

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO**

**AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**



Dave Yost • Auditor of State

Village Council
Village of Aberdeen
99 Main Cross, P.O. Box 509
Aberdeen, Ohio 45101

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Aberdeen 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 2, 2014

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**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO**

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Bastin & Company, LLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Village of Aberdeen
Brown County
99 Main Cross, P.O. Box 509
Aberdeen, Ohio 45101

To the Members of Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Aberdeen, Brown 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 Principle

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.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Aberdeen, Brown 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.

Emphasis of Matter

As described in Notes 10 and 11, during 2014, the Village has resolved several litigation issues and executed an early optional redemption of the remaining balance of the \$2,700,000 Water System Revenue Improvement Bonds, Series 2010. In addition, the Village has sold the water system of the Village. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Bastin & Company, LLC". The signature is written in black ink on a white background.

Cincinnati, Ohio
October 27, 2014

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

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
<i>Cash Receipts:</i>			
Property and Other Local Taxes	\$ 33,141	\$ 23,672	\$ 56,813
Intergovernmental	106,010	59,685	165,695
Charges for Services	124,788	-	124,788
Licenses, Permits, and Fees	92,394	757	93,151
Municipal Income Tax	124,003	-	124,003
Earnings on Investments	105	298	403
Other Revenue	9,533	239	9,772
	<u>489,974</u>	<u>84,651</u>	<u>574,625</u>
<i>Cash Disbursements:</i>			
Current:			
General Government	82,844	-	82,844
Security of Persons and Property	236,654	14,580	251,234
Leisure Time Activities	4,723	-	4,723
Basic Utility Service	118,276	-	118,276
Transportation	-	75,893	75,893
Capital Outlay	-	4,477	4,477
Debt Service:			
Redemption of Principal	25	25	50
	<u>442,522</u>	<u>94,975</u>	<u>537,497</u>
Receipts Over (Under) Disbursements	47,452	(10,324)	37,128
Fund Cash Balances, January 1	<u>50,739</u>	<u>65,556</u>	<u>116,295</u>
Fund Cash Balances, December 31:			
Restricted	-	55,232	55,232
Unassigned	98,191	-	98,191
	<u>98,191</u>	<u>55,232</u>	<u>153,423</u>
Fund Cash Balances, December 31	<u>\$ 98,191</u>	<u>\$ 55,232</u>	<u>\$ 153,423</u>

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

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
BALANCES (CASH BASIS) - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
<i>Operating Cash Receipts:</i>			
Charges for Services	\$ 692,046	\$ -	\$ 692,046
Total Operating Cash Receipts	692,046	-	692,046
<i>Operating Cash Disbursements:</i>			
Personal Services	182,198	-	182,198
Fringe Benefits	37,736	-	37,736
Contractual Services	216,527	-	216,527
Supplies and Materials	75,828	-	75,828
Other	11,196	-	11,196
Total Operating Cash Disbursements	523,485	-	523,485
Operating Income	168,561	-	168,561
<i>Non-Operating Cash Receipts:</i>			
Federal Interest Subsidy	74,485	-	74,485
Other Non-Operating Receipts	-	86,452	86,452
Total Non-Operating Cash Receipts	74,485	86,452	160,937
<i>Non-Operating Cash Disbursements:</i>			
Redemption of Principal	142,449	-	142,449
Interest and Other Fiscal Charges	219,472	-	219,472
Capital Outlay	15,665	-	15,665
Other Non-Operating Disbursements	-	80,307	80,307
Total Non-Operating Cash Disbursements	377,586	80,307	457,893
Excess of Receipts Over Disbursements Before Transfers and Advances	(134,540)	6,145	(128,395)
Transfers-In	169,865	-	169,865
Transfers-Out	(169,865)	-	(169,865)
Net Receipts Over (Under) Disbursements	(134,540)	6,145	(128,395)
Fund Cash Balances, January 1	2,999,173	938	3,000,111
Fund Cash Balances, December 31	\$ 2,864,633	\$ 7,083	\$ 2,871,716

