

**VILLAGE OF ORWELL
ASHTABULA COUNTY
Regular Audit
For the Years Ended December 31, 2012 and 2011**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Village Council
Village of Orwell
179 W Main Street
Orwell, Ohio 44076

We have reviewed the *Independent Auditors' Report* of the Village of Orwell, Ashtabula County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2011 through December 31, 2012. 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 Orwell is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

November 1, 2013

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VILLAGE OF ORWELL
ASHTABULA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2012.....	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary Fund Types - For the Year Ended December 31, 2012.....	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2011.....	6
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Proprietary Fund Types - For the Year Ended December 31, 2011.....	7
Notes to the Financial Statements.....	8
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	18
Schedule of Audit Findings	20

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INDEPENDENT AUDITOR'S REPORT

August 26, 2013

Village of Orwell
Ashtabula County
179 W Main Street
Orwell, Ohio 44076

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the **Village of Orwell**, Ashtabula County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011.

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; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fair presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

As described in Note 1B 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, 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 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Basis for Qualified Opinion

Charges for services receipts are reported at \$713,440, and \$734,428 for the years ended December 31, 2012 and 2011, respectively, which are 99 percent of Enterprise Fund operating receipts for the year ended December 31, 2012, and 99 percent of Enterprise Fund operating receipts for the year ended December 31, 2011. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as charges for services receipts in the Enterprise Fund. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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, 2012 and 2011, or changes in financial position or cash flows thereof for the years then ended.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Orwell, Ashtabula County as of December 31, 2012 and 2011, 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 permit, described in Note 1B.

Emphasis of Matter

As discussed in Note 1F to the financial statements, during 2011, the Village of Orwell, Ashtabula County, Ohio adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2013, 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.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property and Other Local Taxes	\$ 58,502	\$ 57,069	\$ -	\$ -	\$ 115,571
Municipal Income Tax	748,429	-	-	-	748,429
Intergovernmental	56,829	203,463	-	-	260,292
Charges for Services	3,696	54,157	-	-	57,853
Fines, Licenses and Permits	-	421	-	-	421
Miscellaneous	12,885	-	-	-	12,885
Total Cash Receipts	880,341	315,110	-	-	1,195,451
Cash Disbursements:					
Current:					
Security of Persons and Property	360,607	247,772	-	-	608,379
Public Health Services	11,363	-	-	-	11,363
Leisure Time Activities	2,972	-	-	-	2,972
Community Environment	3,693	-	-	-	3,693
Transportation	-	13,080	-	-	13,080
General Government	387,624	-	-	-	387,624
Capital Outlay	-	286,527	-	-	286,527
Debt Service:					
Principal Retirement	2,404	49,518	-	-	51,922
Interest and Fiscal Charges	232	7,558	54,349	-	62,139
Total Cash Disbursements	768,895	604,455	54,349	-	1,427,699
Excess of Receipts Over (Under) Disbursements	111,446	(289,345)	(54,349)	-	(232,248)
Other Financing Receipts (Disbursements):					
Note Proceeds	-	146,302	-	-	146,302
Transfers In	-	118,000	30,000	-	148,000
Transfers Out	(118,000)	-	-	-	(118,000)
Total Other Financing Receipts (Disbursements)	(118,000)	264,302	30,000	-	176,302
Net Change in Fund Cash Balances	(6,554)	(25,043)	(24,349)	-	(55,946)
Fund Cash Balances, January 1	587,340	201,128	177,190	27,195	992,853
Fund Cash Balances, December 31					
Restricted	-	176,085	152,841	27,195	356,121
Unassigned	580,786	-	-	-	580,786
Fund Cash Balances, December 31	\$ 580,786	\$ 176,085	\$ 152,841	\$ 27,195	\$ 936,907

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 713,440
Miscellaneous	1,114
	714,554
Total Operating Cash Receipts	714,554
Operating Cash Disbursements:	
Personal Services	249,605
Contractual Services	135,962
Supplies and Materials	44,015
	429,582
Total Operating Cash Disbursements	429,582
Operating Income	284,972
Non-Operating (Disbursements)	
Principal Retirement	(56,756)
Interest and Fiscal Charges	(32,577)
	(89,333)
Total Non-Operating (Disbursements)	(89,333)
Income before Transfers	195,639
Transfers In	30,000
Transfers Out	(60,000)
	(60,000)
Net Change in Fund Cash Balances	165,639
Fund Cash Balances, January 1	851,903
<i>Fund Cash Balances, December 31</i>	\$ 1,017,542

