



Dave Yost • Auditor of State

VILLAGE OF VERONA
PREBLE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Village of Verona, Preble County, Ohio, (the Village) as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Basis for Additional Qualified Opinion on Verona Fire Department Account

The Verona Fire Association's Verona Fire Department account had revenues and disbursements totaling \$24,483 and \$17,039 respectively in 2013 and \$10,492 and \$9,583 respectively in 2012. We were unable to obtain sufficient appropriate audit evidence supporting the amounts documented in the Verona Fire Department account bank statements. Consequently, we were unable to determine whether this activity should be posted to the Village's accounting system and to the accompanying financial statements.

Additional Opinion Qualified on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of Verona, Preble County, Ohio as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

August 29, 2014

**VILLAGE OF VERONA
PREBLE COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$25,546	\$34,278	\$59,824
Intergovernmental	31,086	210,502	241,588
Charges for Services		64,844	64,844
Fines, Licenses and Permits	1,435		1,435
Earnings on Investments	393		393
Miscellaneous	6,177	15,023	21,200
Total Cash Receipts	64,637	324,647	389,284
Cash Disbursements:			
Current:			
Community Environment	1,156		1,156
General Government	32,756	87,958	120,714
Capital Outlay		181,657	181,657
Debt Service:			
Principal Retirement		5,535	5,535
Total Cash Disbursements	33,912	275,150	309,062
Excess of Receipts Over (Under) Disbursements	30,725	49,497	80,222
Other Financing Receipts (Disbursements):			
Transfers In		91	91
Transfers Out	(259)		(259)
Total Other Financing Receipts (Disbursements)	(259)	91	(168)
Net Change in Fund Cash Balances	30,466	49,588	80,054
Fund Cash Balances, January 1	29,518	179,557	209,075
Fund Cash Balances, December 31:			
Restricted		229,145	229,145
Unassigned (Deficit)	59,984		59,984
Fund Cash Balances, December 31	\$59,984	\$229,145	\$289,129

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

VILLAGE OF VERONA
PREBLE COUNTY

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

Operating Cash Receipts:	
Charges for Services	\$491,822
Miscellaneous	7,827
Total Operating Cash Receipts	<u>499,649</u>
Operating Cash Disbursements:	
Personal Services	45,564
Contractual Services	266,527
Supplies and Materials	10,077
Other	2,833
Total Operating Cash Disbursements	<u>325,001</u>
Operating Income (Loss)	<u>174,648</u>
Non-Operating Receipts (Disbursements):	
Intergovernmental	51,520
Capital Outlay	(57,408)
Principal Retirement	(57,300)
Interest and Other Fiscal Charges	(71,631)
Total Non-Operating Receipts (Disbursements)	<u>(134,819)</u>
Income (Loss) before Transfers	39,829
Transfers In	100,501
Transfers Out	<u>(100,333)</u>
Net Change in Fund Cash Balances	39,997
Fund Cash Balances, January 1	<u>297,557</u>
Fund Cash Balances, December 31	<u><u>\$337,554</u></u>

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

**VILLAGE OF VERONA
PREBLE COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$26,429	\$36,001	\$62,430
Intergovernmental	59,410	177,860	237,270
Charges for Services		48,098	48,098
Fines, Licenses and Permits	1,370	80	1,450
Earnings on Investments	381		381
Miscellaneous	1,812	4,027	5,839
Total Cash Receipts	<u>89,402</u>	<u>266,066</u>	<u>355,468</u>
Cash Disbursements:			
Current:			
Public Health Services	92		92
Community Environment	1,218		1,218
General Government	68,528	84,041	152,569
Capital Outlay		153,495	153,495
Debt Service:			
Principal Retirement		3,690	3,690
Total Cash Disbursements	<u>69,838</u>	<u>241,226</u>	<u>311,064</u>
Excess of Receipts Over (Under) Disbursements	<u>19,564</u>	<u>24,840</u>	<u>44,404</u>
Other Financing Receipts (Disbursements):			
Transfers In		3,145	3,145
Transfers Out	(3,207)		(3,207)
Total Other Financing Receipts (Disbursements)	<u>(3,207)</u>	<u>3,145</u>	<u>(62)</u>
Net Change in Fund Cash Balances	16,357	27,985	44,342
Fund Cash Balances, January 1	<u>13,161</u>	<u>151,572</u>	<u>164,733</u>
Fund Cash Balances, December 31:			
Restricted		179,557	179,557
Unassigned (Deficit)	29,518		29,518
Fund Cash Balances, December 31	<u>\$29,518</u>	<u>\$179,557</u>	<u>\$209,075</u>

