



Dave Yost • Auditor of State

VILLAGE OF YELLOW SPRINGS
GREENE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Yellow Springs
Greene County
100 Dayton Street
Yellow Springs, Ohio 45387

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Yellow Springs, Greene County, (the Village) as of and for the year ended December 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Yellow Springs, Greene County as of December 31, 2013, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the January 1, 2013 fund balances were restated. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

January 15, 2015

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

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

	<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	\$1,006,812	\$26,557			\$1,033,369
Municipal Income Tax	1,363,034				1,363,034
Intergovernmental	550,246	186,073		\$155,953	892,272
Charges for Services	56,628				56,628
Fines, Licenses and Permits	43,406	3,504			46,910
Earnings on Investments	1,358	110			1,468
Miscellaneous	180,030	46,542		185	226,757
Total Cash Receipts	<u>3,201,514</u>	<u>262,786</u>		<u>156,138</u>	<u>3,620,438</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	1,079,821	170,804			1,250,625
Public Health Services	5,033	7,662			12,695
Leisure Time Activities	319,223				319,223
Community Environment	132,944				132,944
Transportation		492,995			492,995
General Government	670,070	5,065		5,921	681,056
Capital Outlay	59,275	100,931		185,496	345,702
Debt Service:					
Principal Retirement			\$455,000		455,000
Interest and Fiscal Charges			9,152		9,152
Total Cash Disbursements	<u>2,266,366</u>	<u>777,457</u>	<u>464,152</u>	<u>191,417</u>	<u>3,699,392</u>
Excess of Receipts Over (Under) Disbursements	<u>935,148</u>	<u>(514,671)</u>	<u>(464,152)</u>	<u>(35,279)</u>	<u>(78,954)</u>
Other Financing Receipts (Disbursements):					
Transfers In		642,756	273,587	229,587	1,145,930
Transfers Out	(967,430)				(967,430)
Advances In			275,000		275,000
Advances Out			(68,750)		(68,750)
Total Other Financing Receipts (Disbursements)	<u>(967,430)</u>	<u>642,756</u>	<u>479,837</u>	<u>229,587</u>	<u>384,750</u>
Net Change in Fund Cash Balances	(32,282)	128,085	15,685	194,308	305,796
Fund Cash Balances, January 1 (Restated)	<u>2,636,866</u>	<u>338,539</u>	<u>1</u>	<u>521,881</u>	<u>3,497,287</u>
Fund Cash Balances, December 31:					
Restricted		460,347	15,686	17,967	494,000
Committed		6,277		706,349	712,626
Assigned	549,702				549,702
Unassigned (Deficit)	2,054,882			(8,127)	2,046,755
Fund Cash Balances, December 31	<u>\$2,604,584</u>	<u>\$466,624</u>	<u>\$15,686</u>	<u>\$716,189</u>	<u>\$3,803,083</u>

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

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Types</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts:			
Charges for Services	\$4,359,186	\$34,350	\$4,393,536
Fines, Fees & Forfeitures		\$54,137	54,137
Miscellaneous	42,325		42,325
Total Operating Cash Receipts	<u>4,401,511</u>	<u>88,487</u>	<u>4,489,998</u>
Operating Cash Disbursements:			
Personal Services	1,100,503		1,100,503
Travel/Training	10,392		10,392
Contractual Services	2,663,306		2,663,306
Supplies and Materials	115,769	1,067	116,836
Capital Outlay	201,906		201,906
Total Operating Cash Disbursements	<u>4,091,876</u>	<u>1,067</u>	<u>4,092,943</u>
Operating Income (Loss)	<u>309,635</u>	<u>87,420</u>	<u>397,055</u>
Non-Operating Receipts (Disbursements):			
Principal Retirement	(91,859)		(91,859)
Interest and Other Fiscal Charges	(44,113)		(44,113)
Distribution of Fines and Fees		(54,137)	(54,137)
Other Financing Uses	(128,048)	(27,600)	(155,648)
Total Non-Operating Receipts (Disbursements)	<u>(264,020)</u>	<u>(81,737)</u>	<u>(345,757)</u>
Income (Loss) before Transfers and Advances	45,615	5,683	51,298
Transfers In		1,500	1,500
Transfers Out	(180,000)		(180,000)
Advances In	68,750		68,750
Advances Out	<u>(275,000)</u>		<u>(275,000)</u>
Net Change in Fund Cash Balances	(340,635)	7,183	(333,452)
Fund Cash Balances, January 1	<u>3,980,721</u>	<u>51,222</u>	<u>4,031,943</u>
Fund Cash Balances, December 31	<u>\$3,640,086</u>	<u>\$58,405</u>	<u>\$3,698,491</u>

