yost • Auditor of State

Village Council
Village of New London
115 East Main Street
New London, Ohio 44851

We have reviewed the *Independent Auditor's Report* of the Village of New London, Huron County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2012 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

July 3, 2014

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VILLAGE OF NEW LONDON

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Independent Auditor's Report

Village of New London
Huron County
115 East Main Street
New London, Ohio 44851-1201

Report on the Financial Statements

I have audited the accompanying financial statements and related notes of Village of New London, Huron County, (the Government) as of and for the years ended December 31, 2012 and 2013.

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

My responsibility is to opine on these financial statements based on my audit. I 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 me 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 my judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, I consider internal control relevant to the Government'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 Government's internal control. Accordingly, I 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 my evaluation of the overall financial statement presentation.

I believe the audit evidence I obtained is sufficient and appropriate to support my audit opinion.

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

As described in Note 1 of the financial statements, the Government 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 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 my 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 Government as of December 31, 2012 and 2013, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In my opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of New London, Huron County as of December 31, 2012 and 2013, 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*, I have also issued my report dated April 15, 2014, on my consideration of the Government's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of my 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 Government's internal control over financial reporting and compliance.

Kevin L. Penn, Inc.

April 15, 2014

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

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 65,961	\$ 572,174	\$ -	\$ 638,135
Intergovernmental Receipts	102,895	117,454		220,349
Charges for Services	19,856	13,200	34,846	67,902
Fines, Licenses, and Penalties	11,715	521		12,236
Earnings on Investments	11,074	295	271	11,640
Other Revenue	46,173	11,707	21,987	79,867
Total Cash Receipts	257,674	715,351	57,104	1,030,129
Cash Disbursements:				
Current:				
Security of Persons and Property	77,018	491,092		568,110
Public Health Services	1,804			1,804
Community Environment	2,870			2,870
Transportation		241,050		241,050
General Government	131,298			131,298
Debt Service:				
Principal Payments			17,000	17,000
Interest Payments			2,982	2,982
Capital Outlay		200,015	76,700	276,715
Total Cash Disbursements	212,990	932,157	96,682	1,241,829
Total Receipts Over/(Under) Disbursements	44,684	(216,806)	(39,578)	(211,700)
Other Financing Receipts/(Disbursements)				
Transfers-In	21	73,746		73,767
Transfers-Out	(49,282)	(18,775)		(68,057)
Advance-In	30,000			30,000
Other Debt Proceeds			42,299	42,299
Other Financing Proceeds		3,485		3,485
Total Other Financing Receipts/(Disbursements)	(19,261)	58,456	42,299	81,494
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	25,423	(158,350)	2,721	(130,206)
Fund Cash Balance - January 1, 2012	451,232	567,472	101,907	1,120,611
Fund Cash Balance - December 31, 2012				
Restricted		409,122		409,122
Assigned			104,628	104,628
Unassigned	476,655			476,655
Fund Cash Balance - December 31, 2012	\$ 476,655	\$ 409,122	\$ 104,628	\$ 990,405

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

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances - Enterprise Funds
For the Year Ended December 31, 2012

Operating Cash Receipts	
Charges for Services	\$ 1,970,975
Earnings on Investments	191
Other Revenue	42,844
Total Operating Cash Receipts	<u>2,014,010</u>
Operating Cash Disbursements:	
Personal Services	744,211
Contractual Services	523,763
Supplies and Materials	221,739
Capital Outlay	175,277
Total Operating Cash Disbursements	<u>1,664,990</u>
Operating Income	<u>349,020</u>
Non-Operating Cash Receipts	
Other Debt Proceeds	157,183
Other Non-Operating Cash Receipts	116,743
Total Non-Operating Cash Receipts	<u>273,926</u>
Non-Operating Cash Disbursements	
Other Financing Uses	10,828
Debt Service - Principal	235,589
Debt Service - Interest and Fiscal Charges	129,506
Total Non-Operating Cash Disbursements	<u>375,923</u>
Excess of Receipts Under Disbursements Before Interfund Transfers and Advances	247,023
Advance-Out	(30,000)
Transfers-In	283,880
Transfers-Out	(289,590)
Net Disbursements Over Receipts	<u>211,313</u>
Fund Cash Balance - January 1, 2012	1,059,725
Fund Cash Balance - December 31, 2012	<u>\$ 1,271,038</u>