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property and Other Local Taxes	\$ 76,783	\$ 110,610	\$ -	\$ -	\$ 187,393
Municipal Income Tax	771,919	-	-	-	771,919
Intergovernmental	41,835	66,103	-	-	107,938
Charges for Services	-	52,065	-	-	52,065
Fines, Licenses and Permits	2,433	440	-	-	2,873
Miscellaneous	421	-	-	-	421
Total Cash Receipts	893,391	229,218	-	-	1,122,609
Cash Disbursements:					
Current:					
Security of Persons and Property	392,698	206,925	-	-	599,623
Public Health Services	11,543	-	-	-	11,543
Leisure Time Activities	2,909	-	-	-	2,909
Community Environment	3,400	-	-	-	3,400
Transportation	164	23,653	-	-	23,817
General Government	385,283	-	-	-	385,283
Capital Outlay	-	-	-	2,775	2,775
Debt Service:					
Principal Retirement	10,911	27,071	-	-	37,982
Interest and Fiscal Charges	288	8,660	-	-	8,948
Total Cash Disbursements	807,196	266,309	-	2,775	1,076,280
Excess of Receipts Over (Under) Disbursements	86,195	(37,091)	-	(2,775)	46,329
Other Financing Receipts:					
Advances In	22,970	-	-	-	22,970
Total Other Financing Receipts	22,970	-	-	-	22,970
Net Change in Fund Cash Balances	109,165	(37,091)	-	(2,775)	69,299
Fund Cash Balances, January 1 (Restated - See Note 11)	478,175	238,219	177,190	29,970	923,554
Fund Cash Balances, December 31					
Restricted	-	201,128	177,190	27,195	405,513
Unassigned	587,340	-	-	-	587,340
<i>Fund Cash Balances, December 31</i>	<u>\$ 587,340</u>	<u>\$ 201,128</u>	<u>\$ 177,190</u>	<u>\$ 27,195</u>	<u>\$ 992,853</u>

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

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

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 734,428
Miscellaneous	443
	734,871
Total Operating Cash Receipts	734,871
Operating Cash Disbursements:	
Personal Services	269,240
Contractual Services	143,201
Supplies and Materials	72,101
	484,542
Total Operating Cash Disbursements	484,542
Operating Income	250,329
Non-Operating (Disbursements)	
Principal Retirement	(75,270)
Interest and Fiscal Charges	(91,445)
	(166,715)
Total Non-Operating (Disbursements)	(166,715)
Income before Transfers and Advances	83,614
Transfers In	414,477
Transfers Out	(414,477)
Advances Out	(22,970)
	60,644
Net Change in Fund Cash Balances	60,644
Fund Cash Balances, January 1	791,259
<i>Fund Cash Balances, December 31</i>	\$ 851,903

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 Orwell, Ashtabula County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations and police. The Village appropriates General Fund money to support a volunteer fire department.

The Village participates in the Ohio Plan Risk Management, Inc. public entity risk pool. Note 8 to the financial statements provides additional information for these entities. This organization is:

Public Entity Risk Pool:

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as 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 Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Accounting Basis

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

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

C. Deposits and Investments

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

Repurchase agreements are valued 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 accounts for and reports all financial resources not accounted for and reported in another fund.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for and report the proceeds from specific sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village has 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.

Street Levy Fund – This fund receives real estate tax monies to maintain the street lights within the Village limits.

Fire Levy Fund – This fund receives real estate tax monies to help maintain the fire department.

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

Sewer Bonded Debt Fund – This fund receives assessments of citizens of the Village. Proceeds are used for sewer plant improvements.

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

Issue II Fund – This fund accounts for grant and loan monies received from the Ohio Public Works Commission plus matching funds from the Village. Expenditures are restricted to specific projects within the Village.

5. Enterprise Funds

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

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

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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, and 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. 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 in the subsequent year.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Fund Balance

In 2011, the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which had no effect on fund balances. Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

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

3. Committed

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

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance (Continued)

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.

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 investment 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:

	2012	2011
Demand Deposits	\$ 1,929,465	\$ 1,820,192
Total Deposits	1,929,465	1,820,192
Repurchase Agreement	24,984	24,564
Total Investments	24,984	24,564
Total Deposits and Investments	\$ 1,954,449	\$ 1,844,756

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

Investments: The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 838,000	\$ 880,341	\$ 42,341
Special Revenue	573,235	579,412	6,177
Debt Service	30,000	30,000	-
Enterprise	734,400	744,554	10,154
Total	\$ 2,175,635	\$ 2,234,307	\$ 58,672