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

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Yellow Springs, Greene County, Ohio, (the Village) as a body corporate and politic. The Village adopted a home rule municipal charter in 1950. A publicly-elected five-member Council directs the Village. The Council appoints the Village Manager who is the chief executive officer and the head of the administrative agencies of the Village. The Village Manager appoints all department heads and employees. The Village provides water, sewer, solid waste and electric utilities, park operations, and police services. The Village contracts with Miami Township to receive fire protection and emergency medical services.

The Village's management believes these financial statements present all the 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.

Money market mutual funds (including STAR Ohio) at the share value reported by the mutual funds report.

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.

2. Special Revenue Funds

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

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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:

Bond Retirement Fund - This fund is used to account for resources received on behalf of repaying the Village's outstanding Municipal Building Bond.

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 projects funds:

Parks and Recreation Improvement Fund - This fund is primarily used for construction and repair and maintenance expenses pertaining to the Village parks and recreation facilities, including the swimming pool.

Facilities Improvement Fund - This fund is used for repair and maintenance of the Bryan Center, Library, Train Depot and Public Works Facility.

Capital Equipment Fund – This fund is used to accumulate resources for the purchase of equipment

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:

Electric Fund - This fund receives charges for services from residents to cover the cost of distributing electricity throughout the Village.

Water Fund - This fund receives charges for services from residents to cover the cost of treating and distributing water throughout the Village.

Sewer Fund - This fund receives charges for services from residents to cover the cost of collecting and treating sewage throughout the Village.

Solid Waste Fund - This fund receives charges for services from residents to cover the cost of collecting solid waste throughout the Village.

6. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations, or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency funds accounts for the Mayor's Court and guaranteed deposits.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except the agency 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. 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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated. The Village did not encumber all commitments required by Ohio Law.

A summary of budgetary activity appears in Note 3.

F. Fund Balance

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

The classifications are as follows:

1. 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.

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

As of December 31, 2013, the Village had no fund balance(s) which meet the definition as being non-spendable.

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, if any, are reduced first followed by assigned, if any, 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 investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits December 31 was \$7,501,574. The Village did not have investments at year end.

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

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2013 was as follows:

2013 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,718,679	\$3,141,153	\$1,422,474
Special Revenue	1,414,420	965,903	(448,517)
Debt Service	548,587	548,587	
Capital Projects	1,194,851	385,725	(809,126)
Enterprise	7,640,136	4,470,261	(3,169,875)
Total	<u>\$12,516,673</u>	<u>\$9,511,629</u>	<u>(\$3,005,044)</u>

2013 Budgeted vs Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$3,547,616	\$3,270,083	\$277,533
Special Revenue	1,369,856	1,159,457	210,399
Debt Service	535,274	532,902	2,372
Capital Projects	307,087	191,417	115,670
Enterprise	5,951,492	5,770,932	180,560
Total	<u>\$11,711,325</u>	<u>\$10,924,791</u>	<u>\$786,534</u>

On the financial statements, the General Fund receipts and disbursements include certain Special Revenue Funds activities in accordance with GASB 54. These Special Revenue Funds are not included in the General Fund activity presented above.

Contrary to Ohio law, at December 31, 2013 the OPWC Round 25 Grant Fund had cash deficit balance of \$8,127.

4. PROPERTY TAX

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

Public utilities are also taxed on personal and real property located within the Village.