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

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

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
<i>Cash Receipts:</i>			
Property and Other Local Taxes	\$ 30,122	\$ 22,795	\$ 52,917
Intergovernmental	82,087	59,968	142,055
Charges for Services	131,640	-	131,640
Licenses, Permits, and Fees	105,808	297	106,105
Municipal Income Tax	113,403	-	113,403
Earnings on Investments	448	1,276	1,724
Other Revenue	2,750	2,676	5,426
	<u>466,258</u>	<u>87,012</u>	<u>553,270</u>
<i>Cash Disbursements:</i>			
Current:			
General Government	88,134	-	88,134
Security of Persons and Property	254,147	15,541	269,688
Leisure Time Activities	3,590	-	3,590
Basic Utility Service	116,050	-	116,050
Transportation	-	76,226	76,226
Capital Outlay	-	618	618
Debt Service:			
Redemption of Principal	266	266	532
Interest and Fiscal Charges	17	17	34
	<u>462,204</u>	<u>92,668</u>	<u>554,872</u>
Receipts Over (Under) Disbursements	4,054	(5,656)	(1,602)
Fund Cash Balances, January 1	<u>46,685</u>	<u>71,212</u>	<u>117,897</u>
Fund Cash Balances, December 31:			
Restricted	-	65,556	65,556
Unassigned	<u>50,739</u>	<u>-</u>	<u>50,739</u>
Fund Cash Balances, December 31	<u>\$ 50,739</u>	<u>\$ 65,556</u>	<u>\$ 116,295</u>

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

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
BALANCES (CASH BASIS) - ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Types	Fiduciary Fund Types	Totals (Memorandum Only)
	Enterprise	Agency	
<i>Operating Cash Receipts:</i>			
Charges for Services	\$ 777,167	\$ -	\$ 777,167
Total Operating Cash Receipts	<u>777,167</u>	<u>-</u>	<u>777,167</u>
<i>Operating Cash Disbursements:</i>			
Personal Services	154,996	-	154,996
Fringe Benefits	43,680	-	43,680
Contractual Services	221,407	-	221,407
Supplies and Materials	77,184	-	77,184
Other	13,802	-	13,802
Total Operating Cash Disbursements	<u>511,069</u>	<u>-</u>	<u>511,069</u>
Operating Income	<u>266,098</u>	<u>-</u>	<u>266,098</u>
<i>Non-Operating Cash Receipts:</i>			
Federal Interest Subsidy	84,678	-	84,678
Other Non-Operating Receipts	-	69,100	69,100
Total Non-Operating Cash Receipts	<u>84,678</u>	<u>69,100</u>	<u>153,778</u>
<i>Non-Operating Cash Disbursements:</i>			
Redemption of Principal	110,561	-	110,561
Interest and Other Fiscal Charges	221,875	-	221,875
Capital Outlay	63,533	-	63,533
Other Non-Operating Disbursements	-	74,699	74,699
Total Non-Operating Cash Disbursements	<u>395,969</u>	<u>74,699</u>	<u>470,668</u>
Excess of Receipts Over Disbursements Before Transfers and Advances	(45,193)	(5,599)	(50,792)
Transfers-In	118,000	-	118,000
Transfers-Out	<u>(118,000)</u>	<u>-</u>	<u>(118,000)</u>
Net Receipts Over (Under) Disbursements	(45,193)	(5,599)	(50,792)
Fund Cash Balances, January 1	<u>3,044,366</u>	<u>6,537</u>	<u>3,050,903</u>
Fund Cash Balances, December 31	<u>\$ 2,999,173</u>	<u>\$ 938</u>	<u>\$ 3,000,111</u>

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

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
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 Aberdeen, Brown County, Ohio (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, street maintenance and police protection.

The Village participates in Public Entities Pool of Ohio (PEP), a public entity risk-sharing pool. Note 9 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

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

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

C. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(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:

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

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

2010 Revenue Bond Series A - This fund maintains proceeds from the \$2,700,000 Water System Revenue Improvement Bonds, Series 2010.

4. Fiduciary Fund (Agency Fund)

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 had the following Fiduciary Fund:

Mayor's Court - This fund receives fines and forfeitures collected by Mayor's Court which are distributed to various agencies as prescribed by the Ohio Revised Code.

