

VILLAGE OF NORTH BALTIMORE
WOOD COUNTY

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2012



Dave Yost • Auditor of State

Village Council
Village of North Baltimore
205 North Main Street
North Baltimore, Ohio 45872

We have reviewed the *Independent Auditors' Report* of the Village of North Baltimore, Wood County, prepared by E.S. Evans and Company, for the audit period January 1, 2012 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

December 18, 2013

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VILLAGE OF NORTH BALTIMORE
WOOD COUNTY

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E.S. Evans and Company

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September 20, 2013

INDEPENDENT AUDITOR'S REPORT

Village of North Baltimore
Wood County, Ohio

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of the 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 of 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, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of North Baltimore, Wood County, as of December 31, 2012, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and the Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Supplementary Information

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected this information to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 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 the 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.



**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Local Taxes	\$131,207	\$0	\$0	\$0	\$131,207
Municipal Income Tax	668,555	0	0	0	668,555
Intergovernmental	62,552	288,540	0	0	351,092
Special Assessments	0	135,044	0	0	135,044
Charges for Services	95,027	2,585	0	0	97,612
Fines, Licenses and Permits	50,105	868	0	0	50,973
Earnings on Investments	9,670	92	0	0	9,762
Miscellaneous	724	825	0	0	1,549
	<u>1,017,840</u>	<u>427,954</u>	<u>0</u>	<u>0</u>	<u>1,445,794</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	523,620	1,188	0	0	524,808
Public Health Services	21,949	0	0	0	21,949
Leisure Time Activities	0	36,016	0	0	36,016
Community Environment	14,974	7,655	0	0	22,629
Basic Utility Service	0	106,968	0	0	106,968
Transportation	0	257,805	0	0	257,805
General Government	354,474	0	0	0	354,474
Debt Service:					
Redemption of Principal	0	24,490	0	0	24,490
Interest and Fiscal Charges	0	825	0	0	825
Capital Outlay	53,863	221,463	3,484	0	278,810
	<u>968,880</u>	<u>656,410</u>	<u>3,484</u>	<u>0</u>	<u>1,628,774</u>
Total Receipts Over/(Under) Disbursements	<u>48,960</u>	<u>(228,456)</u>	<u>(3,484)</u>	<u>0</u>	<u>(182,980)</u>
Other Financing Receipts / (Disbursements):					
Transfers-In	0	120,304	0	0	120,304
Transfers-Out	(265,000)	0	(5,304)	0	(270,304)
Other Financing Sources	2,527	0	0	0	2,527
Other Financing Uses	(508)	0	0	0	(508)
	<u>(262,981)</u>	<u>120,304</u>	<u>(5,304)</u>	<u>0</u>	<u>(147,981)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(214,021)	(108,152)	(8,788)	0	(330,961)
Fund Cash Balances, January 1	<u>1,296,333</u>	<u>1,026,803</u>	<u>25,416</u>	<u>5,835</u>	<u>2,354,387</u>
Fund Cash Balances, December 31:					
Restricted	0	751,582	16,628	5,835	774,045
Committed	0	165,807	0	0	165,807
Assigned	89,291	1,262	0	0	90,553
Unassigned	993,021	0	0	0	993,021
	<u>\$1,082,312</u>	<u>\$918,651</u>	<u>\$16,628</u>	<u>\$5,835</u>	<u>\$2,023,426</u>
Reserve for Encumbrances, December 31	<u>\$89,291</u>	<u>\$1,469</u>	<u>\$0</u>	<u>\$0</u>	<u>\$90,760</u>

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

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$1,974,456	\$0	\$1,974,456
Miscellaneous	28,714	0	\$28,714
Total Operating Cash Receipts	2,003,170	0	\$2,003,170
Operating Cash Disbursements:			
Personal Services	479,208	0	\$479,208
Contractual Services	283,985	0	\$283,985
Supplies and Materials	184,525	0	\$184,525
Total Operating Cash Disbursements	947,718	0	\$947,718
Operating Income/(Loss)	1,055,452	0	\$1,055,452
Non-Operating Cash Receipts:			
Intergovernmental	834,274	0	\$834,274
Sale of Notes	5,238,430	0	\$5,238,430
Miscellaneous Receipts	1,543	0	\$1,543
Other Non-Operating Cash Receipts	0	0	\$0
Total Non-Operating Cash Receipts	6,074,247	0	\$6,074,247
Non-Operating Cash Disbursements:			
Capital Outlay	1,209,228	0	\$1,209,228
Redemption of Principal	5,414,892	0	\$5,414,892
Interest and Other Fiscal Charges	105,770	0	\$105,770
Other Non-Operating Cash Disbursements	420	1,671	\$2,091
Total Non-Operating Cash Disbursements	6,730,310	1,671	\$6,731,981
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	399,389	(1,671)	\$397,718
Transfers-In	150,000	0	\$150,000
Transfers-Out	0	0	\$0
Net Receipts Over/(Under) Disbursements	549,389	(1,671)	\$547,718
Fund Cash Balances, January 1	2,661,051	1,671	\$2,662,722
Fund Cash Balances, December 31	\$3,210,440	\$0	\$3,210,440
Reserve for Encumbrances, December 31	\$449,065	\$0	\$449,065

