

VILLAGE OF BRADY LAKE

PORTAGE COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2013 and 2012





Dave Yost • Auditor of State

Village Council
Village of Brady Lake
6500 Lakeview Drive
Ravenna, Ohio 44266

We have reviewed the *Independent Auditor's Report* of the Village of Brady Lake, Portage County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2012 through December 31, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Brady Lake is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

September 2, 2014

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VILLAGE OF BRADY LAKE
PORTAGE COUNTY

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INDEPENDENT AUDITOR'S REPORT

Village of Brady Lake
Portage County
6500 Lakeview Dr.
Ravenna, OH 44266

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Brady Lake, Portage County, (the Village) as of and for the years ended December 31, 2013 and 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 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 adverse and qualified audit opinions.

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

Basis for Additional Opinion Qualification

Municipal income taxes are reported at \$49,389, and \$44,902 for the years ended December 31, 2013 and 2012, respectively, which are 26 percent of General Fund receipts for the year ended December 31, 2013, and 22 percent of General Fund receipts for the year ended December 31, 2012. We were unable to obtain sufficient appropriate audit evidence supporting the completeness of the amounts recorded as municipal income taxes. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Brady Lake, Portage County as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the Village will continue as a going concern. As discussed in Note 12, as of December 31, 2013, the Village's audited General Fund balance is a negative (\$5,328) and has a total negative fund balance of negative (\$1,985). This condition raises substantial doubt about the Village's ability to continue as a going concern. 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 July 25, 2014, 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.



Charles E. Harris & Associates, Inc.
July 25, 2014

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts				
Property and Other Local Taxes	\$ 32,000	-	\$ 29,050	\$ 61,050
Municipal Income Tax	49,389	-	-	49,389
Intergovernmental	67,995	\$ 20,432	-	88,427
Charges for Services	3,000	-	-	3,000
Fines, Licenses and Permits	25,235	-	-	25,235
Earnings on Investments	8	-	-	8
Miscellaneous	12,218	-	-	12,218
<i>Total Cash Receipts</i>	<u>189,845</u>	<u>20,432</u>	<u>29,050</u>	<u>239,327</u>
Cash Disbursements				
Current:				
Security of Persons and Property	89,033	-	-	89,033
Community Environment	2,823	-	-	2,823
Transportation	-	7,778	-	7,778
General Government	61,458	-	-	61,458
Materials and Supplies	9,834	-	-	9,834
Contractual Services	15,042	14,818	-	29,860
Debt Service:				
Principal Retirement	8,085	238	22,191	30,514
Interest and Fiscal Charges	529	-	18,456	18,985
<i>Total Cash Disbursements</i>	<u>186,804</u>	<u>22,834</u>	<u>40,647</u>	<u>250,285</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	3,041	(2,402)	(11,597)	(10,958)
Other Financing Receipts (Disbursements)				
Transfers In	-	-	6,356	6,356
Transfers Out	(6,356)	-	-	(6,356)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(6,356)</u>	<u>-</u>	<u>6,356</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	(3,315)	(2,402)	(5,241)	(10,958)
<i>Fund Cash Balances, January 1</i>	<u>(2,013)</u>	<u>15,392</u>	<u>(4,406)</u>	<u>8,973</u>
Fund Cash Balances, December 31				
Restricted	-	14,999	-	14,999
Assigned	-	-	238	238
Unassigned (Deficit)	<u>(5,328)</u>	<u>(2,009)</u>	<u>(9,885)</u>	<u>(17,222)</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ (5,328)</u>	<u>\$ 12,990</u>	<u>\$ (9,647)</u>	<u>\$ (1,985)</u>

