

Village of New London

Financial Condition

As of

December 31, 2010 and 2011

Together with Auditor's Report



Dave Yost • Auditor of State

Village Council
Village of New London
115 East Main Street
New London, Ohio 44851

We have reviewed the *Independent Auditor's Report* of the Village of New London, Huron County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2010 through December 31, 2011. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 New London 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 20, 2012

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VILLAGE OF NEW LONDON

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Independent Auditor's Report

Village of New London
Huron County
115 East Main Street
New London, Ohio 44851-1201

I have audited the accompanying financial statements of the Village of New London (the Village), as of and for the year ended December 31, 2010 and 2011. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about 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. I believe that my audit provides a reasonable basis for my opinion.

As discussed 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. Although I cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, I presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2010 and 2011. Instead of the combined funds the accompanying financial statements present for 2010 and 2011, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2010 and 2011. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. My opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In my opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above 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, 2010 and 2011, or its changes in financial position and cash flows for the year then ended.

Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Village of New London, Huron County, Ohio, as of December 31, 2010 and 2011 and its combined cash receipts and disbursements and reserves for encumbrances for the year then ended on the basis of accounting described in Note 1.

As described in Note 10, during 2010 the Village, adopted Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2010 and 2011. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the financial statements.

In accordance with Government Auditing Standards, I have also issued my report dated April 23, 2012, on my consideration of the Village's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal controls over financial reporting and compliance and the results of testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards. You should read it in conjunction with this report in assessing the results of my audit.

Kevin L. Penn, Inc.

April 23, 2012

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2010

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 74,299	\$ 291,779	\$ -	\$ 366,078
Intergovernmental Receipts	152,815	115,881	4,500	273,196
Charges for Services	23,050	10,245	41,748	75,043
Fines, Licenses, and Penalties	10,379	610		10,989
Earnings on Investments	28,746	263	222	29,231
Other Revenue	39,926	82,804	7,516	130,246
Total Cash Receipts	329,215	501,582	53,986	884,783
Cash Disbursements:				
Current:				
Security of Persons and Property	319,115			319,115
Public Health Services	1,822			1,822
Community Environment	3,175			3,175
Transportation		303,713		303,713
General Government	203,376			203,376
Debt Service:				
Principal Payments			22,956	22,956
Interest Payments			5,216	5,216
Capital Outlay		847	40,650	41,497
Total Cash Disbursements	527,488	304,560	68,822	900,870
Total Receipts Over/(Under) Disbursements	(198,273)	197,022	(14,836)	(16,087)
Other Financing Receipts/(Disbursements)				
Transfers-In	219,864	21,891		241,755
Transfers-Out	(27,486)	(221,605)		(249,091)
Advance-In	30,000			30,000
Advance-Out		(30,000)		(30,000)
Total Other Financing Receipts/(Disbursements)	222,378	(229,714)	-	(7,336)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements				
	24,105	(32,692)	(14,836)	(23,423)
Fund Cash Balance - January 1, 2010	414,485	241,548	123,366	779,399
Fund Cash Balance - December 31, 2010				
Restricted		208,856		208,856
Assigned			108,530	108,530
Unassigned	438,590			438,590
Fund Cash Balance - December 31, 2010	\$ 438,590	\$ 208,856	\$ 108,530	\$ 755,976
Reserves for Encumbrances, December 31, 2010	\$ 1,918	\$ 2,282	\$ 4,000	\$ 8,200

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

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances - Enterprise Funds
For the Year Ended December 31, 2010

