



Dave Yost • Auditor of State

VILLAGE OF DANVILLE
KNOX COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Danville
Knox County
512 South Market Street
Danville, Ohio 43014

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Danville, Knox 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 fair presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

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

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

The effects 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 years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Danville, Knox 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 Matter

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

May 22, 2013

**VILLAGE OF DANVILLE
KNOX 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	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$ 27,660	\$ 70,951	\$ -	\$ 98,611
Municipal Income Tax	173,607	-	-	173,607
Intergovernmental	39,062	42,970	-	82,032
Charges for Services	99	-	-	99
Fines, Licenses and Permits	11,571	-	-	11,571
Earnings on Investments	842	-	-	842
Miscellaneous	-	10,160	-	10,160
<i>Total Cash Receipts</i>	<u>252,841</u>	<u>124,081</u>	<u>-</u>	<u>376,922</u>
Cash Disbursements				
Current:				
Security of Persons and Property	16,118	128,423	-	144,541
Public Health Services	530	-	-	530
Leisure Time Activities	500	22,037	-	22,537
Community Environment	3,993	-	-	3,993
Basic Utility Services	800	-	-	800
Transportation	-	53,984	-	53,984
General Government	122,705	-	-	122,705
Capital Outlay	-	21,200	-	21,200
Debt Service:				
Principal Retirement	-	3,489	132,053	135,542
Interest and Fiscal Charges	-	189	5,745	5,934
<i>Total Cash Disbursements</i>	<u>144,646</u>	<u>229,322</u>	<u>137,798</u>	<u>511,766</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>108,195</u>	<u>(105,241)</u>	<u>(137,798)</u>	<u>(134,844)</u>
Other Financing Receipts (Disbursements)				
Transfers In	-	136,220	133,501	269,721
Transfers Out	(136,220)	(706)	-	(136,926)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(136,220)</u>	<u>135,514</u>	<u>133,501</u>	<u>132,795</u>
<i>Net Change in Fund Cash Balances</i>	(28,025)	30,273	(4,297)	(2,049)
<i>Fund Cash Balances, January 1</i>	<u>191,745</u>	<u>69,363</u>	<u>21,898</u>	<u>283,006</u>
Fund Cash Balances, December 31				
Restricted	-	99,636	17,604	117,240
Unassigned (Deficit)	163,720	-	-	163,720
<i>Fund Cash Balances, December 31</i>	<u>\$ 163,720</u>	<u>\$ 99,636</u>	<u>\$ 17,604</u>	<u>\$ 280,960</u>

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

**VILLAGE OF DANVILLE
KNOX 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	\$ 351,626
Miscellaneous	1,425
	353,051
Operating Cash Disbursements	
Personal Services	90,634
Employee Fringe Benefits	41,911
Contractual Services	102,255
Supplies and Materials	30,126
Other	66
	264,992
<i>Total Operating Cash Disbursements</i>	<i>264,992</i>
<i>Operating Income</i>	<i>88,059</i>
Non-Operating Receipts (Disbursements)	
Intergovernmental	173,135
Capital Outlay	(173,908)
	(773)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(773)</i>
<i>Income before Transfers</i>	<i>87,286</i>
Transfers Out	(132,795)
<i>Net Change in Fund Cash Balances</i>	<i>(45,509)</i>
<i>Fund Cash Balances, January 1</i>	<i>176,616</i>
<i>Fund Cash Balances, December 31</i>	<i>\$ 131,107</i>

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

**VILLAGE OF DANVILLE
KNOX 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	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$ 28,440	\$ 55,466	\$ -	\$ 83,906
Municipal Income Tax	173,780	-	-	173,780
Intergovernmental	46,146	229,102	-	275,248
Charges for Services	125	-	-	125
Fines, Licenses and Permits	10,965	-	-	10,965
Earnings on Investments	1,323	-	-	1,323
Miscellaneous	177	8,970	-	9,147
<i>Total Cash Receipts</i>	<u>260,956</u>	<u>293,538</u>	<u>-</u>	<u>554,494</u>
Cash Disbursements				
Current:				
Security of Persons and Property	14,409	132,129	-	146,538
Public Health Services	559	-	-	559
Leisure Time Activities	573	23,327	-	23,900
Basic Utility Services	650	-	-	650
Transportation	2,630	288,507	-	291,137
General Government	119,289	-	-	119,289
Capital Outlay	-	8,542	-	8,542
Debt Service:				
Principal Retirement	-	4,500	122,050	126,550
Interest and Fiscal Charges	-	500	8,084	8,584
<i>Total Cash Disbursements</i>	<u>138,110</u>	<u>457,505</u>	<u>130,134</u>	<u>725,749</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>122,846</u>	<u>(163,967)</u>	<u>(130,134)</u>	<u>(171,255)</u>
Other Financing Receipts (Disbursements)				
Sale of Capital Assets	-	250	-	250
Transfers In	-	190,400	135,969	326,369
Transfers Out	(190,400)	(706)	-	(191,106)
Other Financing Sources	352	-	-	352
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(190,048)</u>	<u>189,944</u>	<u>135,969</u>	<u>135,865</u>
<i>Net Change in Fund Cash Balances</i>	<u>(67,202)</u>	<u>25,977</u>	<u>5,835</u>	<u>(35,390)</u>
<i>Fund Cash Balances, January 1</i>	<u>258,947</u>	<u>43,386</u>	<u>16,063</u>	<u>318,396</u>
Fund Cash Balances, December 31				
Restricted	-	69,363	21,898	91,261
Unassigned (Deficit)	191,745	-	-	191,745
<i>Fund Cash Balances, December 31</i>	<u>\$ 191,745</u>	<u>\$ 69,363</u>	<u>\$ 21,898</u>	<u>\$ 283,006</u>