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

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2013

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 59,773	\$ 556,474	\$ -	\$ 616,247
Intergovernmental Receipts	93,015	115,367		208,382
Charges for Services	21,968	22,700	43,432	88,100
Fines, Licenses, and Penalties	7,351	220		7,571
Earnings on Investments	7,574	23	201	7,798
Other Revenue	85,600	27,313	28,625	141,538
Total Cash Receipts	275,281	722,097	72,258	1,069,636
Cash Disbursements:				
Current:				
Security of Persons and Property	106,645	506,301		612,946
Public Health Services	1,689			1,689
Community Environment	6,635			6,635
Transportation		175,333		175,333
General Government	17,155	6,385		23,540
Debt Service:				
Principal Payments			24,100	24,100
Interest Payments			5,255	5,255
Capital Outlay	34,681	246,607	99,851	381,139
Total Cash Disbursements	166,805	934,626	129,206	1,230,637
Total Receipts Over/(Under) Disbursements	108,476	(212,529)	(56,948)	(161,001)
Other Financing Receipts/(Disbursements)				
Transfers-In	2,142	314,136		316,278
Transfers-Out	(178,564)	(133,485)		(312,049)
Advance-In	128,400			128,400
Advance-Out	(128,400)			(128,400)
Other Debt Proceeds			32,701	32,701
Other Financing Sources		9,047	6,088	15,135
Other Financing Uses		(1,274)		(1,274)
Total Other Financing Receipts/(Disbursements)	(176,422)	188,424	38,789	50,791
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(67,946)	(24,105)	(18,159)	(110,210)
Fund Cash Balance - January 1, 2013	476,655	409,122	104,628	990,405
Fund Cash Balance - December 31, 2013				
Restricted		385,017		385,017
Assigned			86,469	86,469
Unassigned	408,709			408,709
Fund Cash Balance - December 31, 2013	\$ 408,709	\$ 385,017	\$ 86,469	\$ 880,195

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

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances - Enterprise Funds
For the Year Ended December 31, 2013

Operating Cash Receipts	
Charges for Services	\$ 2,087,266
Earnings on Investments	918
Other Revenue	27,771
Total Operating Cash Receipts	<u>2,115,955</u>
Operating Cash Disbursements:	
Personal Services	868,263
Contractual Services	451,379
Supplies and Materials	179,002
Capital Outlay	237,141
Total Operating Cash Disbursements	<u>1,735,785</u>
Operating Income	<u>380,170</u>
Non-Operating Cash Receipts	
Other Debt Proceeds	150,411
Other Non-Operating Financing Sources	50,619
Total Non-Operating Cash Receipts	<u>201,030</u>
Non-Operating Cash Disbursements	
Other Financing Uses	44,131
Debt Service - Principal	375,771
Debt Service - Interest and Fiscal Charges	95,729
Total Non-Operating Cash Disbursements	<u>515,631</u>
Excess of Receipts Under Disbursements Before Interfund Transfers and Advances	65,569
Advance-In	30,000
Advance-Out	(30,000)
Transfers-In	331,729
Transfers-Out	(335,958)
Net Disbursements Over Receipts	<u>61,340</u>
Fund Cash Balance - January 1, 2013	1,271,038
Fund Cash Balance - December 31, 2013	<u>\$ 1,332,378</u>

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

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of New London, Huron County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water, sewer, and sanitation utilities, park operations, and police and fire services. The Village appropriates general fund money to support a volunteer fire department.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except debt service funds maintained by outside custodians are not included in these financial statements. Assets held by custodians are described in Note 9 to the financial statements.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

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

Income Tax Fund - This fund receives revenues from the Village income tax and is used to account for expenditures associated with the income tax department and fire and police department.

