

VILLAGE OF PHILO
AUDIT REPORT
JANUARY 1, 2011 - DECEMBER 31, 2012

Wolfe, Wilson, & Phillips, Inc.
37 South Seventh Street
Zanesville, Ohio 43701



Dave Yost • Auditor of State

Village Council
Village of Philo
310 Main Street
Philo, Ohio 43771

We have reviewed the *Independent Auditors' Report* of the Village of Philo, Muskingum County, prepared by Wolfe, Wilson & Phillips, Inc., for the audit period January 1, 2011 through December 31, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

August 27, 2013

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**VILLAGE OF PHILO
MUSKINGUM COUNTY
JANUARY 1, 2011 - DECEMBER 31, 2012**

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**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

INDEPENDENT AUDITORS' REPORT

Mayor and Village Council
Village of Philo
310 Main Street
Philo, Ohio 43771

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Philo, Muskingum County, as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility For the Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we obtained is sufficient and appropriate to support our audit 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, which is an accounting basis other than accounting principles generally accepted in the United States, 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 of Philo as of December 31, 2012 and 2011, or changes in financial position thereof for the years 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 Philo, Muskingum County as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of a Matter

As discussed in Note 3 to the financial statements, during 2011, the Village adopted new accounting guidance in Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 a report dated June 5, 2013, on our consideration of the Village of Philo'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.

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 5, 2013

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH 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>	
Cash Receipts:			
Property Taxes	\$ 41,443	\$ -	\$ 41,443
Intergovernmental	20,608	32,119	52,727
Fines, Licenses, and Permits	4,057	-	4,057
Miscellaneous	52,000	-	52,000
Total Cash Receipts	<u>118,108</u>	<u>32,119</u>	<u>150,227</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	8,896	-	8,896
Transportation	55,771	33,135	88,906
General Government	53,466	-	53,466
Total Cash Disbursements	<u>118,133</u>	<u>33,135</u>	<u>151,268</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(25)	(1,016)	(1,041)
Fund Cash Balances, January 1	<u>26,796</u>	<u>7,225</u>	<u>34,021</u>
Fund Cash Balances, December 31			
Restricted	-	6,209	6,209
Unassigned (Deficit)	26,771	-	26,771
Fund Cash Balances, December 31	<u>\$ 26,771</u>	<u>\$ 6,209</u>	<u>\$ 32,980</u>

See notes to financial statements.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

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

	Governmental Fund Types		Totals (Memorandum Only)
	General	Special Revenue	
Cash Receipts:			
Property Taxes	\$ 45,875	\$ -	\$ 45,875
Intergovernmental	48,429	31,381	79,810
Fines, Licenses, and Permits	8,530	-	8,530
Miscellaneous	4,609	-	4,609
Total Cash Receipts	107,443	31,381	138,824
Cash Disbursements:			
Current:			
Security of Persons and Property	8,094	-	8,094
Basic Utility Services	21,700	-	21,700
Transportation	48,452	31,300	79,752
General Government	75,007	-	75,007
Total Cash Disbursements	153,253	31,300	184,553
Total Cash Receipts Over/(Under) Cash Disbursements	(45,810)	81	(45,729)
Fund Cash Balances, January 1	72,606	7,144	79,750
Fund Cash Balances, December 31			
Restricted	-	7,225	7,225
Unassigned (Deficit)	26,796	-	26,796
Fund Cash Balances, December 31	\$ 26,796	\$ 7,225	\$ 34,021

See notes to financial statements.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	Enterprise Fund	
	2012	2011
Operating Cash Receipts:		
Charges for Services	\$ 112,529	\$ 114,169
Operating Cash Disbursements:		
Personal Services	28,713	27,335
Contractual Services	13,094	11,392
Supplies and Materials	11,347	24,381
Capital Outlay	48,860	22,155
Total Operating Cash Disbursements	102,014	85,263
Operating Income	10,515	28,906
Non-Operating Cash Disbursements:		
Debt Service:		
Principal Payments	15,922	15,364
Interest Payments	2,275	2,822
Total Non-Operating Cash Disbursements	18,197	18,186
Net Receipts Over Disbursements	(7,682)	10,720
Fund Cash Balances, January 1	135,227	124,507
Fund Cash Balances, December 31	\$ 127,545	\$ 135,227

See notes to financial statements.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

NOTES TO FINANCIAL STATEMENTS

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 Philo, Muskingum County, (the Village) as a body corporate and politic. A publically-elected six-member Council directs the Village. The Village provides for water, refuse collection, cemetery maintenance, street maintenance, fire services and police protection by the Muskingum County Sheriff's office.

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

Public Entity Risk Pool:

The Village belongs to the Ohio Plan Risk Management, Inc. (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self insurance risk management plan. Member governments pay annual contributions to fund the Plan. The Plan pays judgments, settlements and other expenses resulting from covered claims exceeding the member's deductible.