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

VILLAGE OF VERONA
PREBLE COUNTY

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

Operating Cash Receipts:	
Charges for Services	\$516,158
Miscellaneous	5,570
Total Operating Cash Receipts	<u>521,728</u>
Operating Cash Disbursements:	
Personal Services	45,640
Contractual Services	283,231
Supplies and Materials	9,974
Other	2,532
Total Operating Cash Disbursements	<u>341,377</u>
Operating Income (Loss)	<u>180,351</u>
Non-Operating Receipts (Disbursements):	
Capital Outlay	(6,417)
Principal Retirement	(56,500)
Interest and Other Fiscal Charges	(72,443)
Total Non-Operating Receipts (Disbursements)	<u>(135,360)</u>
Income (Loss) before Transfers	44,991
Transfers In	122,679
Transfers Out	<u>(122,617)</u>
Net Change in Fund Cash Balances	45,053
Fund Cash Balances, January 1	<u>252,504</u>
Fund Cash Balances, December 31	<u><u>\$297,557</u></u>

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

**VILLAGE OF VERONA
PREBLE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Verona, Preble County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water, sewer, refuse, and gas utilities, park operations, fire and police services.

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

B. Accounting Basis

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

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

C. Deposits and Investments

The Village's 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.

Investments in STAR Ohio are recorded at share values that STAR Ohio reports.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

Fire Fund – This fund receives fire levy money and contract monies for providing fire protection services.

VILLAGE OF VERONA
PREBLE COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

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

Gas Fund - This fund receives charges for services from residents to cover gas service costs.

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 object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. 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 approve estimated resources.

3. Encumbrances

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

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

F. Fund Balance

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

1. Non-spendable

The Village classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact. The Village did not have any non-spendable fund balance.

VILLAGE OF VERONA
PREBLE COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. **Restricted**

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

3. **Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements. The Village did not have any committed fund balance.

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. The Village did not have any assigned fund balance.

5. **Unassigned**

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

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

G. Property, Plant, and Equipment

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

2. EQUITY IN POOLED DEPOSITS 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:

**VILLAGE OF VERONA
PREBLE COUNTY**

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS (Continued)

	2013	2012
Demand deposits	\$537,579	\$419,536
Total deposits	537,579	419,536
STAR Ohio	89,104	87,096
Total investments	89,104	87,096
Total deposits and investments	<u>\$626,683</u>	<u>\$506,632</u>

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

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

3. BUDGETARY ACTIVITY

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

2013 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$64,875	\$64,637	(\$238)
Special Revenue	354,175	324,738	(29,437)
Enterprise	716,583	651,670	(64,913)
Total	<u>\$1,135,633</u>	<u>\$1,041,045</u>	<u>(\$94,588)</u>

2013 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$34,000	\$34,171	(\$171)
Special Revenue	288,810	275,150	13,660
Enterprise	550,850	611,673	(60,823)
Total	<u>\$873,660</u>	<u>\$920,994</u>	<u>(\$47,334)</u>

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$118,000	\$89,402	(\$28,598)
Special Revenue	172,100	269,211	97,111
Enterprise	662,300	644,407	(17,893)
Total	<u>\$952,400</u>	<u>\$1,003,020</u>	<u>\$50,620</u>

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$62,350	\$73,045	(\$10,695)
Special Revenue	127,500	241,226	(113,726)
Enterprise	513,120	599,354	(86,234)
Total	<u>\$702,970</u>	<u>\$913,625</u>	<u>(\$210,655)</u>

**VILLAGE OF VERONA
PREBLE COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the following funds for the year ended December 31, 2013: General Fund \$171 and Sewer Fund \$91,335.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the following funds for the year ended December 31, 2012: General Fund \$10,695; Street Fund \$127,208; Police Fund \$299; Sewer Fund \$73,769; Gas Fund \$3,442; and Sewer Reserve Fund \$23,632.

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.