Cemetery Endowment Fund - This fund receives monies for the upkeep of specified cemetery buildings and lots.

Cemetery Trust Fund - This fund receives a twenty dollar charge on the sale of each cemetery lot for the upkeep of graves and buildings at the cemetery.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following significant capital project funds:

Capital Improvement Fund - This fund receives revenues allocated from the Income Tax Fund used for capital purchases.

Fire Fighting Facilities Fund - This fund receives revenues from fire protection contracts. Funds are used for fire equipment purchases and facility maintenance.

4. Enterprise Funds

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

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

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

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

Parks Department Fund - This fund receives monies from charges associated with the parks for rentals, camping, softball, the Firelands Festival, boat permits, and concessions. Revenues are used for the operation of recreational programs and maintenance of facilities.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

E. Budgetary Process

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

1. Appropriations

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

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 also approve estimated resources.

3. Encumbrances

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

A summary of 2013 and 2012 budgetary activity appears in Note 5.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

F. Property, Plant, and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

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 and investments at December 31 was as follows:

	<u>2013</u>	<u>2012</u>
Demand Deposits	\$1,105,307	\$ 692,245
Certificates of Deposits	104,069	870,586
Other Time Deposits	<u>1,003,197</u>	<u>402,154</u>
Total Deposits	<u>\$2,212,573</u>	<u>\$1,964,985</u>
Star Ohio	<u>\$ 0</u>	<u>\$ 296,458</u>
Total Investments	<u>0</u>	<u>296,458</u>
Total Deposits and Investments	<u>\$2,212,573</u>	<u>\$2,261,443</u>

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

Investments: Investments in STAR Ohio funds are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

(Continued)

3. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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.

4. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village also provides health insurance coverage to full time employees through a private carrier.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

5. BUDGETARY ACTIVITY

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

2012 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,274,297	\$ 287,695	\$ (986,602)
Special Revenue	1,325,456	792,582	(532,874)
Capital Projects	271,981	99,403	(172,578)
Enterprise	3,762,039	2,571,816	(1,190,223)
Total	<u>\$ 6,633,773</u>	<u>\$ 3,751,496</u>	<u>\$ (2,882,277)</u>

2012 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,089,585	\$ 262,272	\$ 827,313
Special Revenue	1,255,110	950,932	304,178
Capital Projects	203,400	96,682	106,718
Enterprise	3,334,517	2,360,503	974,014
Total	<u>\$ 5,882,612</u>	<u>\$ 3,670,389</u>	<u>\$ 2,212,223</u>

2013 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,305,340	\$ 405,823	\$ (899,517)
Special Revenue	1,435,097	1,045,280	(389,817)
Capital Projects	280,927	111,047	(169,880)
Enterprise	9,891,090	2,678,714	(7,212,376)
Total	<u>\$12,912,454</u>	<u>\$ 4,240,864</u>	<u>\$ (8,671,590)</u>

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

5. BUDGETARY ACTIVITY (continued)

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

2013 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation	Budgetary	Variance
	Authority	Expenditures	
General	\$ 1,146,872	\$ 473,769	\$ 673,103
Special Revenue	971,891	1,069,385	(97,494)
Capital Projects	144,518	129,206	15,312
Enterprise	8,938,628	2,617,374	6,321,254
Total	<u>\$ 11,201,909</u>	<u>\$ 4,289,734</u>	<u>\$ 6,912,175</u>

Contrary to Ohio Law, budgetary expenditures exceeded appropriation authority in the Enterprise Funds: 1) Sewer Interest fund by \$4,812 for the year ended December 31, 2012.

Contrary to Ohio Law, budgetary expenditures exceeded appropriation authority in the following Special Revenue funds: 1) Local Permissive fund by \$164,300; 2) Income Tax fund by \$142,813; 3) Tree Fund by \$215; 4) Housing Rehab. by \$475; 5) Cemetery Endowment by \$24,233; 6) Cemetery Trust by \$1,605; 7) Grove Street Cemetery by \$6,385, and the following Capital Project Funds: 1) Recreation Improvement Fund by \$14,392, and in the following Enterprise Funds: 1) Sanitation fund by \$24,836; 2) Park Department fund by \$22,038; 3) Sewer Debt fund by \$86,143; 4) Star Debt fund by \$80,625; 5) Rural Water Line Debt fund by \$30,564 for the year ended December 31, 2013.