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

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$ 356,211
<i>Total Operating Cash Receipts</i>	356,211
Operating Cash Disbursements	
Personal Services	90,134
Employee Fringe Benefits	40,016
Contractual Services	102,461
Supplies and Materials	25,860
Other	25
<i>Total Operating Cash Disbursements</i>	258,496
<i>Operating Income</i>	97,715
Non-Operating Receipts (Disbursements)	
Intergovernmental	26,394
Sale of Capital Assets	500
Capital Outlay	(78,290)
<i>Total Non-Operating Receipts (Disbursements)</i>	(51,396)
<i>Income Before Transfers</i>	46,319
Transfers Out	(135,263)
<i>Net Change in Fund Cash Balances</i>	(88,944)
<i>Fund Cash Balances, January 1</i>	265,560
<i>Fund Cash Balances, December 31</i>	\$ 176,616

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

**VILLAGE OF DANVILLE
KNOX 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 Danville, Knox County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services.

The Village participates in the Eastern Knox County Joint Fire District, a jointly governed organization, and the Ohio Plan Risk Management Inc. public entity risk pool. Notes 8 and 10 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organization:

Eastern Knox County Joint Fire District:

The District provides fire protection services and emergency medical services within the District.

Public Entity Risk Pool:

Ohio Plan Risk Management Inc.

The plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage to its members.

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

B. Accounting Basis

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

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

C. Deposits

The Village maintains interest bearing checking and savings accounts.

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

1. Summary of Significant Accounting Policies (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 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 specific 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.

Police Fund – This fund receives general and tangible personal property tax money for the operation of the Village police department.

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 Fund:

Ohio Water Development Authority and Ohio Public Works Commission Debt Fund- This fund is used to retire the debt associated with the Richard Street Project and the Village water and sewer system.

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

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

Grant Construction Fund - This fund receives loan proceeds from the Ohio Water Development Authority to finance water well and waste water improvements.

VILLAGE OF DANVILLE
KNOX COUNTY

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

1. **Summary of Significant Accounting Policies (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 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 re-appropriated 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.

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.

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

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.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

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 at December 31 was as follows:

	2012	2011
Demand deposits	\$412,067	\$459,622

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village; or collateralized by the financial institution's public entity deposit pool.

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	\$225,540	\$252,841	\$27,301
Special Revenue	212,088	260,301	48,213
Debt Service	14,614	133,501	118,887
Enterprise	797,038	526,186	(270,852)
Total	\$1,249,280	\$1,172,829	(\$76,451)

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$420,697	\$280,866	\$139,831
Special Revenue	268,147	230,028	38,119
Debt Service	149,474	137,798	11,676
Enterprise	640,853	571,695	69,158
Total	\$1,479,171	\$1,220,387	\$258,784

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$239,639	\$261,308	\$21,669
Special Revenue	194,820	484,188	289,368
Debt Service	13,846	135,969	122,123
Enterprise	591,214	383,105	(208,109)
Total	\$1,039,519	\$1,264,570	\$225,051

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

3. Budgetary Activity (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$423,963	\$328,510	\$95,453
Special Revenue	307,592	458,211	(150,619)
Debt Service	134,305	130,134	4,171
Enterprise	626,178	472,049	154,129
Total	\$1,492,038	\$1,388,904	\$103,134

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority for the year ended December 31, 2012 in the Police Fund by \$4,137. For the year ended December 31, 2011 budgetary expenditures exceeded appropriation authority in the Street Fund by \$186,722 and in the Police Fund by \$18,200.