D. 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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

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

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

E. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

F. 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.

G. 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

Funds on deposit in trust accounts related to Water System Revenue Improvement Bonds, Series 2010, are restricted to specific uses by bond covenants. For all other funds, the Village maintains a deposit pool that all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	2013	2012
Demand deposits	\$ 86,309	\$ 48,820
Money Market Deposit Accounts	228,447	376,237
Deposits in bond trust accounts	2,710,383	2,691,349
Total deposits	\$3,025,139	\$3,116,406

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

3. BUDGETARY ACTIVITY

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

Fund Type	2013 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 450,425	\$ 489,974	\$ 39,549
Special Revenue	78,262	84,651	6,389
Enterprise	949,180	936,396	(12,784)
Total	\$ 1,477,867	\$ 1,511,021	\$ 33,154

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

2013 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 445,600	\$ 442,522	\$ 3,078
Special Revenue	96,976	94,975	2,001
Enterprise	3,793,913	1,070,936	2,722,977
Total	\$ 4,336,489	\$ 1,608,433	\$ 2,728,056

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 461,000	\$ 466,258	\$ 5,258
Special Revenue	93,007	87,012	(5,995)
Enterprise	1,006,495	979,845	(26,650)
Total	\$ 1,560,502	\$ 1,533,115	\$ (27,387)

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 480,572	\$ 462,204	\$ 18,368
Special Revenue	115,646	92,668	22,978
Enterprise	3,833,252	1,025,038	2,808,214
Total	\$ 4,429,470	\$ 1,579,910	\$ 2,849,560

4. COMPLIANCE

Contrary to Ohio Revised Code Section 5705.41(D), the availability of funds was not properly certified prior to the time of commitment for various expenditures.

Contrary to Section 3.06 of the Trust Indenture for the \$2,700,000 Water System Revenue Improvement Bonds, Series 2010, the Village did not meet revenue covenants for 2013 or 2012 that require net operating revenues of the water system to exceed 120% of debt service amounts. In addition, Section 4.01 of the Trust Indenture states that the Village covenants it will promptly construct the intended improvements within a reasonable time after the issuance of the Series 2010 Bonds.

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

5. 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.

6. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

7. DEBT

Debt outstanding at December 31, 2013 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #3306	\$ 507,865	2.20%
Ohio Public Works Commission Loan	110,315	0.00%
Ohio Water Development Authority Loan 2007 #4804	660,226	2.86%
Water System Revenue Improvement Bonds, Series 2010	<u>2,670,000</u>	2.40-8.00%
Total	<u>\$ 3,948,406</u>	

During 2000, the Village obtained an Ohio Water Development Authority (OWDA) loan for a sewer plant expansion project. This loan will be repaid in semi-annual installments of \$36,913, including interest. The loan is collateralized by sewer receipts.

During 2001, the Village obtained an Ohio Public Works Commission (OPWC) loan for a sewer plant expansion project. This loan will be repaid in semi-annual installments of \$6,895. The loan is collateralized by sewer receipts.

During 2007, the Village obtained an Ohio Water Development Authority (OWDA) loan for \$863,740 for installing water meters. As of December 31, 2013, \$851,179 of the loan had been disbursed on behalf of the Village by OWDA. Until the project is finalized, the loan requires semiannual installments of \$28,505, including interest, over 20 years.

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

On December 30, 2010 the Village issued \$2,700,000 of Water System Revenue Improvement Bonds, Series 2010, for the purpose of constructing improvements to its water system, including acquisition, construction and installation of a new water treatment plant. The bonds were issued as \$2,500,000 Water System Revenue Improvement Bonds, Series 2010A, and \$200,000 of Water System Revenue Improvement Bonds, Series 2010B.

The Series 2010A Bonds will mature on December 1 in various amounts ranging from \$25,000 in 2013 to \$195,000 in 2040. The Series 2010A Bonds carry interest at rates varying from 6.00 percent to 8.00 percent per annum, payable semi-annually on June 1 and December 1. The Series 2010A Bonds are Recovery Zone Economic Development Bonds subject to a Federal subsidy that reimburses the Village 45 percent of interest payable on the Bonds.

The Series 2010B Bonds will mature on December 1 in various amounts ranging from \$5,000 in 2013 to \$15,000 in 2040. The Series 2010B Bonds carry interest at rates varying from 2.40 percent to 5.25 percent per annum, payable semi-annually on June 1 and December 1.

Amortization of the above debt, including interest, is scheduled below. Amounts for the Water System Revenue Improvement Bonds, Series 2010, are presented net of the 45% federal interest subsidy.

