



Dave Yost • Auditor of State

VILLAGE OF PAULDING
PAULDING COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Paulding
Paulding County
116 South Main Street
Paulding, Ohio 45879-1408

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Paulding, Paulding County, Ohio (the Village), as of and for the year ended December 31, 2012.

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 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, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

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

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, or changes in financial position 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 Paulding, Paulding County, Ohio as of December 31, 2012, 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 permits, described in Note 1.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole. The federal awards expenditures schedule presents additional analysis required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subjected to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

June 19, 2013

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VILLAGE OF PAULDING
PAULDING COUNTY

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

	General	Special Revenue	Debt Service	Capital Projects	Permanent	Totals (Memorandum Only)
Cash Receipts						
Property and Other Local Taxes	\$159,846	\$260,784				\$420,630
Municipal Income Tax	432,373					432,373
Intergovernmental	98,025	282,827		\$1,096,827		1,477,679
Charges for Services	15,095	192,351				207,446
Fines, Licenses and Permits	26,478	9,020		4,438		39,936
Earnings on Investments	2,411	2,937				5,348
Miscellaneous	76,413	25,817				102,230
<i>Total Cash Receipts</i>	<u>810,641</u>	<u>773,736</u>		<u>1,101,265</u>		<u>2,685,642</u>
Cash Disbursements						
Current:						
Security of Persons and Property	80,113	528,452				608,565
Public Health Services	18,762					18,762
Leisure Time Activities	40,324	58,612				98,936
Community Environment	3,704					3,704
Basic Utility Services	15,672					15,672
Transportation	4,395	133,460				137,855
General Government	278,352					278,352
Capital Outlay	118,612	360,416		6,429,822		6,908,850
Debt Service:						
Principal Retirement		525,000				525,000
Interest and Fiscal Charges		14,392				14,392
<i>Total Cash Disbursements</i>	<u>559,934</u>	<u>1,620,332</u>		<u>6,429,822</u>		<u>8,610,088</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>250,707</u>	<u>(846,596)</u>		<u>(5,328,557)</u>		<u>(5,924,446)</u>
Other Financing Receipts (Disbursements)						
Sale of Bonds				4,997,000		4,997,000
Sale of Notes		496,000				496,000
Other Debt Proceeds				309,995		309,995
Transfers In		128,378				128,378
Transfers Out	(417,180)					(417,180)
Other Financing Sources	117,289					117,289
Other Financing Uses					(\$21)	(21)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(299,891)</u>	<u>624,378</u>		<u>5,306,995</u>	<u>(21)</u>	<u>5,631,461</u>
<i>Net Change in Fund Cash Balances</i>	<u>(49,184)</u>	<u>(222,218)</u>		<u>(21,562)</u>	<u>(21)</u>	<u>(292,985)</u>
<i>Fund Cash Balances, January 1</i>	<u>490,513</u>	<u>1,550,431</u>	<u>\$31,571</u>	<u>51,463</u>	<u>1,587</u>	<u>2,125,565</u>
Fund Cash Balances, December 31						
Nonspendable					1,566	1,566
Restricted		680,903	31,571			712,474
Committed		647,310		29,901		677,211
Assigned	140,800					140,800
Unassigned	300,529					300,529
<i>Fund Cash Balances, December 31</i>	<u>\$441,329</u>	<u>\$1,328,213</u>	<u>\$31,571</u>	<u>\$29,901</u>	<u>\$1,566</u>	<u>\$1,832,580</u>