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

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of North Baltimore, Wood County, (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 appropriates general fund money to support a volunteer fire and EMS department.

The Village participates in a joint venture and a public entity risk pool. Notes 8 and 11 to the financial statements provides additional information for these entities. These organizations are:

Joint Venture -- Henry Township–Village of North Baltimore Joint Economic Development District:

On October 14, 2008, the Village of North Baltimore approved the formation of this JEDD with Henry Township in Wood County. The parties have entered into a contract to create and provide for the operation of the JEDD in accordance with Sections 715.72 through 715.83 of the Ohio Revised Code. The purpose of this JEDD is to facilitate economic development, to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State of Ohio, Wood County, Village of North Baltimore, and Henry Township.

Public Entity Risk Pool – Public Entities Pool of Ohio (PEP):

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

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.

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

1. Summary of Significant Accounting Policies – (continued)

C. Deposits and Investments

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

The Village values of U.S. Treasury notes, common stock, and money market mutual funds are recorded at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

Permissive Motor Vehicle License Fund – This fund receives permissive motor vehicle license fees in order to improve Village streets.

Street Paving and Reconstruction Fund – This fund receives property, rollback and homestead tax levy funds in order to pave and reconstruct Village streets.

3. Debt Service Funds

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Funds:

EMS Equipment Debt Fund – This fund receives property, rollback and homestead taxes and is used to retire the debt on the purchase of EMS Equipment.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds).

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

1. Summary of Significant Accounting Policies – (continued)

D. Fund Accounting – (continued)

5. Enterprise Funds

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

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

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

Wastewater Capital Improvement Reserve Fund - This fund receives Federal and State grants and loans and accounts for the related expenses in regards to the sanitary sewer project.

6. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the JEDD income tax entirely collected by the Village.

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, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

VILLAGE OF NORTH BALTIMORE
WOOD COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. Summary of Significant Accounting Policies – (continued)

E. Budgetary Process – (continued)

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must 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 carried over, and need not be reappropriated.

A summary of 2012 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2012, the fund balance is divided into five classifications based primarily on the extent to which the District must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Non-spendable – The Village classifies assets as non-spendable when legally or contractually required to maintain the amounts intact.

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

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

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

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

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

1. Summary of Significant Accounting Policies – (continued)

F. Fund Balance – (continued)

The District 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.

2. Equity in Pooled Deposits and Investments

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

	<u>2012</u>
Demand deposits	<u>\$2,497,015</u>
Certificates of deposit	<u>238,733</u>
Total deposits	<u>2,735,748</u>
U.S. Treasury Notes	<u>2,498,118</u>
Total investments	<u>2,498,118</u>
Total deposits and investments	<u><u>\$5,233,866</u></u>

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.

Investments: During 2012, the Village invested in various U.S. Treasury Notes and these are recorded at cost and held by Charles Schwab and SJS Investments at December 31, 2012.

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

3. Budgetary Activity

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

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,648,354	\$1,020,367	(\$627,987)
Special Revenue	1,432,088	548,258	(883,830)
Debt Service	68,527	0	(68,527)
Capital Projects	0	0	0
Enterprise	15,627,371	8,227,417	(7,399,954)
Total	\$18,776,340	\$9,796,042	(\$8,980,298)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,456,007	\$1,234,388	\$221,619
Special Revenue	855,466	656,410	199,056
Debt Service	8,788	8,788	0
Capital Projects	0	0	0
Enterprise	9,074,056	7,678,028	1,396,028
Total	\$11,394,317	\$9,577,614	\$1,816,703

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority for the year ended December 31, 2012 by \$442,663 in the Wastewater Capital Improvement Reserve Fund.

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.

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

5. 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. The Village has a contract with City of Cleveland – Central Collection Agency to collect income tax on behalf of the Village.