Year ending December 31:	Ohio Water Development Authority Loan #3306	Ohio Public Works Commission Loan	Ohio Water Development Authority Loan 2007 #4804	Water System Revenue Improvement Bonds, Series 2010	Total
2014	\$ 73,826	\$ 13,790	\$ 57,010	\$ 141,262	\$ 285,888
2015	73,826	13,790	57,010	140,144	284,770
2016	73,826	13,790	57,010	139,019	283,645
2017	73,826	13,790	57,010	142,879	287,505
2018	73,826	13,790	57,010	146,562	291,188
2019-2023	184,566	41,365	285,050	816,231	1,327,212
2024-2028	-	-	256,535	813,191	1,069,726
2029-2033	-	-	-	887,716	887,716
2034-2038	-	-	-	976,508	976,508
2039-2042	-	-	-	427,180	427,180
Total	<u>\$ 553,696</u>	<u>\$ 110,315</u>	<u>\$ 826,635</u>	<u>\$ 4,630,692</u>	<u>\$ 6,121,338</u>

Section 3.06 of the Trust Indenture for the \$2,700,000 Water System Revenue Improvement Bonds, Series 2010, legislation provides that the Village will charge rates and restrict operating and maintenance expenses as shall result in net revenues of the water system to equal not less than 120 percent of the highest remaining annual amount of principal and interest requirement on the bonds (coverage ratio).

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

For the years ended December 31, 2013 and 2012 the water system's coverage ratio is as follows:

	<u>2013</u>	<u>2012</u>
Operating cash receipts	\$ 375,076	\$ 437,874
Operating cash disbursements	<u>(259,989)</u>	<u>(216,470)</u>
Net pledged revenues	<u>\$115,087</u>	<u>\$221,404</u>
Highest remaining annual debt service	<u>\$276,788</u>	<u>\$276,788</u>
Actual coverage ratio	<u>41.6%</u>	<u>80.0%</u>
Required coverage ratio	<u>120%</u>	<u>120%</u>

For 2013 and 2012, the net revenues of the water system were not sufficient to meet the required bond coverage ratio of 120%.

8. RETIREMENT MANAGEMENT

The Village's full-time Police Officers belong to the Ohio Police and Fire Pension Funds (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, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For January 2012 through June 2013, OP&F participants contributed 10 percent of their gross wages. For July 2013 through December 2013, OP&F participants contributed 10.75 percent of their gross wages. The Village contributed an amount equal to 19.5 percent of police members' wages. For 2013 and 2012, OPERS members contributed 10 percent of their gross wages and the Village contributed an amount equal to 14 percent of participants' gross wages. The Village has paid all contributions required through December 31, 2013.

9. RISK POOL MANAGEMENT

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

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

The 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2013, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

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 net position at December 31, 2012 and 2013 (the latest information available):

	2012	2013
Assets	\$34,389,569	\$34,411,883
Liabilities	(14,208,353)	(12,760,194)
Net Assets	\$20,181,216	\$21,651,689

At December 31, 2012 and 2013, respectively, the liabilities above include approximately \$13.1 million and \$11.6 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$11.1 million of unpaid claims to be billed to approximately 475 member governments in the future, as of December 31, 2012 and 2013, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, the Government's share of these unpaid claims collectible in future years is approximately \$18,000.

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

Contributions to PEP	
2013	\$25,724
2012	27,626

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

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

10. CONTINGENT LIABILITIES

During 2010, the Village issued \$2,700,000 of Water System Revenue Improvement Bonds, Series 2010, for improvements to its water system, including the acquisition, construction and installation of a new water treatment plant. Village Council suspended all work related to the project in 2012. As of December 31, 2013, the Village was a defendant in several lawsuits related to the water system and the bonds.