Operating Cash Receipts	
Charges for Services	\$ 1,873,487
Earnings on Investments	1,314
Other Revenue	208,760
Total Operating Cash Receipts	<u>2,083,561</u>
Operating Cash Disbursements:	
Personal Services	737,963
Contractual Services	335,180
Supplies and Materials	207,089
Capital Outlay	40,368
Total Operating Cash Disbursements	<u>1,320,600</u>
Operating Income	<u>762,961</u>
Non-Operating Cash Receipts	
Other Non-Operating Cash Receipts	-
Total Non-Operating Cash Receipts	<u>-</u>
Non-Operating Cash Disbursements	
Debt Service – Principal	192,359
Debt Service - Interest and Fiscal Charges	353,896
Total Non-Operating Cash Disbursements	<u>546,255</u>
Excess of Receipts Under Disbursements	
Before Interfund Transfers and Advances	216,706
Transfers-In	254,250
Transfers-Out	(246,914)
Net Disbursements Over Receipts	<u>224,042</u>
Fund Cash Balance - January 1, 2010	1,327,684
Fund Cash Balance - December 31, 2010	<u>\$ 1,551,726</u>
Reserves for Encumbrances, December 31, 2010	<u>\$ 92,967</u>

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

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2011

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 68,853	\$ 453,535	\$ -	\$ 522,388
Intergovernmental Receipts	141,348	119,660		261,008
Charges for Services	18,340	13,600	42,172	74,112
Fines, Licenses, and Penalties	11,961	391		12,352
Earnings on Investments	11,691	351	328	12,370
Other Revenue	39,188	30,959	7,548	77,695
Total Cash Receipts	291,381	618,496	50,048	959,925
Cash Disbursements:				
Current:				
Security of Persons and Property	307,870			307,870
Public Health Services	1,816			1,816
Community Environment	2,941			2,941
Transportation		289,873		289,873
General Government	205,819			205,819
Debt Service:				
Principal Payments			23,992	23,992
Interest Payments			4,128	4,128
Capital Outlay	6,400		31,001	37,401
Total Cash Disbursements	524,846	289,873	59,121	873,840
Total Receipts Over/(Under) Disbursements	(233,465)	328,623	(9,073)	86,085
Other Financing Receipts/(Disbursements)				
Transfers-In	359,123	27,326		386,449
Transfers-Out	(25,516)	(358,434)		(383,950)
Advance-In	2,500			2,500
Advance-Out	(90,000)			(90,000)
Other Financing Sources		361,101	2,450	363,551
Total Other Financing Receipts/(Disbursements)	246,107	29,993	2,450	278,550
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	12,642	358,616	(6,623)	364,635
Fund Cash Balance - January 1, 2011	438,590	208,856	108,530	755,976
Fund Cash Balance - December 31, 2011				
Restricted		567,472		567,472
Assigned			101,907	101,907
Unassigned	451,232			451,232
Fund Cash Balance - December 31, 2011	\$ 451,232	\$ 567,472	\$ 101,907	\$ 1,120,611
Reserves for Encumbrances, December 31, 2011	\$ 337	\$ 114,329	\$ -	\$ 114,666

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

Village of New London
Huron County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances - Enterprise Funds
For the Year Ended December 31, 2011

Operating Cash Receipts	
Charges for Services	\$ 1,890,009
Earnings on Investments	342
Other Revenue	107,347
Total Operating Cash Receipts	<u>1,997,698</u>
Operating Cash Disbursements:	
Personal Services	731,767
Contractual Services	358,894
Supplies and Materials	237,732
Capital Outlay	1,086,397
Total Operating Cash Disbursements	<u>2,414,790</u>
Operating Income	<u>(417,092)</u>
Non-Operating Cash Receipts	
Other Debt Proceeds	194,574
Other Non-Operating Financing Sources	20,018
Total Non-Operating Cash Receipts	<u>214,592</u>
Non-Operating Cash Disbursements	
Debt Service - Principal	209,233
Debt Service - Interest and Fiscal Charges	165,269
Total Non-Operating Cash Disbursements	<u>374,502</u>
Excess of Receipts Under Disbursements Before Interfund Transfers and Advances	(577,002)
Advance-In	90,000
Advance-Out	(2,500)
Transfers-In	269,438
Transfers-Out	(271,937)
Net Disbursements Over Receipts	<u>(492,001)</u>
Fund Cash Balance - January 1, 2011	1,551,726
Fund Cash Balance - December 31, 2011	<u>\$ 1,059,725</u>
Reserves for Encumbrances, December 31, 2011	<u>\$ 179,375</u>

