



Dave Yost • Auditor of State

VILLAGE OF HARROD
ALLEN COUNTY

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Dave Yost • Auditor of State

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Dave Yost
Auditor of State

July 9, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

We have audited the accompanying financial statements of the Village of Harrod, Allen County, (the Village) as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Harrod, Allen County, as of December 31, 2011 and 2010, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1g, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

July 9, 2012

**VILLAGE OF HARROD
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Taxes	\$21,771		\$21,771
Intergovernmental	33,127	\$24,550	57,677
Fines, Licenses and Permits	50		50
Earnings on Investments	6	5	11
Miscellaneous	847	3,124	3,971
Total Cash Receipts	<u>55,801</u>	<u>27,679</u>	<u>83,480</u>
Cash Disbursements:			
Current:			
Security of Persons & Property	6,727		6,727
Leisure Time Activities	1,972		1,972
Transportation		23,254	23,254
General Government	33,824		33,824
Capital Outlay	870		870
Total Cash Disbursements	<u>43,393</u>	<u>23,254</u>	<u>66,647</u>
Excess of Receipts Over (Under) Disbursements	<u>12,408</u>	<u>4,425</u>	<u>16,833</u>
Fund Cash Balances, January 1	<u>(5,364)</u>	<u>(7,683)</u>	<u>(13,002)</u>
Fund Cash Balances, December 31:			
Restricted		1,585	1,585
Committed			
Unassigned (Deficit)	7,044	(4,798)	2,246
Fund Cash Balances, December 31	<u>\$7,044</u>	<u>(\$3,213)</u>	<u>\$3,831</u>

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

VILLAGE OF HARROD
ALLEN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCE - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	<u>\$ 76,547</u>
Operating Cash Disbursements:	
Personal Services	12,570
Fringe Benefits	5,629
Contractual Services	28,995
Supplies and Materials	2,791
Other	200
Total Operating Cash Disbursements	<u>50,185</u>
Operating (Loss)	<u>26,362</u>
Non-Operating (Disbursements):	
Capital Outlay	<u>(15,484)</u>
Net Change in Fund Cash Balance	<u>10,878</u>
Fund Cash Balances, January 1	<u>146,271</u>
Fund Cash Balances, December 31	<u><u>\$157,149</u></u>

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

**VILLAGE OF HARROD
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>		<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>(Memorandum Only)</u>
Cash Receipts:			
Property and Local Taxes	\$21,275		\$21,275
Intergovernmental	33,905	\$28,939	62,844
Fines, Licenses and Permits	85		85
Earnings on Investments	68	29	97
Miscellaneous	4,580		4,580
Total Cash Receipts	<u>59,913</u>	<u>28,968</u>	<u>88,881</u>
Cash Disbursements:			
Current:			
Security of Persons & Property	4,700		4,700
Public Health Services	954		954
Leisure Time Activities	1,000		1,000
Transportation		21,590	21,590
General Government	49,432		49,432
Capital Outlay	3,728		3,728
Total Cash Disbursements	<u>59,814</u>	<u>21,590</u>	<u>81,404</u>
Total Receipts Over/(Under) Disbursements	<u>99</u>	<u>7,378</u>	<u>7,477</u>
Fund Cash Balance, January 1	<u>(5,463)</u>	<u>(15,016)</u>	<u>(20,479)</u>
Fund Cash Balance, December 31	<u>(\$5,364)</u>	<u>(\$7,638)</u>	<u>(\$13,002)</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF HARROD
ALLEN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$79,448
Operating Cash Disbursements:	
Current:	
Personal Services	11,898
Employee Fringe Benefits	3,636
Contractual Services	24,021
Supplies and Materials	6,739
Total Operating Cash Disbursements	46,294
Operating Income	33,154
Non-Operating Receipts/Disbursements	
Miscellaneous Receipts	69
Capital Outlay	(10,670)
Total Non-Operating Receipts/Disbursements	(10,601)
Operating Income	22,553
Fund Cash Balances, January 1	123,718
Fund Cash Balances, December 31	\$146,271

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

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Harrod, Allen County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, sewer utilities, park operations (leisure time activities), and street maintenance. The Village relies on the Allen County Sheriff's department to provide security of persons and property. The Village receives fire protection services from the Harrod Volunteer Fire Department.

The Village participates in the Ohio Government Risk Management Plan (the Plan) a public entity risk pool. This Plan provided insurance coverage for participating members. Note 6 to the financial statements provide additional information for the Plan.

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 report 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.

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:

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 HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissive Motor Vehicle License Tax Fund – This fund receives motor vehicle taxes assessed by Allen County for constructing, maintaining, and repairing Village streets.

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:

Sewer Fund - This fund receives charges for services from residents to cover sewer 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 fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2010 and 2011 budgetary activity appears in Note 3.