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 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. 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. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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:

General Fund

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

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

Special Revenue Funds

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

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

Enterprise Funds

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

Water Fund – This fund receives charges for services from residents to cover water service costs.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and object level of control and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation. Unencumbered appropriations lapse at year end.

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.

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 2012 and 2011 budgetary activity appears in Note 4.

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 PHILO
MUSKINGUM COUNTY**

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

G Property, Plant and Equipment

The Village records disbursements for acquisitions of property, plant and equipment when paid. The accompanying financial statements do not report these items as assets.

G. 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 PHILO
MUSKINGUM COUNTY**

NOTES TO FINANCIAL STATEMENTS

2. EQUITY IN POOLED CASH

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

	2012	2011
Demand deposits	\$ 101,754	\$ 110,777
Certificates of Deposit	58,771	58,471
	\$ 160,525	\$ 169,248

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

3. CHANGE IN ACCOUNTING PRINCIPLE

In 2011, the Village implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had no effect on fund balances of the major governmental funds and all other governmental funds as previously reported.

4. BUDGETARY ACTIVITY

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

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 107,000	\$ 118,108	\$ 11,108
Special Revenue	31,380	32,119	739
Enterprise	11,500	112,529	101,029
Total	\$ 149,880	\$ 262,756	\$ 112,876

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 110,500	\$ 118,133	\$ (7,633)
Special Revenue	26,000	33,135	(7,135)
Enterprise	119,000	120,211	(1,211)
Total	\$ 255,500	\$ 271,479	\$ (15,979)

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 88,928	\$ 107,443	\$ 18,515
Special Revenue	22,000	31,381	9,381
Enterprise	46,000	114,169	68,169
Total	\$ 156,928	\$ 252,993	\$ 96,065

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

NOTES TO FINANCIAL STATEMENTS

4. BUDGETARY ACTIVITY (Continued)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 161,000	\$ 153,253	\$ 7,747
Special Revenue	29,000	31,300	(2,300)
Enterprise	118,000	103,449	14,551
Total	\$ 308,000	\$ 288,002	\$ 19,998

Contrary to 5705.41(D), the Village had instances where invoices were dated prior to certification.

Contrary to 5705.39, the Village's Water Fund had appropriations greater than estimated resources in 2012.

Contrary to 5705.41(B), the Village had various line items in all funds where expenditures exceeded appropriations in 2012 and 2011.

5. PROPERTY TAX

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

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.

6. DEBT

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest rate
Ohio Public Works Commission CR21C	\$ 32,654	2.00%
Citizens National Bank Series 2009 Bonds	27,500	3.90%
Total	\$ 60,154	

The OPWC loan relates to the water tower. The loan is collateralized by water receipts. Payments are made semi-annually.

The Bonds were issued in 2009 so the Village could purchase land. Payments are made annually.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

NOTES TO FINANCIAL STATEMENTS

6. DEBT (Continued)

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

Year ending December 31:	OPWC	Bonds
2013	\$ 3,619	\$ 14,573
2014	3,619	14,546
2015	3,619	-
2016	3,619	-
2017	3,619	-
2018-2022	18,095	-
2023-2027	1,810	-
Total	<u>\$ 38,000</u>	<u>\$ 29,119</u>

7. RETIREMENT SYSTEMS

The Village’s full-time employees and elected officials belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2012 and 2011, PERS members contributed 10.0% of their wages, respectively. The Village contributed an amount equal to 14.00% of participant’s gross salaries for 2012 and 2011, respectively. The Village has paid all contributions required through December 31, 2012.

8. RISK MANAGEMENT

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

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 premiums 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 PHILO
MUSKINGUM COUNTY**

NOTES TO FINANCIAL STATEMENTS

8. 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 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, the latest information available.

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

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

9. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. Management believes such refunds, if any, would not be material.

**WOLFE, WILSON, & PHILLIPS, INC.
37 SOUTH SEVENTH STREET
ZANESVILLE, OHIO 43701**

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

Mayor and Village Council
Village of Philo
301 Main Street
Philo, Ohio 43771

To The Village Council:

We have audited in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Philo, Muskingum County, Ohio, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated June 5, 2013, wherein we noted the Village followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1. As stated in Note 3, the Village has implemented GASB Statement No.54 "*Fund balance Reporting and Governmental Fund Type Definitions*" during 2012 and 2011.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village of Philo'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 internal control deficiencies 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 2012-02, 2012-03, 2012-05, 2012-06 and 2012-07 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether Village of Philo'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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-01 through 2012-04.

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

We noted certain immaterial instances of noncompliance that we have reported to the management of Village of Philo in a separate letter dated June 5, 2013.

Purpose of this Report

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

Wolfe, Wilson, & Phillips, Inc.
Zanesville, Ohio
June 5, 2013

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

<p><i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i></p>
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FINDING NUMBER 2012-01

Noncompliance Citation

Ohio Revised Code Section 5705.41(B) prohibits the expenditure of funds unless they have been properly appropriated.