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.

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. Local Income Tax

The Village levies a municipal income tax of 1 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. In July of 2012, the Village contracted with the Regional Income Tax Agency (RITA) to collect payments and process tax returns.

6. Debt

Debt outstanding at December 31, 2012 was as follows:

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

6. Debt (Continued)

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Loan (CQ06E) - Water Supply Improvement	\$228,891	0.00%
OWDA Loan (2228) - Water Treatment Facility Upgrade	\$50,897	2.20%
OWDA Loan (4489) - Water System Improvements	124,285	2.00%
OWDA Loan (5043) - Water Treatment Improvements	227,762	0.00%
Total	<u>\$631,835</u>	

The Ohio Public Works Commission (OPWC) loan is for the extension of a Village street and water lines.

The Ohio Water Development Authority (OWDA) loans are for improvements mandated by the Environmental Protection Agency (EPA), to be completed for the Village water and sewer system.

The OPWC Loan for the Richards Street Project and the loan for the police cruiser were entirely paid off during the audit period.

A final amortization schedule has not been completed for OWDA Loan (4489). Amortization of the OPWC Loan (CQ06E), OWDA Loan (2228) and OWDA Loan (5043), including interest, is scheduled as follows:

Year ending December 31:	OPWC Loan (CQ06E)	OWDA Loan (2228)	OWDA Loan (5043)
2013	\$13,080	\$51,456	\$8,595
2014	13,080	0	8,595
2015	13,080	0	8,595
2016	13,080	0	8,595
2017	13,080	0	8,595
2018-2022	65,400	0	42,974
2023-2027	65,400	0	42,974
2028-2032	32,691	0	42,974
2033-2037	0	0	42,974
2038-2039	0	0	12,891
Total	<u>\$228,891</u>	<u>\$51,456</u>	<u>\$227,762</u>

7. Retirement Systems

The Village's law enforcement 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 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. 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.

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

8. Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Assets	\$13,100,381	\$12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	<u>\$6,413,188</u>	<u>\$7,172,519</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.oioplan.org.

9. Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**VILLAGE OF DANVILLE
KNOX COUNTY**

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

10. Jointly Governed Organization

Eastern Knox County Joint Fire District

The Village of Danville appoints one board member (total of 9). The Fire District board oversees the activity and there is no financial interdependency between the Village and the Fire District.

11. Related Organization

Knox County Regional Planning Commission

The Council appoints one member of the Commission. There is no financial interdependency between the Village and the Commission.

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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 Danville
Knox County
512 South Market Street
Danville, Ohio 43014

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 Danville, Knox 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 May 22, 2013, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit. We also noted in 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54.

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 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 finding 2012-01 described in the accompanying schedule of findings to be a material weakness.

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 finding 2012-04 described in the accompanying schedule of findings to be a significant deficiency.

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 2012-01 through 2012-03.

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

May 22, 2013

**VILLAGE OF DANVILLE
KNOX 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 2012-01

Material Noncompliance / Material Weakness

Transfers

Ohio Rev. Code Section 5705.14 provides that except in the case of transfer pursuant to division (E) of this section, transfers authorized by this section shall only be made by resolution of the taxing authority passed with the affirmative vote of two-thirds of the members.

Pursuant to Ohio Rev. Code Section 57-5.14 (E) money may be transferred from the general fund to any other fund of the subdivision. AG Op. No 89-075 held that such a transfer requires a resolution passed by a simple majority.

In 2011, a transfer was made from the State Grant Fund to the Police Fund in the amount of \$4,000 that did not meet the exceptions noted above. This transfer was not approved by Council.

The Village has posted the necessary adjustment to reverse the effects of this transfer in their accounting system and the adjustments are reflected in the financial statements.

All transfers should be approved by Council and should be clearly documented in detail in the Council's minutes. We also recommend the Village review the above Ohio Rev. Code Sections to assure that only allowable transfers are made between funds.

FINDING NUMBER 2012-02

Material Noncompliance

Certification of Funds

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 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. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due therein.

There are several exceptions to the standard requirement stated above that the fiscal officer 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 DANVILLE
KNOX 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)

FINDING NUMBER 2012-02 (Continued)

Material Noncompliance (Continued)

Certification of Funds (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 fiscal officer can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the 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 Certificate – The fiscal officer may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the 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 appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Clerk-Treasurer did not properly certify the availability of funds prior to purchase commitment for fifteen percent (15%) of the purchase orders tested in fiscal years 2011 and thirteen percent (13%) of the purchase orders tested in 2012. 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 Clerk-Treasurer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

VILLAGE OF DANVILLE
KNOX 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)

FINDING NUMBER 2012-02
(Continued)

Material Noncompliance (Continued)

Certification of Funds (Continued)

We recommend the Clerk-Treasurer certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2012-03

Material Noncompliance

Expenditures Exceeding Appropriations

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated. In addition, Ohio Rev. Code Section 5705.36 (A) (3) requires that upon a determination by the fiscal officer that the revenue to be collected will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess. The legal level of budgetary control for the Village is the level at which the Board adopts the original appropriation measure.