6. LOCAL INCOME TAX

The Village levies a municipal income tax of one 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.

7. DEBT

Debt outstanding at December 31, 2013 was as follows:

Fire Truck Loan	\$ 68,600	3.50%
Sewer Design Loan	382,167	5.22%
Ohio Water Development Authority Loan	301,794	7.45%
Rural Water Line Bond	116,168	3.25%
Water System Improvement Bond	1,504,375	Variable
USDA Equipment Loan	<u>37,600</u>	5.00%
Total	<u>\$2,410,704</u>	

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

7. DEBT

The Reservoir Loan relates to the construction of the reservoir in 1973. The Ohio Water Development Authority (OWDA) loans relate to sewer plant expansion project and sewer design that were mandated by the Ohio Environmental Protection Agency. The Water System Improvement Mortgage Revenue Bonds were issued for the water plant expansion project in 1997 and refinanced in 2013. The Rural Water System Improvement Bonds were issued to extend water service to New London Village residents in 1999. The United States Department of Agriculture Rural Development loan relates to the purchase of fire truck in 2005. In 2012 bonds were issued for the purpose of acquiring a fire truck and related equipment for the fire department.

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

	Water System Improvement Mortgage Revenue Bonds	OWDA	USDA Loan	Fire Truck	Sewer Design	Rural Waterline
			Fire Truck			
Year ending December 31:						
2014	\$ 144,375	\$ 67,528	\$ 18,400	\$ 6,600	\$ 382,167	\$ 38,915
2015		72,559	19,200	6,900		38,915
2016	330,000	77,965		7,000		38,338
2017		83,742		7,400		
2018	325,000			7,600		
2019-2023	705,000			33,100		
Total	<u>\$ 1,504,375</u>	<u>\$ 301,794</u>	<u>\$ 37,600</u>	<u>\$ 68,600</u>	<u>\$ 382,167</u>	<u>\$ 116,168</u>

8. RETIREMENT SYSTEM

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are 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, OP&F participants contributed 10% of their wages. For 2013 and 2012, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. 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 NEW LONDON
HURON COUNTY**

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

9. DEBT SERVICE TRUSTEED FUNDS

The Water Improvement trust agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2013, the custodian held \$254,100 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

10. FUND BALANCE

Fund balance is divided into two 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. 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.

2. 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.

3. 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.

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.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

12. LEASE COMMITMENT

The Village has entered into lease agreements with the following: RS Office Solutions for a copy machine and Tax-Exempt Leasing Corp, for Utility Vehicles. Rental expense for the operating leases for the years ended December 31, 2012 and 2013 were \$5,940 and \$5,940 for the copy machine and \$15,522 for the Utility Vehicles for the 2013 calendar year.

The total future minimum rental payments required for the operating lease are as follows:

<u>December 31,</u>	
2014	\$ 23,666
2015	20,695
2016	20,695
2017	20,695
2018	20,695
2019 – 2020	<u>41,387</u>
Total	<u>\$147,833</u>

13. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

Village of New London
Huron County
115 East Main Street
New London, Ohio 44851-1201

I 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 New London, Huron County, (the Government) as of and for the years ended December 31, 2012 and 2013, and the related notes to the financial statements and have issued my report thereon dated April 15, 2014 wherein I noted the Government followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

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

My 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 I identified a certain deficiency in internal control over financial reporting, that I 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 Government'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. I consider finding 2013-1 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Government's financial statements are free of material misstatement, I 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 my audit and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters I must report under *Government Auditing Standards*.

The Government's response to the finding identified in the audit is described in the accompanying schedule of findings. I did not audit the Government's response and, accordingly, I express no opinion on it.