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

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts				
Property and Other Local Taxes	\$ 34,565	-	\$ 29,537	\$ 64,102
Municipal Income Tax	44,902	-	-	44,902
Intergovernmental	85,014	\$ 34,126	-	119,140
Charges for Services	2,018	-	-	2,018
Fines, Licenses and Permits	17,411	-	-	17,411
Earnings on Investments	14	-	-	14
Miscellaneous	23,511	-	-	23,511
<i>Total Cash Receipts</i>	<u>207,435</u>	<u>34,126</u>	<u>29,537</u>	<u>271,098</u>
Cash Disbursements				
Current:				
Security of Persons and Property	110,835	10,000	-	120,835
Community Environment	1,734	-	-	1,734
Transportation	-	9,436	-	9,436
General Government	61,978	-	-	61,978
Materials and Supplies	5,639	-	-	5,639
Contractual Services	17,151	16,987	-	34,138
Debt Service:				
Principal Retirement	7,766	238	20,918	28,922
Interest and Fiscal Charges	875	-	19,731	20,606
<i>Total Cash Disbursements</i>	<u>205,978</u>	<u>36,661</u>	<u>40,649</u>	<u>283,288</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	1,457	(2,535)	(11,112)	(12,190)
Other Financing Receipts (Disbursements)				
Sale of Capital Assets	8,600	-	-	8,600
Transfers In	-	-	6,706	6,706
Transfers Out	(6,706)	-	-	(6,706)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>1,894</u>	<u>-</u>	<u>6,706</u>	<u>8,600</u>
<i>Net Change in Fund Cash Balances</i>	3,351	(2,535)	(4,406)	(3,590)
<i>Fund Cash Balances, January 1</i>	<u>(5,364)</u>	<u>17,927</u>	<u>-</u>	<u>12,563</u>
Fund Cash Balances, December 31				
Restricted	-	15,392	-	15,392
Assigned	-	-	238	238
Unassigned (Deficit)	(2,013)	-	(4,644)	(6,657)
<i>Fund Cash Balances, December 31</i>	<u>\$ (2,013)</u>	<u>\$ 15,392</u>	<u>\$ (4,406)</u>	<u>\$ 8,973</u>

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

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 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 Brady Lake, Portage County, Ohio, (the Village) as a body corporate and politic. A publicly elected six-member Council directs the Village. The Village provides police services, fire protection services, park operations and zoning. The Village contracts with Ravenna Township to provide dispatching and emergency medical services. The Village appropriates general fund money to support a volunteer fire department.

The Village participates in the Ohio Plan Risk Management, Inc. (OPRM), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program. Note 8 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

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

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

C. Deposits and Investments

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

The Village pooled all money into a money market account and demand deposits.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. Summary of Significant Accounting Policies (continued)

2. Special Revenue Funds

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

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 resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Funds:

Fire Tanker Repair Fund – This fund receives property tax money to pay debt service on a bond issuance.

Recreation Levy Bond Fund – This fund receives property tax money to pay debt service on a bond issuance.

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 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 reappropriated.

A summary of 2013 and 2012 budgetary activity appears in Note 3.

VILLAGE OF BRADY LAKE
PORTAGE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

1. Summary of Significant Accounting Policies (continued)

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. **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 or ordinance). The Village must adhere to these commitments unless the Council amends the resolution or ordinance. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. **Assigned**

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

5. **Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. Summary of Significant Accounting Policies (continued)

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

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

	2013	2012
Demand deposits	(\$2,174)	\$5,775
Total deposits	(2,174)	5,775
Money Market Funds	189	3,198
Total investments	189	3,198
Total deposits and investments	(\$1,985)	\$8,973

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$265,435	\$189,845	(\$75,590)
Special Revenue	60,000	20,432	(39,568)
Debt Service	34,291	35,406	1,115
Total	\$359,726	\$245,683	(\$114,043)

2013 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$260,435	\$193,160	\$67,275
Special Revenue	76,551	22,834	53,717
Debt Service	34,291	40,647	(6,356)
Total	\$371,277	\$256,641	\$114,636

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

3. Budgetary Activity (continued)

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$230,026	\$216,035	(\$13,991)
Special Revenue	67,000	34,126	(32,874)
Debt Service	34,181	36,243	2,062
Total	\$331,207	\$286,404	(\$44,803)

2012 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$259,312	\$212,684	\$46,628
Special Revenue	67,000	36,661	30,339
Debt Service	34,181	40,649	(6,468)
Total	\$360,493	\$289,994	\$70,499

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.