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

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of New London, Huron County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water, sewer, and sanitation utilities, park operations, and police and fire services. The Village appropriates general fund money to support a volunteer fire department.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except debt service funds maintained by outside custodians are not included in these financial statements. Assets held by custodians are described in Note 9 to the financial statements.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Money market mutual funds (including STAR Ohio) are recorded at share values reported by the mutual fund.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

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

Income Tax Fund - This fund receives revenues from the Village income tax and is used to account for expenditures associated with the income tax department. Funds remaining are transferred to the General Fund and Capital Improvement Fund based upon the determination of Village Council.

Cemetery Endowment Fund - This fund receives monies for the upkeep of specified cemetery buildings and lots.

Cemetery Trust Fund - This fund receives a twenty dollar charge on the sale of each cemetery lot for the upkeep of graves and buildings at the cemetery.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following significant capital project funds:

Capital Improvement Fund - This fund receives revenues allocated from the Income Tax Fund used for capital purchases.

Fire Fighting Facilities Fund - This fund receives revenues from fire protection contracts. Funds are used for fire equipment purchases and facility maintenance.

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sewer Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Sanitation Fund - This fund receives charges for services from residents to cover the cost of providing this utility.

Parks Department Fund - This fund receives monies from charges associated with the parks for rentals, camping, softball, the Firelands Festival, boat permits, and concessions. Revenues are used for the operation of recreational programs and maintenance of facilities.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

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 Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2011 and 2010 budgetary activity appears in Note 5.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

F. Property, Plant, and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED DEPOSITS

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

	<u>2011</u>	<u>2010</u>
Demand Deposits	\$ 388,434	\$ 826,060
Certificates of Deposits	860,422	850,868
Other Time Deposits	<u>629,247</u>	<u>258,588</u>
Total Deposits	<u>\$1,878,103</u>	<u>\$1,935,516</u>
Star Ohio	<u>\$ 302,233</u>	<u>\$ 372,186</u>
Total Investments	<u>302,233</u>	<u>372,186</u>
Total Deposits and Investments	<u>\$2,180,336</u>	<u>\$2,307,702</u>

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

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

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

(Continued)

3. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village. Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

4. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

The Village also provides health insurance coverage to full time employees through a private carrier.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(Continued)

5. BUDGETARY ACTIVITY

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

2010 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 948,789	\$ 579,079	\$ (369,710)
Special Revenue	785,399	523,473	(261,926)
Capital Projects	183,890	53,986	(129,904)
Enterprise	3,833,812	2,337,811	(1,496,001)
Total	<u>\$ 5,751,890</u>	<u>\$ 3,494,349</u>	<u>\$(2,257,541)</u>

2010 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 653,640	\$ 556,892	\$ 96,748
Special Revenue	730,745	558,447	172,298
Capital Projects	178,672	72,822	105,850
Enterprise	3,252,776	2,206,736	1,046,040
Total	<u>\$ 4,815,833</u>	<u>\$ 3,394,897</u>	<u>\$ 1,420,936</u>

2011 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,122,591	\$ 653,004	\$ (469,587)
Special Revenue	1,210,841	1,006,923	(203,918)
Capital Projects	182,895	52,498	(130,397)
Enterprise	4,149,185	2,571,728	(1,577,457)
Total	<u>\$ 6,665,512</u>	<u>\$ 4,284,153</u>	<u>\$(2,381,359)</u>

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

5. BUDGETARY ACTIVITY (continued)

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

2011 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation	Budgetary	Variance
	Authority	Expenditures	
General	\$ 1,002,504	\$ 640,699	\$ 361,805
Special Revenue	776,667	762,636	14,031
Capital Projects	178,672	59,121	119,551
Enterprise	<u>3,633,563</u>	<u>3,243,104</u>	<u>390,459</u>
Total	<u>\$ 5,591,406</u>	<u>\$ 4,705,560</u>	<u>\$ 885,846</u>

