

VILLAGE OF EAST SPARTA

STARK COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2014 and 2013





Dave Yost • Auditor of State

Village Council
Village of East Sparta
9353 East Main St
East Sparta, OH 44626

We have reviewed the *Independent Auditor's Report* of the Village of East Sparta, Stark County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2013 to December 31, 2014. 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 East Sparta is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

September 14, 2015

This page intentionally left blank.

VILLAGE OF EAST SPARTA
STARK COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2014 and 2013

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1-2
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2014	3
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Proprietary Types - For the Year Ended December 31, 2014	4
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2013	5
Combined Statement of Receipts, Disbursements and Changes in Fund Cash Balances - All Proprietary Types - For the Year Ended December 31, 2013	6
Notes to the Financial Statements	7-13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	14-15
Schedule of Findings	16-17

This page intentionally left blank.

INDEPENDENT AUDITOR'S REPORT

Village of East Sparta
Stark County
9353 East Main Street
East Sparta, OH 44626

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of East Sparta, Stark County, (the Village) as of and for the years ended December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of 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 opinions.

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 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.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis permitted is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

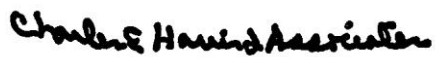
In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, 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 East Sparta, Stark County as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, 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.



Charles E. Harris & Associates, Inc.

June 26, 2015

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 91,396	\$ 41,769	\$ 133,165
Intergovernmental	24,742	62,479	87,221
Charges for Services	2,225	30,386	32,611
Fines, Licenses and Permits	14,434	-	14,434
Earnings on Investments	1,342	281	1,623
Miscellaneous	1,456	7,278	8,734
<i>Total Cash Receipts</i>	<u>135,595</u>	<u>142,193</u>	<u>277,788</u>
Cash Disbursements			
Current:			
Security of Persons and Property	59,256	282	59,538
Public Health Services	5,285	7,000	12,285
Leisure Time Activities	-	35,622	35,622
Transportation	487	51,511	51,998
General Government	82,093	1,711	83,804
Capital Outlay	379	5,640	6,019
Debt Service:			
Principal Retirement	-	7,965	7,965
Interest & Fiscal Charges	-	1,906	1,906
<i>Total Cash Disbursements</i>	<u>147,500</u>	<u>111,637</u>	<u>259,137</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(11,905)	30,556	18,651
<i>Fund Cash Balances, January 1</i>	<u>29,175</u>	<u>139,560</u>	<u>168,735</u>
Fund Cash Balances, December 31			
Restricted	-	157,706	157,706
Committed	-	12,410	12,410
Assigned	76	-	76
Unassigned	17,194	-	17,194
<i>Fund Cash Balances, December 31</i>	<u>\$ 17,270</u>	<u>\$ 170,116</u>	<u>\$ 187,386</u>

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

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Proprietary Fund Types Enterprise
Operating Cash Receipts	
Charges for Services	\$ 177,946
<i>Total Operating Cash Receipts</i>	177,946
Operating Cash Disbursements	
Personal Services	62,242
Fringe Benefits	10,141
Contractual Services	41,362
Supplies and Materials	51,669
<i>Total Operating Cash Disbursements</i>	165,414
<i>Operating Income (Loss)</i>	12,532
Non-Operating Receipts (Disbursements)	
Intergovernmental Receipts	2,204,659
Other Debt Proceeds	889,205
Miscellaneous	4,553
Capital Outlay	(2,021,093)
Principal Retirement	(854,138)
Interest and Other Fiscal Charges	(1,277)
<i>Total Non-Operating Receipts (Disbursements)</i>	221,909
<i>Net Change in Fund Cash Balance</i>	234,441
<i>Fund Cash Balances, January 1</i>	45,037
<i>Fund Cash Balances, December 31</i>	\$ 279,478

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

**VILLAGE OF EAST SPARTA
STARK COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 91,235	\$ 49,626	\$ 140,861
Intergovernmental	24,891	54,446	79,337
Charges for Services	1,725	41,159	42,884
Fines, Licenses and Permits	11,698	-	11,698
Earnings on Investments	117	32	149
Miscellaneous	2,128	11,742	13,870
<i>Total Cash Receipts</i>	<u>131,794</u>	<u>157,005</u>	<u>288,799</u>
Cash Disbursements			
Current:			
Security of Persons and Property	69,844	673	70,517
Public Health Services	4,370	12,000	16,370
Leisure Time Activities	-	52,195	52,195
Transportation	3,721	84,799	88,520
General Government	105,130	8,907	114,037
Capital Outlay	1,055	3,244	4,299
Debt Service:			
Principal Retirement	2,521	5,132	7,653
Interest & Fiscal Charges	769	1,449	2,218
<i>Total Cash Disbursements</i>	<u>187,410</u>	<u>168,399</u>	<u>355,809</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(55,616)	(11,394)	(67,010)
Other Financing Receipts (Disbursements)			
Sale of Capital Assets	5,300	-	5,300
<i>Total Other Financing Receipts (Disbursements)</i>	<u>5,300</u>	<u>-</u>	<u>5,300</u>
<i>Net Change in Fund Cash Balances</i>	(50,316)	(11,394)	(61,710)
<i>Fund Cash Balances, January 1</i>	<u>79,491</u>	<u>150,954</u>	<u>230,445</u>
Fund Cash Balances, December 31			
Restricted	-	121,841	121,841
Committed	-	17,719	17,719
Assigned	1,095	-	1,095
Unassigned	28,080	-	28,080
<i>Fund Cash Balances, December 31</i>	<u>\$ 29,175</u>	<u>\$ 139,560</u>	<u>\$ 168,735</u>