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

**VILLAGE OF PAULDING
PAULDING 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, 2012**

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	\$1,502,623	\$60,000	\$1,562,623
Fines, Licenses and Permits	60	18,584	18,644
Miscellaneous	90,714	23,344	114,058
<i>Total Operating Cash Receipts</i>	<u>1,593,397</u>	<u>101,928</u>	<u>1,695,325</u>
Operating Cash Disbursements			
Personal Services	651,458	29,956	681,414
Contractual Services	481,138	29,951	511,089
Supplies and Materials	68,106	10,023	78,129
<i>Total Operating Cash Disbursements</i>	<u>1,200,702</u>	<u>69,930</u>	<u>1,270,632</u>
<i>Operating Income</i>	<u>392,695</u>	<u>31,998</u>	<u>424,693</u>
Non-Operating Receipts (Disbursements)			
Intergovernmental		2,000	2,000
Special Assessments	5,384		5,384
Sale of Notes	839,901		839,901
Capital Outlay	(286,413)	(25,009)	(311,422)
Principal Retirement	(1,109,052)		(1,109,052)
Interest and Other Fiscal Charges	(50,187)		(50,187)
Other Financing Uses	(10,000)	(12,750)	(22,750)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(610,367)</u>	<u>(35,759)</u>	<u>(646,126)</u>
<i>Loss before Transfers</i>	<u>(217,672)</u>	<u>(3,761)</u>	<u>(221,433)</u>
Transfers In	463,482		463,482
Transfers Out	(174,680)		(174,680)
<i>Net Change in Fund Cash Balances</i>	<u>71,130</u>	<u>(3,761)</u>	<u>67,369</u>
<i>Fund Cash Balances, January 1</i>	<u>1,403,869</u>	<u>21,742</u>	<u>1,425,611</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$1,474,999</u></u>	<u><u>\$17,981</u></u>	<u><u>\$1,492,980</u></u>

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

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

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 Paulding, Paulding County, Ohio (the Village), as a body corporate and politic. A publicly elected six-member Council governs the Village. The Village provides water and sewer utilities; park operations; mayor's court; and police EMS services. The Village contracts with the Paulding Community Fire Association to receive fire protection services.

The Village participates in a jointly governed organization, the Paulding County Fire Association, and a public entity risk pool, the Ohio Plan Risk Management, Inc. Notes 9 and 10 to the financial statements provide additional information for these entities.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of States prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This 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 and permits.

C. Cash 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. The basis reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposit and repurchase agreements at cost.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted and reported in another fund.

2. Special Revenue Funds

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

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

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Police Fund – This fund receives property tax money paid by Village residents and Mayor's Court costs to operate the police 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:

Pool Bond Levy Fund – This fund was used to account for property tax monies paid by the Village residents and accounted for the payment of principal and interest on bond anticipation notes used to pay costs on the improvements of the Village Swimming Pool.

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:

Water Treatment Plant (WTP) Construction Capital Improvement Fund – This fund is used to track several grant and loan monies received to fund the construction of a new water treatment plant project.

5. Permanent Funds

These funds account and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Village had the following significant Permanent Fund:

Cemetery Trust Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Village's cemetery.

6. 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 Capital Improvement Fund – This fund receives monies primarily from the Village's bond issue to cover the cost of capital improvement to various sewer projects.

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Fiduciary Funds (Trust and Agency 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.

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 account for:

Mayor's Court Fund – This fund receives fine money generated by the Village Mayor's Court. Fine money is disbursed to the Village Police fund, Mayor's Court Computer fund, the State Treasurer, and other appropriate agencies.

Paulding Community Fire Association Fund – This fund is used to account for the activities of the Paulding Community Fire Association for which the Village serves as fiscal agent.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level of control, and appropriations may not exceed estimated resources. 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 appropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 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:

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applied 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 acquisition 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.

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2012
Demand deposits	(\$537,048)
Certificates of deposit	1,413,288
Total deposits	876,240
Repurchase agreement	2,449,320
Total deposits and investments	\$3,325,560

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

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.

3. BUDGETARY ACTIVITY

Budgetary activity for year ending December 31, 2012 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$997,100	\$927,930	(\$69,170)
Special Revenue	1,503,759	1,398,114	(105,645)
Capital Projects	6,553,137	6,408,260	(144,877)
Enterprise	2,990,700	2,902,164	(88,536)
Permanent	2		(2)
Agency	111,500	103,928	(7,572)
Total	\$12,156,198	\$11,740,396	(\$415,802)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,006,110	\$1,026,942	(\$20,832)
Special Revenue	1,644,619	1,667,995	(23,376)
Capital Projects	6,661,540	6,429,822	231,718
Enterprise	3,039,770	2,936,824	102,946
Permanent	20	21	(1)
Agency	111,048	115,071	(4,023)
Total	\$12,463,107	\$12,176,675	\$286,432

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which the Council adopts 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 Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due by 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.