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

5. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5 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. The Regional Income Tax Agency (R.I.T.A) collected and distributed income taxes for the Village.

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

6. DEBT

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$947,307	2.75 to 5.15%

At December 31, 2013, the Village had 3 loans outstanding with the Ohio Water Development Authority (OWDA). All of these loans were used to finance improvements or expansion of the Village's water and sewer system's infrastructure.

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

Year Ending December 31:	OWDA Loans
2014	\$39,904
2015	79,808
2016	79,808
2017	58,301
2018	58,301
2019-2023	291,507
2024-2028	291,507
2029-2031	145,754
Total	\$1,044,890

The Village's 2011 OWDA loan had been approved for a total of not to exceed \$246,600 and as of December 31, 2013 the Village has drawn \$133,225, respectively. The amortization schedule for this loan is not available at this time and is not anticipated being available until the project has been completed and the total amount of the loan is finalized. As such, the outstanding principal from this loan at the end of December 31, 2013 is not included in the debt schedules above.

Conduit Debt

In 2002, the Village issued Health Care Facility Revenue Refunding and Improvement Bonds for improvements and acquisition of hospital facilities used by a private healthcare association. These bonds do not constitute general obligations, debtor bonded indebtedness or a pledge of the faith and credit of the Village. At December 31, 2013 the total of these bonds outstanding was approximately \$3.1 million.

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 10 percent through June 30, 2013 and 10.75 percent from July 1, 2013 through December 31, 2013. For 2013, the Village contributed to OP&F an amount equal to 19.5 percent of full-time police member's wages. For 2013, OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equal to 14 percent of participants' gross salaries. The Village has paid all contributions through December 31, 2013.

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

8. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

9. JOINT VENTURES WITH EQUITY INTEREST

The Village is a non-financing participant and an owner participant with an ownership percentage of 1.05 percent and shares participation with thirty-six other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner participants own undivided interests, as tenants in common, in the OMEGA JV2 project in the amount of their respective project shares. Purchaser participants agree to purchase the output associated with their respective project shares, ownership of which is held in trust for such purchaser participant.

Pursuant to the OMEGA JV2 agreement, the participants jointly undertook as either financing participants or non-financing participants and as either owner or purchaser participants, the acquisition, construction and equipping OMEGA JV2, including such portions of OMEGA JV2 have been acquired, constructed and equipped by AMP and to pay or incur the costs of the same in accordance with the JV2 agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2013, the outstanding debt was \$15,769,323. The Village's net investment in OMEGA JV2 was \$239,268 at December 31, 2013. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

10. SEGMENT INFORMATION

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) joint venture as described in Note 9. The Village is liable for debt related to the financing of the OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

10. SEGMENT INFORMATION (Continued)

Total Assets	\$2,708,981
Total Liabilities	
Condensed Operating Activities:	
Operating Receipts:	
Charges for Services	2,793,933
Other Operating Receipts	25,298
Total Operating Receipts	<u>2,819,231</u>
Operating Expenses	<u>2,528,072</u>
Operating Income (Loss)	291,159
Non-Operating Receipts (Disbursements):	
Other Non-Operating Receipts (Disbursements)	(128,048)
Transfers-Out	(180,000)
Advances-In	68,750
Advances-Out	<u>(275,000)</u>
Change in Fund Cash Balance	(223,139)
Beginning Fund Cash Balance	<u>2,932,120</u>
Ending Fund Cash Balance	<u><u>2,708,981</u></u>
Condensed Cash Flows Information:	
Net Cash Provided (Used) by:	
Operating Activities	291,159
Noncapital Financing Activities:	
Principal Payments on Noncapital Debt	(180,000)
Other Noncapital Financing Activities	(128,048)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(308,048)</u>
Investing Activities	
Sale of Investments	(275,000)
Investment Income	68,750
Net Cash Provided (Used) by Investing Activities	<u>(206,250)</u>
Net Increase (Decrease)	(223,139)
Beginning Fund Cash Balance	<u>2,932,120</u>
Ending Fund Cash Balance	<u><u>\$2,708,981</u></u>

11. INTERFUND ACTIVITY

On March 18, 2013, the Village Council authorized the issuance of \$275,000 in manuscript debt, which is held by the Village's Electric Fund to finance the early retirement of General Obligation Bonds which were used to finance the renovations of the Village's municipal building. The manuscript debt shall mature in equal annual installments of \$68,750 on September 1 of each year from 2013 to 2016 and carry an interest rate of one-half of one percent.