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

5. DEBT

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan CK008	\$200,728	0.000%
Ohio Public Works Commission Loan CK14G	213,990	0.000%
Sewer System Mortgage Revenue Bonds, Series 2008A	1,145,700	4.625%
Sewer System Mortgage Revenue Bonds, Series 2008B	411,700	4.375%
Yard Card Loan	7,379	0.000%
Total	\$1,979,497	

The Ohio Public Works Commission (OPWC) loan #CK008 was obtained in 2000 in the amount of \$472,300 for water system replacement and improvement. The loan will be repaid in semi-annual installments of \$11,808 over twenty years. The loan is collateralized by water receipts. The Village has agreed to set water rates sufficient to cover bond payment requirements.

The Ohio Public Works Commission (OPWC) loan #CK14G was obtained in 2007 in the amount of \$305,700 for wastewater treatment and collection system. The loan will be repaid in semi-annual installments of \$7,643 over twenty years. The loan is collateralized by sewer receipts. The Village has agreed to set sewer rates sufficient to cover bond payment requirements.

The Sewer System Mortgage Revenue Bonds, Series 2008A and 2008B, were issued in 2008 in the amount of \$1,212,000 and \$437,000, respectively for the purpose of refunding the Temporary Sewer System Mortgage Revenue Bonds used to pay the cost of acquiring, constructing and installing improvements necessary for the construction of a municipal sewer system. The bonds bear interest payable and principal payable semi-annually on May 1 and November 1 (initially November 1, 2008). The bonds have a final maturity date of May 1, 2048. The bonds are secured by an indenture of mortgage upon all property of the Village which constitutes its municipal sewer system.

**VILLAGE OF VERONA
PREBLE COUNTY**

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

5. DEBT (Continued)

The Yard Card Plus loan in the amount of \$16,640 was obtained in 2012 for the purchase of lawn equipment. The loan will be repaid in equal payments of \$461 for 3 years.

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

<u>Year ending December 31:</u>	<u>OPWC CK14G</u>	<u>OPWC CK008</u>	<u>Mortgage Revenue Bond A</u>	<u>Mortgage Revenue Bond B</u>	<u>Yard Card Plus</u>
2014	\$7,643	\$11,803	\$66,728	\$23,154	\$5,535
2015	15,285	23,615	66,776	23,322	1,844
2016	15,285	23,615	66,935	23,226	
2017	15,285	23,615	66,779	23,224	
2018	15,285	23,615	66,829	23,259	
2019-2023	76,425	94,465	333,959	116,224	
2024-2028	68,782		334,135	116,207	
2029-2033			334,019	116,224	
2034-2038			333,940	116,188	
2039-2043			333,927	116,129	
2044-2048			300,501	104,579	
Total	<u>\$213,990</u>	<u>\$200,728</u>	<u>\$2,304,528</u>	<u>\$801,736</u>	<u>\$7,379</u>

In addition to the debt described above, the Village has defeased certain debt issues from prior years.

6. RETIREMENT SYSTEMS

A. Ohio Public Employee Retirement System

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

B. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the OPERS have an option to choose Social Security. As of December 31, 2011, 23 employees of the Village have elected Social Security. The employees' liability is 6.2 percent of wages paid.

VILLAGE OF VERONA
PREBLE COUNTY

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

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

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Dave Yost • Auditor of State

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

Village of Verona
Preble County
PO Box 676
100 West Main Street
Verona, Ohio 45378

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 Verona, Preble County, Ohio, (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated August 29, 2014 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also qualified our opinion because we were unable to obtain sufficient appropriate audit evidence supporting the amounts documented in the Verona Fire Department account bank statements.

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 2013-001 through 2013-003 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-005 and 2013-006 described in the accompanying schedule of findings significant deficiencies.

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Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-004, 2013-005 and 2013-007.

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

August 29, 2014

**VILLAGE OF VERONA
PREBLE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and perform analytical procedures to determine the reasonableness of financial data.