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 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

6. Debt

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$290,959	6.00%
General Obligation Notes	7,534	4.50%
Ohio Public Works Commission Loan	7,868	0.00%
Total	\$306,361	

In 2004, the Village refunded \$415,461 in Various Purpose Improvement Bonds. Along with the refunding, the Village also issued \$35,000 for a fire truck. The total Various Purpose Improvement Bonds issued in 2004 was \$450,461. The fire truck part of the Various Improvement Bonds is paid along with the Refunding, however it follows its own schedule and began with its first payment on issuance on June 1, 2005 and will end on December 1, 2014.

The Village took out a 5 year, sixty month loan of \$37,500 to purchase a Grumman Fire Truck and made the first loan payment in December 2009, with equal monthly payments of \$700.17 and will end on November 16, 2014.

The Ohio Public Works Commission Loan (OPWC) relates to a road paving project that took place during 2009. The OPWC Loan was in the amount of \$9,537, with bi-annual payments of \$238.43 and will end on January 1, 2030.

The Village's taxing authority collateralized the bonds.

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

Year ending December 31:	General Obligation Bonds	General Obligation Notes	OPWC Loan
2014	\$ 40,647	\$ 7,702	\$ 477
2015	35,943		477
2016	30,703		477
2017	35,944		477
2018	35,943		477
2019-2023	179,717		2,384
2024-2028	35,944		2,384
2029-2033			715
Total	\$ 394,841	\$ 7,702	\$ 7,868

The outstanding debt amount for the OPWC Loan as of December 31, 2011 was understated by \$476. The amortization of this loan has been updated accordingly.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

7. Retirement Systems

The Village's full-time police officer belongs to the Ohio Public Employees Retirement System (OPERS). The Village's part-time firefighters pay into Social Security. Other employees belong to the Ohio Public Employees Retirement System (OPERS) or pay into Social Security. OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2013. Part-time firefighters contributed social security at an amount equal to 4.2%. The Village has paid all contributions required through December 31, 2013.

8. Risk Management

Risk Pool Membership

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011, respectively.

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

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

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

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

8. Risk Management (continued)

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

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

9. Contingent Liabilities

Management believes there are no pending claims or lawsuits.

10. Interfund Transfers and Advances

The Village had transfers during 2013 and 2012 that were to pay debt. All interfund activity was made in accordance with the Ohio Revised Code.

11. Compliance

Contrary to Ohio Revised Code Section 5705.10(H), at December 31, 2013 and 2012, various funds had negative fund balances.

Contrary to Ohio Revised Code Section 5705.36(A)(1) the Village did not certify the correct beginning fund balances to the Portage County Auditor for 2013 and 2012.

Contrary to Ohio Revised Code Section 5705.41(D) the Village did not certify that expenditures were lawfully appropriated and free from any previous encumbrance for all expenditures tested during 2013 and 2012.

12. Going Concern

As of December 31, 2013, the Village had the following negative funds balances: General fund (\$5,328), Special Revenue-Street (\$2,009), Debt Service-Fire Tanker (\$4,063) and Debt Service-Recreation Levy Bond (\$5,822). As of December 31, 2012, the Village had the following negative funds balances: General fund (\$2,013), Debt Service-Fire Tanker (\$1,909) and Debt Service-Recreation Levy Bond (\$2,735). This condition raises substantial doubt about the Village's ability to continue as a going concern.