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013
(Continued)**

11. INTERFUND ACTIVITY (Continued)

	Advance To	
Advance From	Bond Retirement Fund	Electric Fund
Electric Fund	\$275,000	
Bond Retirement Fund		\$68,750

12. CONTINGENT LIABILITIES

For the period January 1, 2013 to December 31, 2013, the Village received state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the Village believes such disallowances, if any, would be immaterial.

13. PRIOR PERIOD ADJUSTMENT

The Village adjusted certain expenditures made prior to January 1, 2013 to properly account for the Ohio Department of Transportation grant activity. These adjustments resulted in following restatement of beginning balance

	General Fund	Capital Projects Fund
December 31, 2012 Ending Fund Balance	\$2,564,712	\$594,035
Expenditure Reclassification	72,154	(72,154)
Restated January 1, 2013 Fund Balance	\$2,636,866	\$521,881

14. SUBSEQUENT EVENTS

On July 3, 2014, the Village entered into a contract with Durst Brothers Excavating in the amount of \$309,542 for Cemetery Street water line project, Limestone Street sanitary and storm water project, and Xenia Avenue water main crossing project.

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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 Yellow Springs
Greene County
100 Dayton Street
Yellow Springs, Ohio 45387

To the Mayor and the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Yellow Springs, Greene County (the Village) as of and for the year ended December 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2015 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also noted that the Village restated its beginning fund balances.

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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider finding 2013-002 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-003 described in the accompanying schedule of findings to be a significant deficiency.

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 findings as item 2013-001.

Village's Response to Findings

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

January 15, 2015

VILLAGE OF YELLOW SPRINGS
GREENE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2013

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

FINDING NUMBER 2013-001

NONCOMPLIANCE

Ohio Rev. Code § 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund, free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant from the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.
2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority, against any specific line item account over a period not running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket certificate** – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Village failed to properly certify 20 of 39 (51.28%) expenditures, including five out of nine individually important items, tested for the period.

**FINDING NUMBER 2013-001
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. The Finance Director should certify that the funds are or will be available prior to the obligation by the Village to improve controls over disbursements and to help reduce the possibility that the Village's funds will exceed budgetary spending limitations. When prior certification is not possible, "then and now" certification may, if appropriate, be used. The Village should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Finance Director should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The approved purchase commitments should be posted to the proper appropriation code, to reduce the available appropriation.

Official's Response:

The Village is committed to ensuring that all future purchases follow the proper procedures. It should be noted that neither the current Finance Director or Village Manager were responsible for the transactions that occurred during the year audited as neither were employed by the Village at that time.

FINDING NUMBER 2013-002

MATERIAL WEAKNESS

Ohio Rev. Code § 133.29 authorizes entities to invest in their own securities. This type of debt is referred to as manuscript debt. There are two methods for recording manuscript debt in the accounting records:

1. The *Investment Method* records the proceeds from the sale of notes in the borrowing fund and as an investment on the investment record of the lending. The lending fund's balance is not reduced. When preparing the bank reconciliation, outstanding securities should be included as an investment. Debt service principal and interest, should be recorded in the lending fund. Upon payment of principal, a corresponding reduction of the investment should be recorded on the investment record.
2. *Advance/Interfund Method* records an advance-in in the debtor (borrowing) fund and a corresponding advance-out of the creditor (loaning) fund.

Cash basis governments should disclose the fund liabilities, including interest rates and repayment schedules, in their notes under either accounting method.