6. Debt

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds	\$740,000	4.51%
Sewer System Improvement Mortgage Revenue Bonds - Series 2012A	\$4,407,000	2.75%
Sewer System Improvement Mortgage Revenue Bonds - Series 2012B	\$319,527	2.75%
Sewer System Improvement Mortgage Revenue Bonds - Series 2012C	\$250,000	2.75%
Ohio Water Development Authority Loan - #1798	\$134,460	8.35%
Ohio Water Development Authority Loan - #3330	\$91,955	6.39%
Ohio Water Development Authority Loan - #2834	\$904,690	2.00%
Ohio Water Development Authority Loan - #3380	\$1,112,868	2.00%
Ohio Water Development Authority Loan - #3921	\$192,192	2.00%
Ohio Public Works Commission Loan - CE32B	\$34,885	0.00%
Ohio Public Works Commission Loan - CT25M	\$29,679	0.00%
Total	<u><u>\$8,217,256</u></u>	

The Village has one outstanding general obligation bond issue at December 31, 2012. It is backed by the full faith and credit of the Village of North Baltimore and will be paid from the enterprise fund through user fees. Semi-annual payments are due on this obligation.

The Village also has three series of Sewer System Improvement Mortgage Revenue Bonds. These bonds were used to finance the sewer separation project. Series 2012 A was fully drawn during 2012 and requires annual payments beginning June 1, 2013. Series 2012B and Series 2012C were still being drawn on as of December 31, 2012. Principal payments are expected to begin on Series B and Series C beginning June 1, 2015, with interest payments beginning in 2013.

The village also has five loans from the Ohio Water Development Authority with interest rates ranging from 2.00% to 8.35%. These loans were obtained to make improvements to the Village water and wastewater systems. Semi-annual payments are due on each loan including interest.

The village also has two loans from the Ohio Public Works Commission. These loans are zero interest loans and were obtained to make improvements to the Village water and wastewater systems and the sewer separation project. Semi-annual payments are due on each loan including interest.

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

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

6. Debt – (continued)

Year Ending December 31	OPWC Loan	OWDA Loans	General Obligation Bonds	Mortgage Revenue Bonds	Total
2013	\$5,250	\$410,367	\$83,888	\$418,750	\$918,255
2014	5,250	360,528	81,888	418,750	\$866,416
2015	5,250	310,690	84,825	549,085	\$949,850
2016	5,250	310,690	87,075	549,085	\$952,100
2017	5,250	310,690	84,075	549,084	\$949,099
2018-2022	17,526	959,305	297,341	2,165,156	\$3,439,328
2023-2027	4,446	19,551	291,340	915,333	\$1,230,670
2028-2032	4,446	0	0	915,333	\$919,779
2033-2037	4,446	0	0	915,333	\$919,779
2038-2042	7,450	0	0	915,333	\$922,783
2043-2047	0	0	0	915,333	\$915,333
2048-2052	0	0	0	912,676	\$912,676
Total	<u>\$64,564</u>	<u>\$2,681,821</u>	<u>\$1,010,432</u>	<u>\$10,139,251</u>	<u>\$13,896,068</u>

7. Retirement Systems

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 2012, OP&F participants contributed 10% of their wages. For 2012, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012, OPERS members contributed 10%, respectively, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. At December 31, 2012, the Village had \$970 in contributions due to OP&F.

8. 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 Workers Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments, PEP provides property and casualty coverage for its members. 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 members' deductibles.

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

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

8. Risk Management – (continued)

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 (the latest information available):

	<u>2012</u>
Assets	\$34,389,569
Liabilities	<u>(\$14,208,353)</u>
Retained Earnings	<u>\$20,181,216</u>

At December 31, 2012, the liabilities above include approximately \$13.1 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million of unpaid claims to be billed to approximately 466 member governments in the future, as of December 31, 2012. 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 \$34,000.

Based on discussions with PEP, the expected rate 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. The Village of North Baltimore paid \$39,848 to PEP in 2012.

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 contribution, 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 withdrawal.

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 NORTH BALTIMORE
WOOD COUNTY**

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

10. Related Party Transactions

A Village Council member's brother is the Utility Superintendent for the Village. Their father provides sanitation services for the Village and has for over the past 40 years. The Village paid \$11,480 in 2012 for these sanitation services.