Management is in the process of reviewing delinquent taxpayers to alleviate the negative fund balances.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Village of Brady Lake
Portage County
6500 Lakeview Dr.
Ravenna, OH 44266

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 Brady Lake, Portage County (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated July 25, 2014, 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 qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the amounts recorded as municipal income taxes.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-01 through 2013-05 and 2013-07 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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2013-01 through 2013-03, 2013-06 and 2013-08.

We also noted certain matters not requiring inclusion in this report in our letter dated July 25, 2014.

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.



Charles E. Harris and Associates, Inc.
July 25, 2014

VILLAGE OF BRADY LAKE
PORTAGE COUNTY

SCHEDULE OF FINDINGS
December 31, 2013 and 2012

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

Finding Number: 2013-01 – Noncompliance and Material Weakness

Setting up a Debt Service Fund for the 2004 Various Purpose Improvement Bonds, Series 2004 Issuance

The Village issued a \$450,461 bond issuance called Various Purpose Improvement Bonds, Series 2004. The Transcript of Proceedings Section 3.30 Bond Fund requires the debt to be paid out of a debt service fund.

Noncompliance was noted with the bond issuance debt covenant since the Village is paying debt out of three different funds for this Bond Issuance. The money is segregated by the County Auditor on the Statement of Semiannual Apportionment of Taxes and is appropriately budgeted for on the Official Certificate and any respective amendment with the County Auditor, however a portion of the Bond Issuance for the administration building is improperly being paid out of the General Fund. In addition, the amount of debt principal and interest payments are not segregated.

The auditor has been provided permission from Council and the Clerk Treasurer to adjust the Bond Issuance payments to reflect it being paid out of a Debt Service Fund and segregate out the debt payments into principal and interest. During the audit period the bond was paid from the functions of Community Environment, Capital Outlay and Security of Persons and Property.

We recommend the Village implement controls to help ensure they comply with debt covenants. In addition, we recommend the Clerk Treasurer segregate principal and interest payments and reflect all debt payments for the Bond Issuance out of the Debt Service Fund.

Finding Number: 2013-02 – Noncompliance and Material Weakness

Mispostings and Misclassifications Resulting in Financial Statement Adjustments

Ohio Administrative Code Section 117-2-02(A) provides that all local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance and finance-related legal and contractual requirements and prepare financial statements.

The Village Officers' Handbook (revised March 2012) provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications and the aforementioned accounting records will provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

The Village could not provide supporting documentation for payments made in January 2012. Alternative procedures were utilized to verify that expenditures were for a proper public purpose and that amounts paid were for amounts invoiced.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS - continued
December 31, 2013 and 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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Finding Number: 2013-02 – Noncompliance and Material Weakness (continued)

Also, our testing revealed several instances where errors were made with respect to the posting and reporting of various transactions. During 2012 and 2013, these misclassifications included the following:

- During 2013 and 2012, Homestead and Rollback monies were misclassified as Property Taxes revenue instead of Intergovernmental revenue.
- During 2013 and 2012, a receipt of Undivided Liquor Permit tax monies was misclassified as Fines, Licenses and Permits revenue instead of Intergovernmental revenue. During 2012, the receipt of undivided liquor permit tax monies was misposted to the Street Construction Fund instead of the General Fund.
- During 2013 and 2012, a receipt of Local Government Distributions was misclassified as Municipal Income Tax revenue instead of Intergovernmental revenue.
- During 2013 and 2012, Debt Service Fund debt principal and interest payments were misclassified as Capital Outlay and Community Environment rather than Debt Service – Principal and Debt Service – Interest.
- During 2013 and 2012, General Fund debt principal and interest payments were misclassified as Security of Persons and Property instead of Debt Service – Principal and Debt Service – Interest.
- During 2013 and 2012, Property Tax monies for debt covenants were misclassified as Municipal Income Tax revenue and Special Assessments revenue instead of Property Tax revenue.
- During 2013 and 2012, Property Tax monies were recorded at the net amount received causing both the Property Tax revenue and General Government expenses to be understated in the General Fund.