Budgetary expenditures exceeded appropriations for the year ended December 31, 2011 at the fund level as follows:

<u>Fund #</u>	<u>Fund Name</u>	<u>Appropriation Authority</u>	<u>Total Expenditures</u>	<u>Variance</u>
2011	Street Fund	\$99,776	\$286,498	\$(186,722)
2092	Police Fund	\$135,322	\$153,523	\$(18,200)

Failure to have adequate appropriation authority in place at the time of expenditure may result in expenditures exceeding available resources, and could result in deficit spending.

A comparison of budgeted receipts to actual receipts at December 31, 2011:

**VILLAGE OF DANVILLE
KNOX 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 2012-03
(Continued)**

Expenditures Exceeding Appropriations (Continued)

Fund #	Fund Name	Total Certified Resources	Total Actual Resources	Variance
2011	Street Fund	\$99,780	\$342,785	\$243,005
2092	Police Fund	\$135,325	\$175,220	\$39,895

For the year ended December 31, 2011, the Village should have obtained an increased amended certificate and increased appropriations.

For the year ended December 31, 2012, the Police Fund had expenditures that exceeded appropriations by \$4,137, but revenue was not in excess of the amount in the official certificate to obtain an amendment.

The Clerk-Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk-Treasurer may request the Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Finding Number 2012-04

Significant Deficiency

Budgetary Information and Budgetary Monitoring

During the audit period, the Village's budgetary accounting records (estimated receipts and appropriations) did not agree to the last Official Amended Certificate of Estimated Resources certified by the County Budget Commission or the Annual Appropriation Measure approved by the Village Council, including any properly approved supplemental appropriations measures.

2011	Appropriations per UAN	Appropriations approved by Council	Variance
General	\$329,296	\$423,963	\$(94,667)
Street	\$286,578	\$99,776	\$186,802
Police Fund	\$142,326	\$135,322	\$7,004
Permissive Motor Vehicle	\$8,542	\$13,600	\$(5,058)
Water Fund	\$188,829	\$263,229	\$(74,400)
Debt Service	\$106,044	\$134,305	\$(28,261)

**VILLAGE OF DANVILLE
KNOX 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 2012-04
(Continued)**

Significant Deficiency (Continued)

Budgetary Information and Budgetary Monitoring (Continued)

2012	Appropriations per UAN	Appropriations approved by Council	Variance
Police Fund	\$149,091	\$144,954	\$4,137

2011	Budgeted Receipts per UAN	Estimated Receipts certified by the County Budget Commission	Variance
General	\$240,360	\$239,639	\$721
Street	\$106,000	\$41,000	\$65,000
Police	\$124,720	\$135,120	\$(10,400)
Debt Service	\$138,548	\$13,846	\$124,702

2012	Budgeted Receipts per UAN	Estimated Receipts certified by the County Budget Commission	Variance
General	\$254,237	\$225,540	\$28,697
Fire	\$154	\$0	\$154
Police	\$136,425	\$143,157	\$(6,732)
Sewer	\$554,130	\$554,075	\$55

If budgetary information in the accounting system is not maintained accurately, the amounts reported in the financial statements are misstated and management may not have the information available to make the best decisions regarding Village operations. This could cause the Village to make appropriations in excess of estimated resources, as well as, lead to deficit spending in violation of Ohio Revised Code.

The Clerk-Treasurer should update the Village's accounting system based on the Official Amended Certificate of Estimated Resources certified by the County Budget Commission and the Amended Appropriation Measure and supplemental appropriations approved by the Village Council.

In order to ensure compliance with Ohio Revised Code budgetary requirements, the Village Council should monitor budget versus actual information throughout the fiscal year for all funds, as well as the reporting of amounts in the annual financial reports.

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

**VILLAGE OF DANVILLE
KNOX 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; <i>Explain</i>
2010-01	Unapproved Transfers	No	Reissued as 2012-01
2010-02	Certification of Funds	No	Reissued as 2012-02
2010-03	Expenditures Exceeding Appropriations	No	Reissued as 2012-03
2010-04	Financial Statement Presentation and Budgetary Monitoring	No	Reissued as 2012-04



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VILLAGE OF DANVILLE

KNOX 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
SEPTEMBER 24, 2013**