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. Fund Balance

For December 31, 2011, 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:

VILLAGE OF HARROD
ALLEN COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Non-spendable

The Village classifies assets as non-spendable 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.

2. EQUITY IN POOLED DEPOSITS

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

	<u>2011</u>	<u>2010</u>
Demand deposits	<u>\$160,980</u>	<u>\$133,269</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 73,733	\$ 55,801	(\$17,932)
Special Revenue	41,116	27,679	(13,437)
Enterprise	142,532	76,547	(65,985)
Total	\$257,381	\$160,027	(\$97,354)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 68,368	\$ 43,393	\$ 24,975
Special Revenue	33,477	23,254	10,223
Enterprise	288,803	65,669	223,134
Total	\$390,648	\$132,316	\$258,332

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 71,593	\$ 59,913	(\$11,680)
Special Revenue	20,000	28,968	8,968
Enterprise	76,000	79,517	3,517
Total	\$167,593	\$168,398	\$ 805

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 74,778	\$ 59,814	\$ 14,964
Special Revenue	44,546	21,590	22,956
Enterprise	171,518	56,964	114,554
Total	\$290,842	\$138,368	\$152,474

The Village had a negative cash balance in the General Fund in both 2011 and 2010 and the Street Construction, Maintenance, and Repair Fund in 2010 which violated Ohio Rev. Code Section 5705.10(H). The Village failed to amend its certificate of estimated resources when actual receipts were less than budgeted in the General Fund and the Street Construction, Maintenance and Repair Fund during 2011 and 2010 which violated Ohio Rev. Code Section 5705.36(A)(4). Also, in 2011 and 2010 the General Fund and Street Construction, Maintenance, and Repair Fund had appropriations in excess of estimated resources.

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

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.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. RETIREMENT SYSTEMS

The Village officials and 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 2011 and 2010, OPERS members contributed 10%, respectively, 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, 2011.

6. RISK MANAGEMENT

Risk Pool Membership

Prior to 2009, the Village belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

6. RISK MANAGEMENT (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss, except OPRM retains 40% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. November 1, 2011, the OPRM retained 41.55 of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010 respectively. The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The Village participates in this coverage.

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

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

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2010 and 2009 (latest information available), and include amounts for both OPRM and OPHC:

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members’ Equity	\$ 7,191,485	\$ 300,035	\$ 6,323,701	\$ 105,185

You can read the complete audited financial statements for OPRM and OPHC at the Plan’s website, www.ohioplan.org.

**VILLAGE OF HARROD
ALLEN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. GOING CONCERN

As result of audit adjustments, the Village had a negative Street Fund balance in the amount of \$4,798 at December 31, 2011. Local Government Services (LGS) continues to monitor the Village while they continue to have negative balances.

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Dave Yost • Auditor of State

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

Village of Harrod
Allen County
P.O. Box 129
Harrod, Ohio 45850

To the Members of Council:

We have audited the financial statements of the Village of Harrod, Allen County, (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 9, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and adopted the provisions of Governmental Accounting Standards Board Statement No. 54 for the year ended December 31, 2011. We also noted the Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider to be 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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-01 described in the accompanying schedule of findings to be a material weakness.

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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, providing an opinion 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 2011-02 through 2011-04.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 9, 2012.

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.

We intend this report solely for the information and use of management, the Members of Council, and others within the Village. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

July 9, 2012

VILLAGE OF HARROD
ALLEN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

FINDING NUMBER 2011-01

Material Weakness

Recording of Financial Activity

The Village should have procedures in place to help assure the correct recording of financial activity in the accounting records and financial statements. The following errors were identified in the accounting records and financial statements for 2011 and 2010:

- In 2011 and 2010, there were receipt classification errors in the amount of \$6,530 and \$7,543, respectively, in the General Fund. Also in 2011 and 2010, there were receipt classification errors in the amount of \$4,116 and \$8,624, respectively, in the Special Revenue Street Fund. The receipt classification errors consisted of recording of personal property tax reimbursements and permissive motor vehicle registration fees as property and other local taxes instead of intergovernmental revenue and recording personal property tax and public utility reimbursements as miscellaneous revenue instead of intergovernmental revenue. Also, the December 31, 2011 General Fund balance in the amount of \$7,044 was reported as restricted instead of unassigned.
- In 2010, the General Fund had miscellaneous receipt and capital outlay disbursement line items overstated by \$4,554. The Special Revenue Street Construction Fund had miscellaneous receipts and transportation disbursements line items overstated by \$5,000. Also, the Enterprise Sewer Fund had miscellaneous receipts and interest disbursement line items overstated by \$5,800. The Enterprise Reserve Fund had charges for services receipt and other disbursement line items overstated by \$9,554. These amounts all relate to audit adjustments from the prior audit period that were recorded to current activity instead of directly recording the adjustments to the fund balances.