11. Joint Ventures

The Henry Township–Village of North Baltimore Joint Economic Development District (JEDD) –
The Henry Township-Village of North Baltimore Joint Economic Development District was entered into on October 14, 2008, in accordance with Sections 715.72 through 715.83 of the Ohio Revised Code for their mutual benefit and the benefit of their residents. The JEDD was created to facilitate economic development, to create or preserve jobs and employment opportunities and to improve the economic welfare of the people in the State of Ohio, Wood County, Village of North Baltimore, and Henry Township. The Township and the Village each agreed to contribute to the development and operation of the District. The initial term of this Contract began on the commencement of construction of the Evansville Western Railway, Inc. Northwest Ohio Trans-Shipment Terminal and shall terminate upon completion of the Terminal within the District. A five member appointed Board of Directors shall govern the District. The Board shall adopt by-laws for the regulation of the affairs and the conduct of business.

The JEDD Board adopted a resolution to levy an income tax in the District at a rate of 1 percent. The Village will collect the tax through its' agreement with CCA and remit 20% of the receipts to the District, 50% to the Township, and retain 30% as the Village's share.

12. Subsequent Events

The Village started Phase II of the separation of the Village's combined sewer system in 2012. Total project costs are estimated at \$10,200,000 with grants and loans being awarded from OWDA and USDA.

A levy was approved by voters in November 2012 authorizing the purchase of a new fire pumper truck and related equipment not to exceed \$440,000. The purchase will be financed through a ten year bank loan.

On September 6, 2013, the Village Administrator was placed on paid administrative leave pending a fact finding investigation. The Village does not expect any significant financial impact as the result of this investigation.

13. Accountability and Compliance

Contrary to the Ohio Administrative Code, the Village did not properly complete a cash-basis financial statement for the year ending December 31, 2012. In addition, contrary to Ohio Revised Code 5705.41(D), purchase orders were not always properly completed and utilized.

**VILLAGE OF NORTH BALTIMORE
WOOD COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor/ Pass-Through Grantor/ <u>Program Titles</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Disbursements</u>
<u>U.S. Department of Agriculture</u>				
Water and Waste Disposal System for Rural Communities	n/a	10.781	\$ 162,030	\$ 162,030
Water and Waste Disposal System for Rural Communities - ARRA	n/a	10.781	\$ 786,468	\$ 786,468
Total Federal Financial Assistance			<u>\$ 948,498</u>	<u>\$ 948,498</u>

Note A - Significant Accounting Policies

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Village of North Baltimore's (the Village's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

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Steven D. Hooker, CPA • John E. Klay, CPA

September 20, 2013

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Village of North Baltimore
Wood County, Ohio

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Village of North Baltimore, Wood County, (the Village) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2013, wherein we noted the Village followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

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 2012-001, 2012-002, and 2012-003 described in the accompanying schedule of findings to be material weaknesses.

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 and 2012-003.

Entity's Response to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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 on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in red ink, appearing to read "E. L. Green and Company", is located in the lower right quadrant of the page.



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September 20, 2013

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Village of North Baltimore
Wood County, Ohio

Report on Compliance for Each Major Federal Program

We have audited the Village of North Baltimore's (the Government) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village of North Baltimore's major federal program for the year ended December 31, 2012. The *Summary of Auditor Results* in the accompanying schedule of findings identifies the Government's major federal program.

Management's Responsibility

The Government's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Government's compliance for each of the Government's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Village of North Baltimore complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The Government's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our audit, we considered the Government's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Government's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in red ink, appearing to read "E. J. Green and Company".

VILLAGE OF NORTH BALTIMORE
WOOD COUNTY, OHIO

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505

December 31, 2012

Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant control deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant internal control deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA #10.781 Water and Wastewater Disposal System for Rural Communities - includes ARRA
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

VILLAGE OF NORTH BALTIMORE
WOOD COUNTY, OHIO

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

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

FINDING NUMBER 2012-001

Material Weakness/Noncompliance Citation:

Ohio Revised Code Section 5705.41(B) states that no money is to be expended unless it has been appropriated. Contrary to Ohio law, budgetary expenditures exceeded appropriation authority for the year ended December 31, 2012 by \$442,663 in the Wastewater Capital Improvement Reserve Fund

Having expenditures in excess of appropriations, the Village is unlawfully spending monies that have not been previously appropriated by Council. Expending in excess of appropriations could cause overspending and deficit fund balances.

We recommend the Village more closely monitor its budget in relation to expenditures compared to appropriations. We also recommend the Village review the Ohio Revised Code and Auditor of State Bulletin 97-010 in order to lawfully make expenditures. In addition, we recommend that the Village adopt internal controls to mitigate the risk of future noncompliance with the Ohio Revised Code and Auditor of State Bulletins.