1. An Agreed Settlement Order dated for a December 3, 2013 judgment required the Village to pay a water plant construction contractor a minimum of \$700,000 for breach of contract, subject to certain additional charges based on the Village's timing of scheduled payments. During 2014, the Village complied with the order and made required payments totaling \$740,000, of which \$100,000 was paid from trust funds securing the \$2,700,000 of Water System Revenue Improvement Bonds, Series 2010.
2. A breach of contract complaint was filed against the Village in 2013 by a groundwater supply system contractor. During 2014, a settlement was reached with the Village making a payment of \$64,000 to the contractor from trust funds securing the \$2,700,000 of Water System Revenue Improvement Bonds, Series 2010.
3. An Amended Mediation Agreement dated January 17, 2014, between the Village and the bondholder for the \$2,700,000 of Water System Revenue Improvement Bonds, Series 2010, approved the optional early redemption of the Bonds. The Agreement required the Village to pay to the bondholder 1) amounts remaining in the bond trust accounts held by the trustee, and 2) an amount equal to 62.5 percent of any estate taxes received by the Village from the estate of an individual related to the bondholder. As of March 27, 2014, all trustee funds had been dispersed to pay fees and redeem the balance on the bonds. In addition, during September, 2014, the Village made a payment of \$387,127 to the bondholder for the estate tax portion of the agreement.

11. SUBSEQUENT EVENT - LITIGATION SETTLEMENTS AND SALE OF WATER SYSTEM AND RETIREMENT OF RELATED DEBT

Litigation

The Village has made required payments to resolve litigation matters of \$740,000 and \$64,000 concerning construction activities of the Village's water system (see Note 10).

Sale of Water System and Retirement of Related Debt

On May 7, 2014, the Village entered into a contract to sell the Village's water system to the Brown County Rural Water Association, subject to various conditions including the approval of the contract by the Village's electorate. On August 5, 2014, the electorate approved the contract.

The contract established a sales price of \$700,000 and required the Brown County Rural Water Association to pay the principal balance remaining on the Village's Ohio Water Development Authority Loan #4804 as of the date of possession.

In conjunction with the sale of the system, the Village has retired the outstanding balance of the \$2,700,000 Water System Revenue Improvement Bonds, Series 2010, through the use of bond funds maintained by the trustee and other funds of the Village (see Note 10).

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(continued)**

The disposition of trust funds during the period of January 1, 2013 through the closeout of the trust accounts is as follows:

Balance in trust accounts January 1, 2014	\$2,710,383
Additional payments made by Village, net	37,512
Stale checks returned to accounts by trustee	92
Payments made to contractor under Agreed Settlement Order dated December 3, 2013	(100,000)
Payments made to contractors under breach of contract complaint 2013	(64,000)
Payments for trustee and legal fees	(110,104)
Payments to bondholder	<u>(2,473,883)</u>
Balance in trust funds March 31, 2014	<u>\$ -</u>

Total payments of \$2,961,010 were made to the bondholder to retire the outstanding balance of \$2,670,000 for the Water System Revenue Improvement Bonds, Series 2010. These payments include \$2,473,883 from the bond trust accounts, \$100,000 paid by the Village to reimburse the bondholder for the trust account deduction for the Agreed Settlement Order dated December 3, 2013 and \$387,127 for the estate tax portion of the Amended Mediation Agreement.

Bastin & Company, LLC

Certified Public Accountants

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

Village of Aberdeen
Brown County
99 Main Cross, P.O. Box 509
Aberdeen, Ohio 45101

To the Members of 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 Aberdeen, Brown 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 October 27, 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. In addition, we noted that during 2014, the Village has resolved several litigation issues and executed an early optional redemption of the remaining balance of the \$2,700,000 Water System Revenue Improvement Bonds, Series 2010. In addition, the Village has sold the water system of the Village.

Internal Controls 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 opinions 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-01 through 2013-02 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 2013-03 through 2013-04.

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 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 "Bastin & Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
October 27, 2014

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2013 AND 2012**

FINDING NUMBER 2013-01

Material Weakness - Financial Reporting

We identified misstatements in the financial statements that were not initially identified by the Village's internal control. Numerous audit adjustments were necessary to correct errors in the Village's financial statements. In summary, the adjustments made are as follows:

- Audit adjustments for 2012 and 2013 totaling \$61,305 and \$61,588, respectively, were necessary to properly classify receipts to proper line items.
- Audit adjustments for 2012 and 2013 totaling \$33,088 and \$34,543, respectively, were necessary to properly classify expenditures to proper line items.
- Audit adjustments for 2012 and 2013 totaling \$4,510 and \$3,732 respectively, were necessary to properly record property tax receipts at gross amounts offset by recording related fees withheld from property tax settlements in the General Fund.
- Audit adjustments for 2012 and 2013 totaling \$111,161 and \$112,499 respectively, were necessary to properly record debt principal and interest payments to proper line items.