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,139,505	\$ 886,895	\$ 252,610
Special Revenue	610,222	604,455	5,767
Debt Service	54,349	54,349	-
Capital Projects	27,195	-	27,195
Enterprise	1,572,290	578,915	993,375
Total	\$ 3,403,561	\$ 2,124,614	\$ 1,278,947

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 837,632	\$ 893,391	\$ 55,759
Special Revenue	226,481	229,218	2,737
Enterprise	1,147,377	1,149,348	1,971
Total	\$ 2,211,490	\$ 2,271,957	\$ 60,467

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,113,168	\$ 807,196	\$ 305,972
Special Revenue	320,025	266,309	53,716
Capital Projects	29,970	2,775	27,195
Enterprise	1,722,435	1,065,734	656,701
Total	\$ 3,185,598	\$ 2,142,014	\$ 1,043,584

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. DEBT

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest</u>
USDA - 2004 Ohio WWTP Bonds	\$ 1,603,000	1.90%
OWDA - Loan #2074 - Iron Removal Project	183,707	6.32%
OWDA - Loan #4326 - Industrial Park Infrastructure	6,567	3.00%
OPWC - Loan #CG02L - Breezewood/Various Road Improvements	36,667	0.00%
OPWC - Loan #CG15H - Phase II Water Main Replacement	24,564	0.00%
OPWC - Loan #CG16G - East Main Street Water Main Replacement	46,875	0.00%
OPWC - Loan #CG400 - Leffingwell Allotment Road Improvements	114,000	0.00%
Ohio Rail Development Commission Capital Lease	662	0.00%
Police Car Capital Lease	24,215	3.50%
2006 Fire Truck Capital Lease	128,407	4.89%
	<u>\$ 2,168,664</u>	

The 2004 Ohio WWTP general obligation bonds were issued in 2004 to fund a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The general obligation bonds are collateralized by the Village sewer receipts and collections from user fees from the Kennametal Corporation. The Village has agreed to set utility rates sufficient to cover Ohio WWTP Debt requirements.

The Village has also entered into OWDA loans for an iron removal project and industrial park infrastructure improvements. These loans will be repaid in semiannual installments including interest, over 20 years. The Village's taxing authority collateralized the loan.

The Ohio Water Development Authority (OWDA) sewer enlargement plant loan relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The OWDA approved a loan in the amount of \$469,263 to the Village for this project. This loan was paid off in 2011.

The Ohio Public Works Commission (OPWC) Phase I and Phase II East Main Street water main replacement loans were entered into in 2006 and will be repaid in semiannual installments, interest free, over twenty years. The Breezewood loan was entered into during 2008 and will also be repaid in semiannual installments, interest free, over 20 years, collateralized by the taxing authority of Village. The Leffingwell Allotment loan was entered into in 2012 and will be repaid in semiannual installments, interest free, over twenty years. The prior audit outstanding amount for the OPWC Loan CG16G was incorrectly stated as \$58,125. The correct amount outstanding for the OPWC Loan was \$56,250.

The Village has entered into capital lease agreements to purchase fire trucks, and also to access railroad pipe line crossings with the Ohio Rail Development Commission. These leases are backed by the Village's taxing authority. In 2012, the Village entered into a lease with Key Government Finance for a police car. This is a capital lease and is scheduled to be paid off in 2015.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. DEBT (Continued)

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

Year ending December 31:	WWTP Bonds	OWDA Loans	OPWC Loans	Capital Leases
2013	\$ 95,435	\$ 50,234	\$ 14,902	\$ 45,336
2014	95,487	50,234	14,902	45,344
2015	95,489	50,234	14,902	42,690
2016	95,441	50,234	14,902	35,731
2017	95,444	48,244	14,902	-
2018-2022	475,973	-	74,515	-
2023-2027	477,395	-	49,081	-
2028-2032	478,547	-	24,000	-
2033-2037	477,198	-	-	-
2038-2042	477,500	-	-	-
2043-2047	191,064	-	-	-
Total	<u>\$ 3,054,971</u>	<u>\$ 249,180</u>	<u>\$ 222,106</u>	<u>\$169,101</u>

5. LOCAL INCOME TAXES

The Village levies a municipal income tax of 1% 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 tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. 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. 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.

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.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

7. RETIREMENT SYSTEMS

The Village's law enforcement officers and firefighters 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 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Village contributed to OP&F an amount equal to 19.5% of police participant wages. For 2012 and 2011, 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, 2012.

The Village's Volunteer Fire Department personnel contribute to the Social Security System. The Village's liability is 6.2 % of wages.

8. RISK MANAGEMENT

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as 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 is legally separate from its member governments.

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.

OPRM coverage programs 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 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

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.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. RISK MANAGEMENT (Continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011.