5. LOCAL INCOME TAX

The Village levies a municipal income tax of .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.

Employers within the Village withhold income tax on employee compensation and remit the tax to the City of Cleveland Central Collection Agency on behalf the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loans	\$73,190	4.50%
Ohio Water Development Authority Loans	1,447,291	1.00-6.35%
Mortgage Revenue Bonds	4,997,000	2.75%
Bond Anticipation Notes	1,320,000	2.75%
Total	<u>\$7,837,481</u>	

Ohio Public Works Commission (OPWC) Loans

The Village entered into the first loan in 1993 for lagoon improvements and entered into the second loan in 1995 for interceptor improvements. Both loans are for 20 years and have an interest rate of 4.5 percent. The Village makes semiannual installments of \$7,323, including interest, for the first loan and semiannual installments of \$14,110, including interest, for the second loan.

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

6. DEBT (Continued)

Ohio Water Development Authority (OWDA) Loans

The Village entered into these loans as cooperative agreements for the construction, maintenance, and operation of water and sewer development projects. Loan #3031, which had its first installment due January 1, 1997, will be repaid in semiannual installments of \$1,467, including interest, over 20 years. Loan #3367, which had its first installment due January 1, 2003, will be repaid in semiannual installments of \$30,171, including interest, over 15 years. Loan #4683's principal balance was rolled over into a long-term construction loan in 2012 (loan #6099). Loan #6099 will be repaid in semiannual installments, including interest, over 30 years (the amortization schedule for this loan has not been completed as of yet), the first payment being due on January 1, 2015. Loan #5928's principal balance was rolled over into a long-term construction loan in 2012 (loan #6143). Loan #6143 will be repaid in semiannual installments, including interest, over a five (5) year period (the amortization schedule for this loan has not been completed as of yet), the first payment being due on January 1, 2014.

2012 Mortgage Revenue Bonds

The Village issued \$4,997,000 in mortgage revenue bonds in April 2012 to finance the construction of a new water treatment plant, pumping stations, and force mains. These bonds were issued for a forty year period, with final maturity in 2052. The first debt payment is due on the bonds in 2014. The bonds will be paid through utility system user charges collected in the Water Fund.

Bond Anticipation Notes

The Village issued bond anticipation notes for such projects as improving the water treatment plant; Gasser Road water and sewer improvements; Village water and sewer improvements; and street and curbing improvements. The bond anticipation notes are one-year renewals with a maturity date on May 18, 2013 and an interest rate of 2.75%.

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

Year ending December 31:	OPWC Loans	OWDA Loans	Mortgage Revenue Bonds
2013	\$35,543	\$63,276	
2014	28,221	63,276	\$159,773
2015	14,110	63,276	211,886
2016		61,809	212,442
2017			212,154
2018-2022			1,060,802
2023-2027			1,060,584
2028-2032			1,061,005
2033-2037			1,060,796
2038-2042			1,060,782
2043-2047			1,060,742
2048-2052			901,169
Total	\$77,874	\$251,637	\$8,062,135

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

7. LEASES

The Village entered into several leases for such items as a postage meter, police car, and copiers. These leases are repaid from the General, Police, EMS, Water, Sewer, Water Capital Improvement, and Sewer Capital Improvement Funds.

Future minimum lease payments are as follows:

Year Ending December 31:	<u>2012</u>
2013	\$6,137
2014	6,308
2015	2,569
2016	2,569
2017	2,569
2018	660
Total	<u><u>\$20,812</u></u>

8. RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time 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 the plans' retirement benefits, including post-retirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS' members contributed 10 percent of their wages in 2012. The Village contributed an amount equal to 14 percent of participants' gross salaries in 2012. The Village has paid all contribution required through December 31, 2012.