Contrary to Ohio Law, budgetary expenditures exceeded appropriation authority in the following Special Revenue funds: 1) Cemetery fund by \$4,154; 2) Reservoir Maintenance fund by \$4,441; 3) Income Tax fund by \$14,367 and in the following Enterprise Funds: 1) Sewer Reserve fund by \$12,061; 2) Star Debt fund by \$1,583 for the year ended December 31, 2010.

Contrary to Ohio Law, budgetary expenditures exceeded appropriation authority in the following Special Revenue funds: 1) County Permissive fund by \$4,823; 2) RLF CDBG fund by \$139,680; 3) Income Tax fund by \$32,343 and in the following Enterprise Funds: 1) Sewer Debt fund by \$363,726; 2) Water Bond Improvement fund by \$10,862 for the year ended December 31, 2011. Also, contrary to Ohio Law, at December 31, 2011, the Income Tax Fund has a cash deficit balance of \$316.

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, 2011 was as follows:

Reservoir Loan	\$ 40,000	5.00%
Sewer Design Loan	194,574	5.22%
Ohio Water Development Authority Loan	423,128	7.45%
Rural Water Line Bond	230,568	3.25%
Water System Improvement Bond	1,720,000	Variable
USDA Equipment Loan	<u>72,300</u>	5.00%
Total	<u>\$2,680,570</u>	

The debt footnote as of December 31, 2009 was overstated by \$60,034.

**VILLAGE OF NEW LONDON
HURON COUNTY**

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

7. DEBT

The Reservoir Loan relates to the construction of the reservoir in 1973. The Ohio Water Development Authority (OWDA) loans relate to sewer plant expansion project and sewer design that were mandated by the Ohio Environmental Protection Agency. The Water System Improvement Bonds were issued for the water plant expansion project in 1997. The Rural Water System Improvement Bonds were issued to extend water service to New London Village residents in 1999. The United States Department of Agriculture Rural Development loan relates to the purchase of fire truck in 2005.

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

	Water System Improvement Mortgage Revenue Bonds	USDA Equipment Loan	Reservoir FHA Loan	OWDA	Sewer Design	Rural Waterline
Year ending December 31:						
2012	\$ 228,360	\$ 19,982	\$ 46,750	\$ 88,108	\$ 44,298	\$ 16,545
2013	225,800	19,981		88,371	44,298	16,514
2014	227,925	19,951		88,654	44,298	16,577
2015	224,420	19,992		88,958	44,298	17,342
2016	220,600			89,284	44,298	17,289
2017-2021	1,081,525			89,634		86,654
2022-2026	217,915					86,668
2027-2031						86,746
2032-2034						45,782
Total	<u>\$ 2,426,545</u>	<u>\$ 79,906</u>	<u>\$ 46,750</u>	<u>\$ 533,009</u>	<u>\$ 221,490</u>	<u>\$ 390,117</u>

8. RETIREMENT SYSTEM

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OP&F participants contributed 10% of their wages. For 2011 and 2010, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2011 and 2010, 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, 2011.

**VILLAGE OF NEW LONDON
HURON COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

(Continued)

9. DEBT SERVICE TRUSTEED FUNDS

The Water Improvement trust agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2011, the custodian held \$264,297 in Village assets. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

10. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2010, the District reclassified certain funds as required by the revised fund classification guidance in Governmental Accounting Standard Board (GASB) Statement No. 54.

11. FUND BALANCE

Fund balance is divided into two 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. 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.

2. 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.

3. Assigned

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

The Village 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 NEW LONDON
HURON COUNTY**

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

(Continued)

12. LEASE COMMITMENT

The Village has entered into lease agreements with the following: RS Office Solutions for a copy machine. Rental expense for the operating lease for the years ended December 31, 2010 and 2011 were \$4,669 and \$5,940.