The Village lacks management oversight in the posting of financial activity as illustrated by the following errors:

- In 2012 property tax deductions of \$3,692 (General Fund), \$510 (Street Fund), and \$537 (Fire Fund) were posted as negative receipts in the various funds rather than as expenditures.
- In 2013 property tax deductions of \$1,792 (General Fund), \$465 (Street Fund), and \$486 (Fire Fund) were posted as negative receipts in the various funds rather than as expenditures.
- Local government distributions of \$25,576 in 2012 and 19,639 in 2013 were posted to General Fund Local Taxes rather than General Fund Intergovernmental Revenue.
- Cigarette Tax of \$38 in 2012 and 2013 were posted to Special Assessments rather than General Fund Intergovernmental Revenue.
- Liquor Tax of \$220 in 2012 and 2013 were posted to Special Assessments rather than General Fund Intergovernmental Revenue.
- A property tax rollback receipt in 2013 was posted entirely to the General Fund. \$363 should have been posted to Street Fund Intergovernmental Revenue and \$379 should have been posted to Fire Fund Intergovernmental Revenue.
- In 2012 a General Fund grant totaling \$28,617 received from the Montgomery County Auditor was posted to Miscellaneous Revenue rather than Intergovernmental Revenue.
- In 2013 Estate Tax Revenue of \$6,085 was posted to General Fund Miscellaneous Revenue rather than General Fund Intergovernmental Revenue.
- Gasoline excise taxes of \$11,081 in 2012 and \$11,394 in 2013 were posted to Street Fund Local Taxes rather than Street Fund Intergovernmental Revenue.
- License tax of \$3,618 in 2012 and \$3,174 in 2013 were posted to Street Fund Local Taxes rather than Street Fund Intergovernmental Revenue.
- State and local highway distributions of \$5,680 in 2012 and \$5,768 in 2013 were posted to Street Fund Local Taxes rather than Street Fund Intergovernmental Revenue.
- Permissive taxes of \$2,352 in 2012 and \$5,793 in 2013 were posted to Street Fund Local Taxes rather than Intergovernmental Revenue.
- Motor vehicle taxes of \$104 in 2012 and \$100 in 2013 were posted to Street Fund Local Taxes rather than Intergovernmental Revenue.
- A Street Fund grant receipt from Montgomery County and Ohio Public Works Commission grant receipts totaling \$55,440 in 2012 and \$177,282 in 2013 were posted to miscellaneous revenue instead of intergovernmental revenue.
- In 2012 on behalf payments from Ohio Public Works Commission totaling \$92,579 were included on the Village's ledgers in the Street Fund but were not included on the annual financial report. Street Fund intergovernmental revenue and capital outlay were understated.
- In 2012 assessments for unpaid utility bills of \$3,787 (Water Fund), \$11,584 (Sewer Fund), \$2,408 (Refuse Fund), and \$6,092 (Gas Fund) were posted to Taxes rather than Charges for Services. The deductions were posted as negative receipts rather than as expenditures. Also in 2012, gas utility assessments in the amount of \$288 were posted to the Sewer Fund Tax Revenue instead of Gas Fund charges for Services.

FINDING NUMBER 2013-001
(Continued)

- In 2013 assessments for unpaid utility bills of \$1,695 (Water Fund), \$5,697 (Sewer Fund), \$1,158 (Refuse Fund), and \$6,804 (Gas Fund) were posted to Taxes rather than Charges for Services. The deductions were posted as negative receipts rather than as expenditures.
- In 2013 a Water Fund grant totaling \$51,520 received from the Montgomery County Auditor was posted to Miscellaneous Revenue rather than Intergovernmental Revenue.
- In 2012 debt was posted to Capital Outlay in the amount of \$90,042 instead of Debt Principal (\$17,600) and Debt Interest (\$72,422) in the Sewer Sinking Fund.
- In 2012 OPWC debt payments were posted to Capital Outlay and Loan Repay in the amount of \$23,615 instead of Principal Retirement in the Water Fund.
- In 2012 OPWC debt payments were posted to Capital Outlay and Loan Repay in the amount of \$15,285 instead of Principal Retirement in the Sewer Fund.

Adjustments were posted to the financial statements and Village ledgers, where appropriate, to correct the above errors.

The lack of proper management oversight could result in material misstatements relating to financial data. To improve record keeping and accountability of receipts and expenditures we recommend that all activity be properly posted. For guidance, the Village should utilize the Village Officer's Handbook available at www.auditor.state.oh.us/publications.

Officials' Response: Officials did not respond to this finding.

FINDING NUMBER 2013-002

Material Weakness

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and perform analytical procedures to determine the reasonableness of financial data.