The failure to correctly record receipts and disbursements and to correctly classify fund balances may not only impact the users' understanding of the financial operations, it may also inhibit the Village Council and management's ability to make sound financial decisions, may conceal illegal transactions, may impact the Village's ability to comply with budgetary laws, and may result in the material misstatement of the financial statements. The accompanying financial statements have been adjusted to correctly reflect this financial activity.

OFFICIALS' RESPONSE: I think since then I have a better understanding of where to put money. It is not always clear in the manual of where to put some of the money. Local Government Services of the Auditor Office has been helping to correct some of this.

FINDING NUMBER 2011-02

Noncompliance Citation

Ohio Rev. Code Section 5705.10 (H), states money paid into a fund shall be used only for the purposes for which such fund is established. A negative fund cash balances indicates that money from one fund was used to cover the expenses of another fund. In 2010 the General Fund had a negative fund balance of (\$5,364) at year end and the Street Construction, Maintenance, and Repair Fund had a negative fund balance of (\$10,836) at year end. For 2011, the Street Construction, Maintenance, and Repair Fund had a negative fund balance of (\$4,798) at year end.

By incurring negative fund balances, the Village was unable to meet all obligations for those funds. The Village incorrectly used funds from specific sources to cover these obligations. Also, these fund balances had a negative effect on the budgetary compliance requirements that were to be followed by the Village.

**FINDING NUMBER 2011-02
 (Continued)**

Procedures should be implemented to perform a detailed review of the accounting records to help identify the need for a decrease in expenditures and advance funds when necessary in order to have the appropriate amount of funds to meet obligations and to be in compliance with budgetary requirements that pertain to the Village.

OFFICIALS' RESPONSE: We passed an income tax ordinance to help offset reduced local government funding and to help reduce the General Fund and Street Fund negative balances.

FINDING NUMBER 2011-03

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(4), states that upon determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency. During 2011 and 2010, the following funds had actual receipts less than budgeted receipts and the deficiency resulted in actual resources to be less than appropriations:

2011 Fund	Estimated Resources	Actual Resources	Appropriations	Variance
General	\$68,369	\$50,436	\$68,368	(\$17,933)
Street Construction, Maintenance, and Repair	\$29,362	\$12,727	\$26,164	(\$13,437)
2010 Fund				
General	\$66,130	\$54,450	\$74,778	(\$20,328)
Street Construction, Maintenance, and Repair	\$ 4,984	\$ 5,327	\$35,922	(\$30,595)

The failure to maintain appropriations within actual resources may result in deficit spending.

The Village Township should periodically compare estimated resources to actual resources to help identify which funds may not achieve estimated resource levels. The Village should then compare the current level of appropriation to actual resources to determine if they should obtain an amended certificate of estimated resources and reduce appropriations.

OFFICIALS' RESPONSE: All I can say is I will try and do a better job in the future.

FINDING NUMBER 2011-04

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed the total estimated resources. During 2010, the following funds had appropriations in excess of estimated resources:

Fund	Estimated Resources	Appropriations	
General	\$66,130	\$74,778	(\$ 8,648)
Street Construction, Maintenance, and Repair	\$4,984	\$35,922	(\$30,938)

**FINDING NUMBER 2011-04
(Continued)**

Appropriating in excess of estimated resources may result in actual obligations that cannot be paid for with available resources.

The Village should implement review procedures to help assure the adopted appropriations are within the certified estimated resources.

OFFICIALS' RESPONSE: As Fiscal Officer I present reports every month and review with Council the figures within the reports. I also cut down on all appropriations as far as I could and basically with no spending until the negative balances are gone.

**VILLAGE OF HARROD
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-01	Reporting Financial Activity – the Village’s 2011 and 2010 financial statements contained financial reporting errors	No	Repeated as Finding 2011-01
2009-002	Ohio Rev. Code Section 5705.10 (A) – The Village recorded personal property tax receipts in incorrect funds	Yes	
2009-03	Ohio Rev. Code Section 5705.10 (H) – The Village did not use money paid into various funds for the purposes for which funds were established	No	Repeated as Finding 2011-02
2009-04	Finding for Recovery regarding the purchase of alcohol	Yes	Was repaid under audit
2009-05	Ohio Rev. Code Section 5705.36(A)(2) and (A) (3) and Ohio Rev. Code Section 5705.40 - the certificate of estimate resources and the appropriations resolution were not amended as needed	Yes	
2009-06	26 CFR § 31.6051-2(a) – there were variances between information reported on Forms W-2, W-3, and 941	Yes	



Dave Yost • Auditor of State

VILLAGE OF HARROD

ALLEN 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
AUGUST 28, 2012