Management agrees with these adjustments and they were adjusted in the Village's records and the accompanying financial statements.

We recommend the Village use more caution to ensure all activities of the Village are recorded accurately. The Village's Clerk Treasurer should refer to the Village Officers' Handbook to ensure proper fund and account classification. We also recommend that the Village adhere to its Records Retention policy regarding the disposition of financial records to ensure that all supporting documentation is maintained and available for inspection.

Finding Number: 2013-03 – Noncompliance and Material Weakness

Negative Fund Balances

Ohio Revised Code Section 5705.10(H) states that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS - continued
December 31, 2013 and 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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Finding Number: 2013-03 – Noncompliance and Material Weakness (continued)

Numerous audit adjustments were required to be made to the Village's bank reconciliations and receipts during our audit, and as a result, Village fund balances in the accounting system also required adjustment.

As a result of these adjustments, the General Fund has deficit fund balances as of December 31, 2013 and 2012 of \$5,328 and \$2,013, the Fire Tanker Repair Fund has deficit fund balances of \$4,063 and \$1,909 and the Recreation Levy Bond Fund has deficit fund balances of \$5,822 and \$2,735, respectively. Also, the Street Fund had a deficit fund balance of \$2,009 as of December 31, 2013.

We recommend Council pay close attention to the bank reconciliations and financial reports the Clerk Treasurer provides at each meeting. We also recommend that the Finance Committee review and sign off on all monthly reconciliations and maintain vigilance over each fund and its respective balance from this point forward.

Finding Number: 2013-04 – Material Weakness

Budget Amounts Not Entered Into Accounting System

Ohio Administrative Code 117-2-02(C) states that all local public offices must integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The legal level of control is the level at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates.

In 2013 and 2012, the Village Clerk Treasurer entered estimated resources into the financial accounting system for the General Fund only. Total estimated resources for all funds as approved by the Budget Commission were \$376,277 and \$360,493 in 2013 and 2012, respectively.

During 2013, the Debt Service Fund's appropriations approved by the Budget Commission were \$34,291, however, the Clerk Treasurer only posted \$29,250 in the financial system which is a \$5,041 difference.

Inaccurate appropriations and estimated receipts in the fund ledgers do not provide the Village's management and Council with the necessary data to make decisions regarding the Village spending and operations.

We recommend the Clerk Treasurer ensure that complete and accurate budgetary data is entered into the fund ledgers by comparing the appropriations, estimated receipts and amendments thereto with the Village's fund ledgers on a monthly basis.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS - continued
December 31, 2013 and 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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Finding Number: 2013-05 – Material Weakness

Cash Reconciliations

A bank to book reconciliation should be performed monthly and reviewed and approved by an individual with appropriate fiscal authority. The reconciliation of the Village's bank accounts with its cash ledgers is a necessary control procedure to adequately safeguard cash and to provide an accurate financial picture of the Village. As part of the bank reconciliation, all differences between the balance appearing on the financial statements and the balance of cash according to the Village's records should be accounted for.

The Village's bank accounts and fund balances were not reconciled during fiscal year 2013 and 2012. The Village Clerk Treasurer asked an external consultant with governmental experience to perform a proof-of-cash reconciliation for the two year audit period. Upon conclusion of the reconciliations being performed, the Village's books were overstated each year.

At December 31, 2013 the Village's financial accounting system was overstated by a net amount of \$12,901, and there were 100 adjustments to the cash reconciliation. At December 31, 2012 the Village's financial accounting system was overstated by a net amount of \$1,278, and there were 80 adjustments to the cash reconciliation.

These adjustments were posted to the Village's financial accounting system and to the audited financial statements.

We recommend the Village implement procedures to help ensure that bank statements are reconciled to the Village's books in a timely manner. We further recommend the bank reconciliations be presented to the Finance Committee so they can sign off on them and present to the entire Council for approval on a monthly basis within the minute records. All reconciling amounts should be easily identifiable and explained.