The Village lacks management oversight in the completion of the annual financial reports as illustrated by the following errors:

- The 2012 annual financial report was not completed properly. Enterprise Funds were included with Governmental Funds and also included with Proprietary Funds on the Annual Financial Report. Funds were grouped together in clusters on the combined statement instead of being listed separately on combining statements. Combining statements were not presented for audit. The report was not mathematically correct.
- The 2013 annual financial report was not completed properly. Enterprise Funds were included with Governmental Funds and also included with Proprietary Funds on the Annual Financial Report. Funds were grouped together in clusters on the combined statement instead of being listed separately on combining statements. Combining statements were not presented with the Annual Financial Report. However, they were presented for audit.
- In 2012 Sewer Fund Transfers-In were understated by \$9,542 and Transfers-Out were understated by \$1,893. In the Sewer Reserve Fund Transfers-In were understated by \$2,358 and Transfers-Out were understated by \$23,731.
- In 2012 and 2013 travel reimbursement expenditures were posted to Transportation instead of General Government in the Governmental Funds and Travel instead of Other Disbursements in the Enterprise Funds as follows: 2012 General Fund \$596, 2012 Street Fund \$31, Fire Fund \$681, 2012 Water Fund \$385, 2012 Sewer Fund \$385, 2012 Gas Fund \$385, 2013 General Fund \$111, 2013 Street Fund \$88, 2013 Water Fund \$385, 2013 Sewer Fund \$384, and 2013 Gas Fund \$384.

FINDING NUMBER 2013-002
(Continued)

- In 2012 the Village created a line item titled Special Revenue. The expenditures posted to the line item titled Special Revenue should have been posted to General Government as follows: General Fund \$17,538 and 2012 Fire Fund \$1,237,
- In 2012 and 2013 the Village created a line item titled Bounced Checks. The expenditures posted to the line item titled Bounced Checks should have been posted as negative Charges for Services receipts as follows: 2012 Water Fund \$1,420, 2012 Sewer Fund \$1,337, 2012 Refuse Fund \$145, 2012 Gas Fund \$2,369, 2013 Water Fund \$410, 2013 Sewer Fund \$222 2013 Refuse Fund \$54, and 2013 Gas Fund \$68.
- The expense for natural gas was posted to Supplies and Materials in 2012 and 2013 instead of Contractual Services in the amounts of \$96,210 and \$79,785 respectively in the Gas Fund.
- We also noted that the Cash Receipt and Disbursement spreadsheets used to compile the annual reports did not always agree to the Fund Balance spreadsheets. The Fund Balance report agreed to the bank reconciliation. Due to the variances between the reports the following adjustments were required to be made to the recalculated balances: Increase in General Fund General Government expenditures which resulted in a decrease to the General Fund's fund balance of \$3,733; increase in Street Fund Miscellaneous Revenue which resulted in an increase to Street Fund's fund balance of \$3,787; and an increase to Fire Fund miscellaneous Revenue which resulted in an increase to Fire Fund's fund balance of \$239.

Adjustments were posted to the financial statements and Village ledgers, where appropriate, to correct the above errors.

The lack of proper management oversight could result in material misstatements relating to financial data. To improve record keeping and accountability of receipts and expenditures we recommend that all activity be properly posted. All manual reports should be reconciled to ensure accuracy and completeness. For guidance, the Village should utilize the Village Officer's Handbook available at www.auditor.state.oh.us/publications.

Officials' Response: Officials did not respond to this finding.

FINDING NUMBER 2013-003

Material Weakness

The Verona Fire Department set up a bank account separate from the Village using the Village's tax identification number, in which they deposit fundraising money and donations. The account had receipts of \$10,492 in 2012 and \$24,483 in 2013. The expenditures were \$9,583 in 2012 and \$17,039 in 2013. The Village did not recognize any of this activity on their financial statements. We were unable to obtain sufficient appropriate audit evidence supporting the Verona Fire Department account bank statements. We recommend the Village recognize the activity of the Verona Fire Department on the Village financial statements or ensure the Verona Fire Association refrain from using an account opened with the Village's tax identification number.

Officials' Response: Officials did not respond to this finding.