9. RISK MANAGEMENT

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio 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% (41.5% effective November 1, 2011, 40% through October 31, 2011 and 17.5% through October 31, 2010) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 782 and 761 members as of December 31, 2011 and 2010 respectively.

**VILLAGE OF PAULDING
PAULDING COUNTY**

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

9. RISK MANAGEMENT (Continued)

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

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2011 and 2010 (the latest information available).

	2011	2010
Assets	\$12,501,280	\$12,036,541
Liabilities	(5,328,761)	(4,845,056)
Members' Equity	<u>\$7,172,519</u>	<u>\$7,191,485</u>

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

10. JOINTLY GOVERNED ORGANIZATION

The Paulding County Fire Association (PCFA) is a jointly governed organization which provides fire fighting services to three townships and three villages (member subdivisions) within Paulding County. The PCFA relies upon its member subdivisions for the funding of its operations. Each member subdivision has a vote on the operating budget of the PCFA. The member subdivision's share of the PCFA budget is based on a ratio which incorporates the number of fire runs taking place within its subdivision plus current subdivision valuation in relation to overall fire runs and valuation. The Village serves as fiscal agent for the PCFA. The Village's share of the budget was \$24,726 in 2012.

11. CONTRACTUAL COMMITMENTS

As of December 31, 2012, the Village had a contractual purchase commitment with Peterson Construction for the Village's new water treatment plant project in the amount of \$3,894,871. In addition, the Village had a contractual commitment with URS Corporation for engineering services on the new water treatment plant project in the amount of \$898,590.

12. SUBSEQUENT EVENTS

On January 7, 2013 the Village entered into an agreement with Underground Utilities, Inc. in the amount of \$4,157,503 for Phase I of the CSO (Combined Sewer Overflow) project.

The bond anticipation notes stipulated in Note 6 above were renewed in May 2013 for \$1,115,000. The new notes will mature in May 2014.

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**VILLAGE OF PAULDING
PAULDING COUNTY**

**FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Direct Assistance</i>			
Water and Waste Disposal Systems for Rural Communities - Loan		10.760	\$4,997,000
Water and Waste Disposal Systems for Rural Communities - Grant		10.760	<u>749,204</u>
Total U.S. Department of Agriculture			<u>5,746,204</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Program	C-W-10-2MB-1	14.228	<u>131,000</u>
Total			<u>\$5,877,204</u>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF PAULDING
PAULDING COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (the Schedule) reports the Village of Paulding's (the Village's) federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require the Village to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

Village of Paulding
Paulding County
116 South Main Street
Paulding, Ohio 45879-1408

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Paulding, Paulding County, Ohio (the Village), as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2013 wherein we noted the Village followed financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our 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 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 2012-002 and 2012-003 described in the accompanying schedule of 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 findings as item 2012-001.

Entity'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 response 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

June 19, 2013



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Village of Paulding
Paulding County
116 South Main Street
Paulding, Ohio 45879-1408

To the Village Council:

Report on Compliance for Each Major Federal Program

We have audited the Village of Paulding, Paulding County, Ohio (the Village), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village's major federal program for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Village's major federal program.

Management's Responsibility

The Village's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Village's compliance for each of the Village's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Village's major program. However, our audit does not provide a legal determination of the Village's compliance.

Opinion on the Major Federal Program

In our opinion, the Village complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Village's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

June 19, 2013

VILLAGE OF PAULDING
PAULDING COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2012

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Water and Waste Disposal Systems for Rural Communities - CFDA #10.760
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2012-001

Noncompliance

Ohio Revised Code, § 5705.41(D)(1), states that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required for the order or contract has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

**FINDING NUMBER 2012-001
(Continued)**

There are several exceptions to the 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 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 an appropriate fund free from any previous encumbrances, the Village Council can authorize the drawing of a warrant for the payment of the amount due. The Village Council 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 Council.