The total future minimum rental payments required for the operating lease are as follows:

<u>December 31,</u>	
2012	\$5,940
2013	\$5,940
2014	\$2,970

13. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

Village of New London
Huron County
115 East Main Street
New London, Ohio 44851-1201

I have audited the financial statements of Village of New London as of and for the years ended December 31, 2010 and 2011, and have issued my report thereon dated April 23, 2012, wherein I noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. I also noted the Village restated its fund balances due to changes in fund structure as a result of implementing Governmental Accounting Standards Board (GASB) Statement 54. I conducted my 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 my audit, I considered the Government's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my 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, I have not opined on the effectiveness of the Village's internal control over financial reporting.

My 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, I cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings I, identified a certain deficiency in internal control over financial reporting, that I consider 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 Village's financial statements will not be prevented, or detected and timely corrected. I consider finding 2011-1 described in the accompanying schedule of findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village of New London's financial statements are free of material misstatement, I 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 my audit and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters I must report under Government Auditing Standards.

The Village's response to the finding identified in the audit is described in the accompanying schedule of findings. I did not audit the Village's response and, accordingly, I express no opinion on it.

I noted certain matters that I reported to management of the Village of New London's in a separate letter dated April 23, 2012.

This report is intended solely for the information and use of management, and those charged with governance and is not intended to be and should not be used by anyone other than these specified parties.

Kevin L. Penn, Inc.

April 23, 2012

Village of New London
Huron County

Schedule of Audit Findings
December 31, 2010 and 2011

2011-1

Preparation of Financial Statements

Condition:

The following year-end financial statements that management prepared and presented for the audit contained a number of coding errors.

- Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances – Governmental Funds
- Combined Statement of Cash Receipts, Disbursements and Changes in Fund Cash Balances – Enterprise Funds

In addition, the bank reconciliation did not agree to the total Fund Cash Balance for the 2011 calendar year. As a result, the ending book cash balance did not agree to the actual cash reconciliation balance in the bank; therefore, producing inaccurate financial statements.

Criteria:

The internal controls established by management, pertaining to the year-end financial statements should operate in a manner which should prevent coding errors. Furthermore, each month the cash receipts and disbursement reports by fund should be reconciled to the bank reconciliation.

Effect:

There were several account totals which were misstated (i.e., interest expense; transfers; fund cash balance), during 2011, the Village recorded an OWDA loan in the amount of \$194,574 as other revenue. This amount was reclassified as other debt proceeds. In addition, the cash balance reported on the Combined Statement of Cash Receipts, Disbursements, and Changes in Cash Fund Balances was overstated by \$22,877 (\$24,224 overstatement for Enterprise Fund [Sewer Debt] and \$1,289 understatement for the General Fund).

Cause:

Manual input errors during the preparation of the year-end financial statements, in addition, to reconciling item which were not recorded on the year-end financial statements.

Recommendation:

I recommend that management should assess the adequacy of the design of its policies and procedures related to preparation of financial statements, including performing timely book to bank reconciliations and design appropriate controls as necessary to rectify coding issues. In addition, the Village should follow the Village Officers' Handbook for suggested account classifications. By performing these procedures, the risk of presenting inaccurate financial statements will be significantly reduced.

Village of New London
Huron County

Schedule of Audit Findings
December 31, 2010 and 2011

2011-1

Preparation of Financial Statements (continued)

Management Response:

The bank reconciliation was corrected in February of 2012 and the properly coding of the account classification, including the reconciliation of transfers on a monthly basis, has been implemented for the 2012 calendar year.

Village of New London
Huron County

Schedule of Prior Audit Findings
December 31, 2010 and 2011

There were no audit findings for the 2008 or 2009 calendar year.

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Dave Yost • Auditor of State

VILLAGE OF NEW LONDON

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 04, 2012