The presentation of materially correct financial statements and the related footnotes is the responsibility of management. We recommend that the Village implement control procedures that enable management to identify, prevent, detect and correct potential misstatements in the financial statements.

Village's Response

The Village will attempt to more closely monitor the recording of transactions in the future.

FINDING NUMBER 2013-02

Material Weakness - Support and Approval of Cash Withdrawals

During 2012 and 2013 the Village's police department made 36 individual cash withdrawals using an ATM card for use in undercover and related operations, totaling \$5,184.

The Village's procedures for these transactions included the completion of an "FOJ Receipt" prepared by the Police Chief that stated the purpose of the withdrawal. In addition, the transactions were to be included on a monthly listing of bills approved for payment by Village Council.

Testing of these transactions disclosed that the "FOJ Receipt" could not be provided by the Village for several of the selected transactions. In addition, a total of \$1,719 of the total amount withdrawn was omitted from the monthly listing of bills approved for payment by Village Council.

We recommend that the Village adopt internal control policies outlining the procedures for disbursement of funds and assure that if they are restricted funds, such as from the Law Enforcement Trust Fund or Drug Law Enforcement Fund, that they comply with applicable sections of the Revised Code. In addition, for each disbursement transaction there should be a receipt such as the "FOJ Receipt" completed which should be

prepared by the officer disbursing the funds and approved by the Police Chief or other supervisor. When possible, there should be documentation to a case file or court action number to support the disbursement and all documentation related to cash withdrawals should be maintained by the Police Chief to support that funds were used for a proper public purpose

Village's Response

During 2014, the Village has discontinued the use of ATM withdrawals by the police department. Documentation that could not be located for the audit may have been maintained by the former police chief, however, he is no longer with the Village and a search of available records could not locate all supporting documentation.

FINDING NUMBER 2013-03

Noncompliance - Certification of Expenditures

Ohio Revised Code, Section 5705.41(D)(1) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 availability of funds was not certified prior to the time of commitment in 23 percent of expenditures tested in 2013 and 2012, nor did the Village use the aforementioned exceptions.

We recommend that the Village implement procedures to ensure compliance with the requirements of the Ohio Revised Code.

Village's Response

The Village will attempt to ensure certifications are properly performed in the future.

FINDING NUMBER 2013-04

Noncompliance – Bond Covenants

Section 3.06 of the Trust Indenture for the \$2,700,000 Water System Revenue Improvement Bonds, Series 2010, maintains a rate covenant (coverage ratio) that requires the Village to prescribe and charge rates for the services of the water system and to restrict operation and maintenance expenses of the water system, so that the net operating revenues of the water system will equal or exceed 120% of the highest debt service requirement in any succeeding year. For the years ended December 31, 2013 and 2012, the coverage ratio equaled 41.6 and 80 percent, respectively, which is not in compliance with the 120% required by the Trust Indenture.

In addition, Section 4.01 of the Trust Indenture states that the Village covenants that it will promptly construct the intended improvements within a reasonable time after the issuance of the Series 2010 Bonds.

Village's Response

The Village resolved the issues with the bonds through the sale of the water system and the retirement of all outstanding balances on the bonds during 2014.

**VILLAGE OF ABERDEEN
BROWN COUNTY, OHIO
SCHEDULE OF PRIOR YEAR FINDINGS
DECEMBER 31, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Status Explanation
2011-01	Internal controls over Financial Reporting-audit adjustments.	No	Restated as finding 2013-01.
2011-02	Errors occurred in processing employee payroll transactions	Yes	Condition corrected.
2011-03	Expenditures exceeded appropriations noncompliance citation ORC Section 5705.41B.	Yes	Condition corrected.
2011-04	Appropriations in excess of estimated resources noncompliance citation ORC Section 5705.39.	Yes	Condition corrected.
2011-05	Certification of expenditures noncompliance citation ORC Section 5705.41(D)(1)	No	Restated as finding 2013-03
2011-06	Distributions of Mayor's Court funds noncompliance citation ORC Section 733.40	Yes	Condition corrected.
2011-07	Establishment of Income Tax accounts.	Yes	Condition corrected.
2011-08	Bond Covenants.	No	Restated as finding 2013-04



Dave Yost • Auditor of State

VILLAGE OF ABERDEEN

BROWN 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 16, 2014**