FINDING NUMBER 2013-004

Noncompliance Citation

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from 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** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line 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 Village did not properly utilize purchase orders during the audit period. Although purchase orders were used for expenditures, the purchase orders were not line item or even fund specific. We noted instances in which one expenditure, paid from multiple funds, was paid against one purchase order. Failure to properly utilize the encumbrance method of accounting may result in overspending funds and negative cash fund balances. Effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying the availability of funds on properly approved purchase orders. We recommend the Village obtain approved purchase orders, which contain the Fiscal Officer's certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

Officials' Response: Officials did not respond to this finding.

FINDING NUMBER 2013-005

Noncompliance Citation / Significant Deficiency

Ohio Admin. Code § 117-2-02(D) states that all local public offices may maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- (2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- (3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, uncommitted balance of appropriations and any other information required may be entered in the appropriate columns.
- (4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - (a) Payroll records including:
 - (i) W-2's, W-4's and other withholding records and authorizations.
 - (ii) Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments.
 - (iii) Check register that includes, in numerical sequence, the check number, payee, net amount, and the date.

The appropriation journal maintained by the Village did not contain purchase order information, encumbered amounts, and the unencumbered balances.

The payroll journal maintained by the Village did not contain dates, hours worked, wage rates, check information, and accounts charged.

Failure to maintain adequate accounting and payroll records can result in an inability to properly monitor village activity. We recommend the Village maintain the accounting and payroll records described above.

Officials' Response: Officials did not respond to this finding.

FINDING NUMBER 2013-006

Significant Deficiency

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village Board of Public Affairs did not consistently approve utility adjustments. Failure to maintain documentation supporting adjustments posted to the utility system, failure to obtain supervisory approval and reconcile adjustments posted to those authorized, prevents the timely detection of errors, theft and fraud as was the case with the former utility clerk/fiscal officer convicted of fraud while in office.

We recommend that the Village develop specific, written procedures for requesting, posting, and approving customer account adjustments. All adjustments should be printed and signed by the Board of Public Affairs showing their approval of the adjustments at monthly meetings. We also recommend that individual adjustment forms be completed and approved for each adjustment posted to the system. The Village should maintain documentation supporting the reason for the adjustment and reflect supervisory approval prior to posting the adjustment to the utility system. Periodically, an individual independent of the adjustment process should reconcile authorized adjustments to those posted to the utility system to verify only authorized adjustments were posted to the utility system.

Officials' Response: Officials did not respond to this finding.

FINDING NUMBER 2013-007

Material Noncompliance

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated. The legal level of budgetary control for the Village is the level at which Council adopts the original appropriation measure.

Budgetary expenditures exceeded appropriations for the audit period at the fund level as follows:

Fund	Appropriations	Expenditures	Variance
2012 General Fund	\$62,350	\$73,045	(\$10,695)
2012 Street Fund	48,000	175,208	(127,208)
2012 Sewer Fund	103,905	177,674	(73,769)
2012 Police Fund	2,000	2,299	(299)
2012 Gas Fund	190,000	193,442	(3,442)
2012 Sewer Reserve Fund	100	23,732	(23,632)
2013 General Fund	34,000	34,171	(171)
2013 Sewer Fund	97,635	188,970	(91,335)

Failure to limit expenditures to appropriations may result in overspending and negative fund balances.

We recommend the Village keep track of appropriations and expenditures regularly to avoid negative fund balances. The Village should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response: Officials did not respond to this finding.

**VILLAGE OF VERONA
PREBLE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Lack of management oversight in posting financial activity	No	Not Corrected – Reissued as Finding 2013-001 and 2013-002.
2011-02	Ohio Rev. Code § 149.31 – Destruction of Records	Yes	
2011-03	Ohio Rev. Code § 5705.41(D) – Not Properly Encumbering	No	Not Corrected – Reissued as Finding 2013-004.
2011-04	Ohio Admin. Code § 117-2-02(D) – Maintaining Accounting Records	No	Not Corrected – Reissued as Finding 2013-005.
2011-05	Lack of documentation supporting utility adjustments	No	Not Corrected – Reissued as Finding 2013-006.
2011-06	Ohio Rev. Code § 5705.41(B) – Expenditures Exceeded Appropriations	No	Not Corrected – Reissued as Finding 2013-007.

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Dave Yost • Auditor of State

VILLAGE OF VERONA

PREBLE 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
OCTOBER 14, 2014