On March 18, 2013, the Village Council authorized the issuance of \$275,000 in manuscript debt from the Electric fund to pay off the remaining General Obligation Bonds that were issued in 2002 to finance the renovation of the Village's municipal building. The Village did not properly present the debt activity in accordance with either method mentioned above. Electing the advance method, the financial statements contained the following errors:

Enterprise Fund Type:

- The Village reported transfers out in amount of \$275,000 for issuance of the manuscript debt instead of reporting an advance out.
- The Village reported miscellaneous revenue in amount of \$68,750 for repayment of the manuscript debt made during 2013 instead of advances in.

**FINDING NUMBER 2013-002
(Continued)**

Debt Service Fund Type:

- Principal Retirement was overstated by \$68,750.
- The Village reported transfers in in the amount of \$275,000 for issuance of manuscript debt instead of advances in.
- The Village reported principal retirement instead of advances out for repayment of manuscript debt during 2013.

These errors were determined to be material and the financial statements were adjusted to properly reflect the issuance and repayment of manuscript debt.

The Village should implement procedures to verify that manuscript debt activity is properly presented on the financial statements. Failure to do so could result in material misstatements on the financial statements.

Official's Response:

The Village understands the importance of properly documenting all financial activity and is committed to ensuring that this is done correctly in the future. It should be noted that neither the current Finance Director or Village Manager were responsible for the transactions that occurred during the year audited as neither were employed by the Village at that time.

FINDING NUMBER 2013-003

SIGNIFICANT DEFICIENCY

Cash is the asset most susceptible to theft and misappropriation. Monthly reconciliations between the bank and the books provide a reasonable assurance that all receipts and expenditures have been correctly posted on the entity's books and have been correctly posted by the bank. Additionally reconciliations provide a picture of the Village's financial position at month end. Timely monthly reconciliations were not performed and the Village hired a CPA firm to help reconcile the books.

The December 31, 2013 bank reconciliations were performed by the CPA firm noted following reconciling items:

1. The Village booked \$3,879 in expenditures for transfer of funds from one bank account to another that never occurred. To balance the books the Village posted corresponding entries of \$3,789 to gas tax intergovernmental receipts.
2. Payments were made through the bank that was not recorded in the system.
3. Receipts and payments were posted to the system in amounts different that the amounts that cleared the bank.
4. Payments cleared the bank from a different account than what was posted to the system.
5. Outstanding checks that cleared the bank were not removed from the outstanding checks list.
6. Outstanding checks were also being carried as additional reconciling items.
7. Encumbrances were being listed as outstanding checks.
8. There were unknown reconciling differences noted on the bank reconciliations.

Additionally, the Village did not report \$4,128 in mayor's court bank accounts and \$500 in FSP bank account on the Agency fund financial statements. The misstatement was determined to be immaterial to the agency fund statements in which expenditures, receipts and opening balances were understated by \$3,736; \$4,285 and \$4,079 respectively. The accompanying financial statements have not been adjusted; however, the error was significant enough to report it to those charged with governance.

**FINDING NUMBER 2013-003
(Continued)**

The Village should perform timely and accurate monthly bank reconciliations and verify that supporting documentation for reconciling items is maintained to help provide the financial activity of the Village is properly accounted for and reported. Failure to do so could result in management using the incorrect cash balance as a basis for their decisions and bank errors going unnoticed. Additionally, independent detailed reviews should be performed of these reconciliations as means of providing for their accuracy.

Official's Response:

The Village understands the seriousness of this finding and has rectified the issue in 2014 under the direction of a new Finance Director by performing bank reconciliations on a monthly basis. It should be noted that neither the current Finance Director of Village Manager were responsible for this issue as they were not employed during the year audited.

**VILLAGE OF YELLOW SPRINGS
GREENE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	ORC 5705.10(D) – Posting of permissive, gas, and motor vehicle taxes to proper funds.	Yes	
2012-002	ORC 5705.41(D) – Certification of funds	No	Repeated as Finding 2013-001
2012-003	ORC 5705.10(H) – Negative cash fund balances	No	Repeated as a management letter comment.

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VILLAGE OF YELLOW SPRINGS

GREENE 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
FEBRUARY 10, 2015**