I noted certain matters that I reported to management of the Village of New London's in a separate letter dated April 14, 2014.

Purpose of this Report

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

Kevin L. Penn, Inc.

April 14, 2014

Village of New London
Huron County

Schedule of Audit Findings
December 31, 2012 and 2013

2013-1

Preparation of Financial Statements

Condition:

The following year-end financial statements that management prepared and presented for the audit contained a number of coding errors, inconsistencies and omissions.

- Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances – Governmental Funds
- Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances – Enterprise Funds

In addition, there was a transfer of income tax funds in the amount of \$491,111 for 2012 and \$506,301 for 2013 from the Special Revenue fund into the General fund, and in 2012 there was a classification error in the amount of \$14,593 relating to the payment of Enterprise fund debt, from the Capital Project fund, which resulted in audit adjustments to the financial statements.

Furthermore, the bank reconciliation did not agree to the total Fund Cash Balance for the 2012 and 2013 calendar year. The Payroll checking account and the Grove Street Cemetery checking account were not included in the ending cash balance. As a result, the ending book cash balance did not agree to the actual cash reconciliation balance in the bank; therefore, producing inaccurate financial statements.

Criteria:

The internal controls established by management, pertaining to the year-end financial statements should operate in a manner which should prevent coding errors, inconsistencies and omissions. Furthermore, each month the cash receipts and disbursement reports by fund should be reconciled to the bank reconciliation.

Effect:

There were several account totals which were misstated (i.e., interest expense; transfers; fund cash balance), during 2012 and 2013, the Village recorded loan additions in the amount of \$199,482 and \$183,112 as other revenue. These amounts were reclassified as other debt proceeds. In addition, as of December 31, 2012 and 2013, the cash reconciliation report, compared to the Combined Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances for the Governmental Fund types and the Enterprise Fund types were misstated by \$31,920 and \$17,493. Furthermore, transfer ins and outs for 2012 and 2013 did not equal, resulting in audit adjustments to the financial statements.

Cause:

Manual input errors during the preparation of the year-end financial statements, in addition, to reconciling items which were not recorded on the year-end financial statements.

Village of New London
Huron County

Schedule of Audit Findings
December 31, 2012 and 2013

2013-1

Preparation of Financial Statements (continued)

Recommendation:

I recommend that management should assess the adequacy of the design of its policies and procedures related to preparation of financial statements, including performing timely book to bank reconciliations and design appropriate controls as necessary to rectify coding and omission issues. In addition, the Village should follow the Village Officers' Handbook for suggested account classifications. By performing these procedures, the risk of presenting inaccurate financial statements will be significantly reduced.

Management Response:

In response to the citations and recommendations made in the recent audit of the Village of New London, I believe that all of these issues will be corrected in 2014, as the Village has now converted to the State's UAN System for Bookkeeping.

Village of New London
Huron County

Schedule of Prior Audit Findings
December 31, 2012 and 2013

2011-1

Preparation of Financial Statements

Condition:

The following year-end financial statements that management prepared and presented for the audit contained a number of coding errors.

- Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances – Governmental Funds
- Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances – Enterprise Funds

In addition, the bank reconciliation did not agree to the total Fund Cash Balance for the 2012 and 2013 calendar year. As a result, the ending book cash balance did not agree to the actual cash reconciliation balance in the bank; therefore, producing inaccurate financial statements.

Recommendation:

I recommend that management should assess the adequacy of the design of its policies and procedures related to preparation of financial statements, including performing timely book to bank reconciliations and design appropriate controls as necessary to rectify coding issues. In addition, the Village should follow the Village Officers' Handbook for suggested account classifications. By performing these procedures, the risk of presenting inaccurate financial statements will be significantly reduced.

Management Response:

The bank reconciliation was corrected in February of 2012 and the properly coding of the account classification, including the reconciliation of transfers on a monthly basis, has been implemented for the 2012 calendar year.

Current Status:

This finding will be repeated in the 2013 audit.

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Dave Yost • Auditor of State

VILLAGE OF NEW LONDON

HURON 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
JULY 15, 2014