Finding Number: 2013-06 – Noncompliance

Certification of Available Revenue

Ohio Rev. Code Section 5705.36(A)(1) indicates on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county fiscal officer the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year. Although, the Certificate of the Total Amount From All Sources Available for Expenditures, and Balances was filed with the Portage County Auditor for fiscal year 2013 and 2012, the beginning fund balances were incorrect.

We recommend the Village file on or about the first day of the fiscal year an accurate Certificate of the Total Amount From All Sources Available for Expenditures, and Unencumbered Balances existing at the end of the preceding year.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS - continued
December 31, 2013 and 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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Finding Number: 2013-07 – Material Weakness

Income Tax Receivables Accounting System and Supporting Documentation

The Village levies a municipal income tax of 1 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 Village offers a credit of .5 percent for local income taxes paid to another municipality.

The Village does not utilize a receivables system for income tax collection purposes. Instead, the Village posts income tax receipts directly into the Village's financial accounting system. This practice does not allow for the functionality needed to properly track the amounts paid and owed to the Village. Estimated tax payments made by individuals and withholding payments made by businesses cannot be credited to a taxpayer's account to ensure that claimed amounts are not overstated on final tax returns. As such, the Village has no way to ensure completeness of accounting records relating to income tax collections.

The Village does not require taxpayers to provide the supporting documentation necessary to properly recalculate income earned, taxes withheld or payment of municipal taxes to another entity. This can result in a misstatement in municipal income tax revenue. Due to this lack of supporting documentation, the Clerk Treasurer does not recalculate income tax returns filed. During testing performed, we noted that numerous taxpayers reported the incorrect amount as income earned and calculated estimated tax payments, credits claimed and taxes withheld incorrectly.

We recommend the use of a receivables system to account for income tax payments received by the Village and amounts owed to the Village. The system should assign taxpayer numbers to all residents to ensure completeness of residence records. The Village's Clerk Treasurer should recalculate all final income tax returns using supporting documentation to ensure the accuracy of the returns filed.

Finding Number: 2013-08 – Noncompliance

Fiscal Officer's Certification of Expenditures

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a 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.

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 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.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS - continued
December 31, 2013 and 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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Finding Number: 2013-08 – Noncompliance (continued)

1. "Then and Now Certificates" – If the fiscal officer can certify that both at the time that contract or order was made ("then") and at the time that the fiscal officer was completing the certification ("now"), that sufficient funds were available or in the process of collection, to credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for 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 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 Certificates - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by ordinance or resolution adopted by a majority of members of the legislative authority against any specific line item amount 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 Certificates – The Village may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession 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 line item appropriation.

The Village did not make the proper certification of funds for any disbursements tested during the audit period.

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. To improve controls over disbursements and to help reduce the possibility of the Village's expenditures exceeding budgetary spending limitations, we recommend that the Village certify expenditures prior to incurring the liability. Also, we recommend the Village only use "then and now" certificates for items under \$3,000 and to have all certificates approved by Council. This will assist in keeping adequate controls over disbursements and encumbrances.

**VILLAGE OF BRADY LAKE
PORTAGE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Setting up a Debt Service Fund for the 2004 Various Purpose Improvement Bonds, Series 2004 Issuance	No	Repeated as 2013-01
2011-002	Payment of Debt from Principal and Interest Functions and Paying Capital Projects Debt from a Capital Projects Fund	No	Repeated as 2013-02
2011-003	Negative Fund Balances	No	Repeated as 2013-03
2011-004	Budget Amounts Not Entered Into Accounting System	No	Repeated as 2013-04
2011-005	Cash Reconciliations	No	Repeated as 2013-05
2011-006	Mispostings and Inaccurate Financial Statement Presentation	No	Additional adjustments noted in 2013-02

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Dave Yost • Auditor of State

VILLAGE OF BRADY LAKE

PORTAGE 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
SEPTEMBER 16, 2014**