	2012	2011
Assets	\$13,100,381	\$12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	\$6,413,188	\$7,172,519

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

9. INTERFUND TRANSFERS

During 2012, the following interfund transfers were made:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 118,000
Street Construction, Maintenance & Repair	25,000	-
Fire Levy	75,000	-
Other Funding	18,000	-
Sewer Bond	30,000	-
Water	-	30,000
Sewer	-	30,000
Water Improvement	30,000	-
Total	\$ 178,000	\$ 178,000

During 2011, the following interfund transfers were made:

	Transfers In	Transfers Out
Water	\$ -	\$ 174,477
Sewer	-	96,000
Water Improvement	30,000	144,000
Wellfield Improvement	384,477	-
Total	\$ 414,477	\$ 414,477

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In 2012 and 2011, the Village transferred funds from the Water Fund to the Water Improvement Fund in order to complete improvement projects related to operations of the water utility. In 2012, the Village transferred funds from the Sewer Fund to the Sewer Bond Fund in order to meet debt obligations. In 2011, the Village transferred funds from the Water Fund, Sewer Fund and Water Improvement Fund to the Wellfield Improvement Fund to correct a negative fund balance that was caused by making payments from the incorrect fund. A 10 year repayment plan was established in 2008 and the Village repaid the balance, in whole, in 2011.

**VILLAGE OF ORWELL
ASHTABULA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

10. INTERFUND ADVANCES

During 2011, the following interfund advances were made:

	<u>Advances In</u>	<u>Advances Out</u>
General Fund	\$ 22,970	\$ -
Sewer	-	22,970
Total	\$ 22,970	\$ 22,970

The advance was made in January 2011 to repay an advance from 2010.

11. PRIOR PERIOD FUND BALANCE ADJUSTMENTS

The Village posted adjustments in 2011 to change the Income Tax Fund classification from an Agency Fund to the General Fund.

	<u>Total Agency</u>	<u>Total General</u>
Balance as of December 31, 2010	\$ 4,475	\$ 473,700
Change in Fund Classification	(4,475)	4,475
Adjusted January 1, 2011 Fund Balance	\$ -	\$ 478,175

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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**

August 26, 2013

Village of Orwell
Ashtabula County
179 W Main Street
Orwell, Ohio 44076

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United State and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Village of Orwell**, Ashtabula County, Ohio, (the Village) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated August 26, 2013, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits and the Village adopted provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the amounts recorded as charges for services receipts in the Enterprise Funds in 2012 and 2011.

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 audit findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A material weakness is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider findings 2012-01 and 2012-02 described in the accompanying schedule of audit findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of audit findings as Finding 2012-01.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 26, 2013.

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.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

VILLAGE OF ORWELL
ASHTABULA COUNTY

SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011

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

FINDING NUMBER 2012-01

Noncompliance / Material Weakness

Ohio Rev. Code section 149.351(A) establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law.

The following documentation was not provided by the Village:

- Charges for Services Receipts in the Enterprise Funds – No supporting documentation for water/sewer receipts billed or accounts paid during 2012 and 2011. The Village accidentally disposed of them.

Inadequate supporting documentation eliminates a significant control point, obscures the audit trail and provides for the opportunity for errors and irregularities occurring and not being detected by management in a timely manner.

We recommend the Village retain access to its reports and files stored in software programs no longer in use. We also recommend that all supporting documentation pertaining to receipts be safeguarded appropriately.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2012-01

Material Weakness

Posting Receipts and Disbursements

Receipts and disbursements should be posted to the fund and line item accounts as established by Ohio Administrative Code Section 117-7-01.

Receipts and disbursements were not always posted correctly. For example:

- Principal and interest payments were misclassified as Capital Outlay and Contractual Services in the General Fund and misclassified as Capital Outlay in the Fire Levy Fund in 2012.
- Principal and interest payments were misclassified as Capital Outlay in the General Fund and Fire Levy Fund in 2011.
- Municipal income tax receipts and disbursements were incorrectly accounted for in an agency fund.

This resulted in several reclassification entries being made to the Village's financial statements. The accompanying financial statements reflect all reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all receipts and disbursements are properly identified and classified on the financial statements.

VILLAGE OF ORWELL
ASHTABULA COUNTY

SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2012-02 (Continued)

We also recommend the Fiscal Officer refer to Ohio Administrative Code Section 117-7-01 and/or the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements.

Management's Response – We did not receive a response from officials to this finding.

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Dave Yost • Auditor of State

VILLAGE OF ORWELL

ASHTABULA 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
NOVEMBER 14, 2013