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Super Blanket Certificate** – The Village Council 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 may, but need not, be limited to a specific vendor. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Fourteen of twenty-five disbursements selected for testing exceeded \$3,000 and were certified using Then and Now Certification. None of these certifications were formally approved by the Council as required. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used. Any "then and now" certifications exceeding \$3,000 should be formally approved by Council.

Officials' Response:

The Finance Director will provide Council with an "Encumbrance by PO" report to formally approve Then and Now Certifications exceeding \$3,000 each month.

FINDING NUMBER 2012-002

Material Weakness – Fund Balance Classification

Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, introduces five fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned and unassigned.

The assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. When the appropriation measure is adopted for the subsequent year, if a portion of existing fund balance is included as a budgetary resource, then that portion of fund balance should be classified as assigned. This would be applicable to the general fund as it is the only fund with a positive unassigned fund balance.

The 2013 annual appropriation measure for the general fund was adopted on December 3, 2012 in the amount of \$882,000. Estimated receipts were \$791,030. A portion of the general fund balance, \$90,970 was needed to cover the difference. This amount should have been classified as assigned for subsequent year's appropriations instead of being classified as unassigned.

In addition, the general fund had year end outstanding encumbrances in the amount of \$49,830. This amount should have been classified as assigned for encumbrances instead of being classified as unassigned.

Adjustments were recorded to the 2012 financial statements to classify the amounts as assigned.

In order to ensure the Village's governmental fund balances are reported in accordance with GASB 54, we recommend the Village review Auditor of State Bulletin 2011-004.

Officials' Response:

GASB 54 is relatively new and fairly complex. The Finance Director will classify year end outstanding encumbrances and subsequent year's appropriations exceeding estimated receipts as "assigned" in the future.

FINDING NUMBER 2012-003

Material Weakness – Financial Reporting

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments.

1. Bond anticipation note proceeds in the Street Construction, Maintenance, and Repair Fund of \$496,000 were recorded as Sale of Bonds. These should have been recorded as Sale of Notes.
2. USDA Rural Development grant monies in the Water Treatment Plant Construction Capital Improvement Fund of \$749,204 were recorded as Other Debt Proceeds. These should have been recorded as Intergovernmental receipts.
3. OWDA loan proceeds in the Wastewater Water Sewer Separation Fund of \$309,995 were recorded as Intergovernmental receipts. These should have been recorded as Other Debt Proceeds.

**FINDING NUMBER 2012-003
(Continued)**

4. Transfers Out in the Sewer Fund of \$145,000 were recorded as Capital Outlay. These should have been recorded as Transfers Out.
5. Bond anticipation note repayment in the Curbing Fund of \$66,782 was recorded as Capital Outlay. This should have been recorded as Principal Retirement (\$65,000) and Interest and Other Fiscal Charges (\$1,782).
6. Capital expenditures in the Wastewater Lagoons and Wastewater Sewer Separation Funds of \$256,691 and \$309,995, respectively, were recorded as Basic Utility Services disbursements. These should have been recorded as Capital Outlay disbursements.

These adjustments have been posted to the accompanying financial statements and schedule of federal awards expenditures.

Sound financial reporting is the responsibility of the Fiscal Officer and the Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Council, to identify and correct errors and omissions. The Fiscal Officer should also review the Village Handbook.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS FOR FEDERAL AWARDS

None

**VILLAGE OF PAULDING
PAULDING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Material recommendation to record on-behalf-of payments received from the State.	Yes	
2011-002	Material weakness due to lack of monitoring of financial statements and notes to financial statements.	No	Not corrected and reissued as Finding 2012-003 in this report.
2011-003	Material weakness due to lack of monitoring of governmental fund balance classifications on the financial statements.	No	Not corrected and reissued as Finding 2012-002 in this report.

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Dave Yost • Auditor of State

VILLAGE OF PAULDING

PAULDING 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
JULY 9, 2013**