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

**VILLAGE OF EAST SPARTA
STARK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Proprietary Fund Types Enterprise
Operating Cash Receipts	
Charges for Services	\$ 171,602
<i>Total Operating Cash Receipts</i>	171,602
Operating Cash Disbursements	
Personal Services	46,778
Fringe Benefits	8,650
Contractual Services	77,349
Supplies and Materials	61,530
<i>Total Operating Cash Disbursements</i>	194,307
<i>Operating Income (Loss)</i>	(22,705)
Non-Operating Receipts (Disbursements)	
Other Debt Proceeds	464,838
Miscellaneous	6,320
Capital Outlay	(408,159)
Principal Retirement	(41,708)
Interest and Other Fiscal Charges	(1,493)
<i>Net Change in Fund Cash Balance</i>	(2,907)
<i>Fund Cash Balances, January 1</i>	47,944
<i>Fund Cash Balances, December 31</i>	\$ 45,037

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

**Village of East Sparta
Stark County
Notes to the Financial Statements
December 31, 2014 and 2013**

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 East Sparta, Stark County, (the Village) as a body corporate and politic. A publicly-elected six member Council directs the Village. The Village provides general governmental services such as water utilities, park operations (leisure time activities). The Village contracts with the East Sparta Volunteer Fire Department to provide fire protection services and with the Village of Magnolia for police services.

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program. Note 7 to the financial statement provides additional information about 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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. Council 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**Village of East Sparta
Stark County
Notes to the Financial Statements – (continued)
December 31, 2014 and 2013**

1. Summary of Significant Accounting Policies (continued)

D. Fund Accounting (continued)

2. Special Revenue Funds (continued)

Roads and Bridges Fund - This fund receives local tax monies. These monies are used to pay Village employees for work performed on Village roads and bridges.

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

Park and Recreation Fund - This fund receives leisure time activities and concession stand sales and is used to maintain the Village park.

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 Fund:

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

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried forward to the subsequent year.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

**Village of East Sparta
Stark County
Notes to the Financial Statements – (continued)
December 31, 2014 and 2013**

1. Summary of Significant Accounting Policies (continued)

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

Council can *commit* amounts via formal action (resolution or ordinance). The Village must adhere to these commitments unless the Council amends the resolution or ordinance. 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, ordinance 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 East Sparta
Stark County
Notes to the Financial Statements – (continued)
December 31, 2014 and 2013**

1. Summary of Significant Accounting Policies (continued)

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

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

	2014	2013
Demand deposits	\$402,626	\$149,567
Savings	64,238	64,205
Total deposits and investments	\$466,864	\$213,772

Deposits: Deposits are 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, 2014 and 2013 follows:

2014 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$179,916	\$147,576	\$32,340
Special Revenue	594,207	111,649	482,558
Enterprise	4,268,455	3,041,990	1,226,465

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$153,168	\$135,595	(\$17,573)
Special Revenue	454,836	142,193	(312,643)
Enterprise	4,223,419	3,276,363	(947,056)

**Village of East Sparta
Stark County
Notes to the Financial Statements – (continued)
December 31, 2014 and 2013**

3. Budgetary Activity (continued)

2013 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$224,856	\$188,505	\$36,351
Special Revenue	321,740	168,756	152,984
Enterprise	733,089	646,648	86,441

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$145,686	\$137,094	(\$8,592)
Special Revenue	171,700	157,005	(14,695)
Enterprise	690,006	642,760	(47,246)

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.

Stark 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, 2014 was as follows:

	Principal	Interest Rate
Bank of Magnolia - Truck Purchase - 2012	\$43,312	4.00%
OPWC Loan # CS08B	48,016	0.00%
OWDA - Water System Improvement - 1998	18,538	5.66%
OWDA - WTP, Storage Tank & Well Field - 2013	861,137	2.00%
Total	<u>\$971,003</u>	

OWDA WTP, Storage Tank & Well Field - 2013 had capitalized Interest of \$20,103 in 2013 and \$20,566 in 2014.

**Village of East Sparta
Stark County
Notes to the Financial Statements – (continued)
December 31, 2014 and 2013**

5. Debt (continued)

The Ohio Public Works Commission Loan (OPWC) CS08B relate to water improvements. The loan will be repaid in semi-annual installments totaling \$4,802 with no interest, over 20 years. The loan is collateralized by the Village's water receipts. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements.