Village's Response: The Village understands this finding and will take measures to correct in the future.

SCHEDULE OF FINDINGS – (CONTINUED)
DECEMBER 31, 2012

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

FINDING NUMBER 2012-002

Material Weakness:

Ohio Administrative Code Sections 117-2-03 states that pursuant to Section 117.38 of the Ohio Revised Code, all public offices must file an annual report. We found that the annual report filed with the Auditor of State was not accurately prepared and contained significant misstatements. Numerous journal entries were prepared in order to properly reflect the financial activity of the Village in the accounting records as well as on the financial statements. The cash reports filed by the village were not substantially complete financial statements for 2012. The Village should have procedures in place to help assure the proper recording of financial activity in the accounting records and financial statements to assist in the effective management and reporting of financial resources.

The following material errors were noted in the recording of the Village's transactions for 2012:

- A \$30,378 entry was made to properly account for payments on loans (reclassifying from Redemption of Principal to Interest and Other Fiscal Charges).
- A \$29,679 entry was made to record a draw on OPWC loan paid directly to the contractor (not recorded at all by the Village).
- A \$15,370 entry was made to record proceeds from OPWC Grant paid directly to the contractor (not recorded at all by the Village).
- A \$60,618 entry was made to properly account for OWDA Loan Payoff paid directly by OPWC Grant (not recorded at all by the Village).
- \$42,012 in entries were made to properly account for capitalized interest on OWDA Loans (not recorded at all by the Village).
- A \$190,212 entry was made to properly account for draws on loans posted as Grant Income by the Village.

In addition, it was found when reconciling fund balances to cash accounts, that the Village does not reconcile their bank balances to the books. We recommend that procedures be implemented to balance all accounts and reconcile these to the fund balances on a monthly basis.

The failure to correctly record receipts and disbursements may not only impact the users' understanding of the financial operations, it may also inhibit the Village Council and management's ability to make sound financial decisions as a result of erroneous records, may conceal illegal transactions, may impact the Village's ability to comply with budgetary laws, and may result in the material misstatement of the financial statements. The accounting records and accompanying financial statements have been adjusted to correctly reflect this financial activity. The Village Finance Officer should review the Ohio Village Manual, and the Auditor of State Audit Bulletins 2000-008 and 2002-004 for guidance in the recording of financial activity. The Village's Finance Officer and Council Members should also perform a periodic review of the financial records and financial statements to help identify financial recording errors.

Village's Response: The Village will modify their practice and closely monitor to achieve checks and balances.

SCHEDULE OF FINDINGS – (CONTINUED)
DECEMBER 31, 2012

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

FINDING NUMBER 2012-003

Material Weakness/Noncompliance Citation:

Ohio Revised Code § 5705.41(D) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

Should this requirement not be met, the section provides two exceptions, which could prevent the contract from being void:

- A. Concerning contracts where the amount in question is \$3,000 or greater, the fiscal officer should present to the taxing authority of the subdivision or taxing unit a certificate stating that, at both the time the contract was made and at the time of the issuance of said certificate, a sufficient sum had been appropriated and was in the treasury or in the process of being collected and that money was free from any encumbrances. Within thirty days from the receipt of the certificate, the legislative authority may authorize a warrant for the payment of the amount due.
- B. Concerning amounts less than \$3,000, the fiscal officer must issue a certificate stating the same as in the first exception. However, the fiscal officer does not need to seek the approval of the legislative authority in order to authorize the payment of the contract.

We found that in our sample of disbursements, purchase orders are being issued but many are issued after the invoice date. All of these exceptions noted could have been averted if the “then and now” certificate was utilized. We recommend that the Finance Officer review this Revised Code Section and properly certify expenditures.

Village’s Response: The Village will implement a policy to address and correct this issue.

VILLAGE OF NORTH BALTIMORE
WOOD COUNTY, OHIO

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Expenditures in excess of appropriations	No	Repeat as Comment 2012-001
2011-002	Reduced amended certificate of estimated resources	Yes	
2011-003	Financial Reports filed by the Village were not substantially complete	No	Repeat as Comment 2012-002
2011-004	Fiscal Officer must certify all expenditures prior to any contract or order	No	Repeat as Comment 2012-003
2011-005	Appropriations exceeding total estimated resources	Yes	



Dave Yost • Auditor of State

VILLAGE OF NORTH BALTIMORE

WOOD 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
DECEMBER 31, 2013**