The Ohio Water Development Authority (OWDA) 1998 loan relates to a water plan expansion project that was mandated by the Ohio Environmental Protection Agency. The loan will be repaid in semi-annual installments at 5.66% interest over 20 years. The loan is collateralized by the Village's water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OWDA-WTP, Storage Tank & Well Field was entered into to finance or reimburse costs associated with the design and construction of wastewater collection and treatment system. The project was started in 2014 and \$861,137 of the estimated \$1,484,118 loan amount has been drawn. This loan will be repaid in semi-annual installments over thirty years at 2% interest. The amortization schedule will be finalized when the project is completed. The loan is collateralized by the Village's water receipts.

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

Year ending December 31:	Bank of Magnolia	OPWC CS08B	OWDA 1998
2015	\$ 9,871	\$ 9,603	\$ 5,308
2016	9,871	9,603	5,308
2017	9,871	9,603	5,308
2018	9,871	9,603	5,308
2019	8,225	9,604	-
Total	<u>\$ 47,709</u>	<u>\$ 48,016</u>	<u>\$ 21,232</u>

6. Retirement Systems

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 2014 and 2013, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2014.

7. Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

**Village of East Sparta
Stark County
Notes to the Financial Statements – (continued)
December 31, 2014 and 2013**

7. Risk Pool Membership (continued)

The Pool changed its fiscal year end to March 31, effective in 2011, in order to align its financial reporting and budgeting with the renewal terms of its excess reinsurance policies.

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess-of-loss contracts in force protect the Pool against losses over the retention level; at March 31, 2014, retention levels are \$100,000 and \$175,000 for property and casualty coverages, respectively.

The Pool remains liable to the extent the reinsuring companies are unable to meet their contractual obligations under reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained surplus at March 31, 2013 and 2014:

	<u>2013</u>	<u>2014</u>
Assets	\$ 833,561	\$ 1,030,198
Liabilities	<u>(782,525)</u>	<u>(882,203)</u>
Accumulated Surplus	\$ <u>51,036</u>	\$ <u>147,995</u>

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
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 East Sparta
Stark County
9353 Main Street
East Sparta, OH 44626

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 East Sparta, Stark County (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated June 26, 2015, 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.

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 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 a certain deficiency in internal control over financial reporting that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or 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 finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2014-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 26, 2015.

Entity's Responses 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.



Charles E. Harris and Associates, Inc.

June 26, 2015

**VILLAGE OF EAST SPARTA
STARK COUNTY
SCHEDULE OF FINDINGS
December 31, 2014 and 2013**

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

Finding Number 2014-001 - Material Weakness

During 2014 and 2013, the Village erroneously recorded several transactions. The more significant adjustments are as follows:

- Recorded rollbacks as property and other local taxes instead of intergovernmental receipts.
- Recorded rental fees of Village property as charges for services instead of miscellaneous revenues.
- Recorded sale of capital asset as miscellaneous revenue.
- Recorded various OWDA and OPWC payments as other financing sources instead of debt proceeds
- Recorded proceeds of a grant as other financing sources instead of intergovernmental revenue
- OWDA and OPWC payments to vendors were recorded as contractual services instead of capital outlay.
- Failed to record the loan fees and the capital outlay related to several loans thus, understating receipts and disbursements.
- Payment of interest for a debt was recorded as transportation disbursement instead of interest
- Recorded franchise fees as miscellaneous revenues instead of fines, licenses and permit.
- Recorded liability insurance premium payments as capital outlay instead of general government disbursements.

Adjustments were made in the financial statements and Village records.

The Village Officers' Handbook and the UAN accounting system provide suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

We recommend that the Village refer to the Village Officer's Handbook and UAN accounting system to properly classify its transactions. We also recommend the Fiscal Officer review all reports compiled by UAN to ensure their accuracy.

Management Response: I will review findings with council and establish a plan of action to make corrections as needed. I will seek additional training from the auditor's of state's office as it becomes available.

Finding Number 2014-002 – Noncompliance

Ohio Rev. Code 5705.41(D) – Purchase Orders

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a 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 expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41 (D)(1) and 5705.41 (D)(3), respectively, of the Ohio Revised Code.

**VILLAGE OF EAST SPARTA
STARK COUNTY
SCHEDULE OF FINDINGS - continued
December 31, 2014 and 2013**

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

Finding Number 2014-002 – Noncompliance (continued)

Ohio Rev. Code 5705.41(D) – Purchase Orders (continued)

1. “Then and Now Certificates” – If the fiscal officer can certify that both at the time that contract or order was made (“then”) and at the time that the fiscal officer was completing the certification (“now”), that sufficient funds were available or in the process of collection, to credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for payment of the amount due. The Village has thirty days from the receipt of the “then and now” certificate to approve payment by resolution or ordinance.

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 Certificates - 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 members of the legislative authority against any specific line item amount 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 Certificates – The Village may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession 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.

During fiscal years 2014 and 2013, 25% of purchase orders tested were not certified by the Village Clerk prior to incurring the obligation. The transactions had no evidence of the above mentioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s expenditures exceeding budgetary spending limitations, we recommend that the Village certify expenditures prior to incurring the liability.

Management Response: See management response in finding 2014-001.

This page intentionally left blank.



Dave Yost • Auditor of State

VILLAGE OF EAST SPARTA

STARK COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 24, 2015