The Village's legal level of control is at the object level. We noted the following exceptions to 5705.41(B). As of December 31, 2012 and 2011, expenditures exceeded appropriations in the following funds:

Fund and Object Level	Year	Appropriations	Expenditures	Variance
General – Supplies	2012	\$ 500	\$ 568	\$ (68)
General – L/B Salaries	2012	1,000	2,851	(1,851)
General-L/B – Supplies	2012	8,000	8,413	(413)
General- Treasurer Fees	2012	1,000	2,091	(1,091)
General - Contingencies	2012	36,000	66,643	(30,643)
Street - Salaries	2012	10,000	15,620	(5,620)
Street - Supplies	2012	16,000	17,515	(1,515)
Water – Capital Outlay	2012	35,000	67,057	(32,057)
General - Lighting	2011	8,000	8,094	(94)
General L/B Supplies	2011	10,000	11,630	(1,630)
General- Treasurer Fees	2011	1,000	1,213	(213)
General - Contingencies	2011	66,000	88,871	(22,871)
Street - Supplies	2011	22,000	28,167	(6,167)
Water - L/B Supplies	2011	4,000	4,153	(153)
Water – Capital Outlay	2011	35,000	55,783	(20,783)

We recommend that the Village review expenditures so that they do not exceed appropriations.

Client Response: Client concurs on finding and will monitor appropriations versus expenditures more closely.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

<i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i>

FINDING NUMBER 2012-02

Noncompliance and Material Weakness

Ohio Admin. Code Section 117-2—02(A), requires all public offices to 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 with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

The Village's accounting system and accounting records did not enable the Village to document compliance with finance-related legal requirements, including various sections of Ohio Revised Code Chapter 5705 as follows:

Appropriations were not posted to the appropriation ledger. As a result, there was no method established whereby the fiscal officer could determine if unencumbered appropriations were available for expenditure. Village management could not monitor the types of expenditures being made and the year-to-date expenditures made for any particular expenditure function.

Estimated receipts were not posted to the receipts ledger. As a result, there was no method established whereby Village management could compare budgeted receipts to actual receipts and file amended certificates of estimated resources when needed.

We recommend the Village Clerk-Treasurer post appropriation amounts to the appropriation ledger, once appropriations are adopted by the Village Council and certified by the Budget Commission. This would enable the Clerk-Treasurer to utilize the encumbrance method of accounting and document compliance with finance-related legal requirements. Comparisons of budgeted (appropriated) expenditures to actual expenditures should then be presented to Council as a tool to manage the Village. Guidance for maintaining the appropriations ledger is now included in Ohio Admin. Code Section 117-2-02 (D)(3).

We recommend budgeted and actual receipts be posted to the receipts ledger as recommended in Ohio Admin. Code Section 117-2-02(D)(2), to provide useful monthly budget vs. actual comparisons to assist management in monitoring Village operations. This would enable the Clerk-Treasurer to document compliance with finance-related legal requirements concerning the filing of estimated resources and any amendments thereto.

Client Response: We agree with finding and will incorporate appropriations and budgeted receipts in the accounting records.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

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

FINDING NUMBER 2012-03

Noncompliance Citation and Material Weakness

Ohio Revised Code Section 5705.41(D) states in part that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

Prior certification was not obtained for 100% of the expenditures tested for 2012 and 2011.

The Village Fiscal Officer should certify funds before each payment is made through the issuance of a regular, blanket, or super blanket purchase order. Blanket certificates should be issued 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 council against any specific line item account over a period not running beyond the end of the current fiscal year. A super blanket purchase order can be completed for any amount for expenditures and contracts from a specific line item appropriation account in a specified fund for most recurring or reasonable predictable operating expenditures. This is not to extend beyond the current year. More than one super blanket may be outstanding at one particular time for a particular line item appropriation account.

Also, as an alternative, the Village can issue then and now certificates for expenses up to \$3,000. Then and now certificates allow the Village's Fiscal Officer to certify that both at the time the expenditure was made and at the time that the certification is completed, sufficient funds are available. These certificates can be certified by the Village's fiscal Officer without subsequent authorization from the Village Council. However, then and now certificates issued by the Village's Fiscal Officer over \$3,000 must be authorized by the Village Council within thirty days after payment.

Client Response: Client agrees with finding and will try to monitor more closely.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

<i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i>

FINDING NUMBER 2012-04

Noncompliance Citation

Ohio Revised Code Section 2921.42(A)(1) states that no public official shall knowingly authorize, or employ the authority or influence of his office to secure authorization of any public contract in which he, a member of his family, or any of his business associates has an interest.

Furthermore, Ohio Revised Code Section 2921.42(G)(1)(a) indicates that a public contract means the purchase or acquisition, or a contract for the purpose or acquisition, of property or services by or for the use of the state, any of its political subdivisions, or any agency or instrumentality of either, including the employment of an individual by the state, any of its political subdivisions, or any agency or instrumentality of either.

Ohio Revised Code Section 102.03 (D) provides that no public official or employee shall use or authorize the use of the authority or influence of his office or employment to secure anything of value or the promise or offer of anything of value that is of such a character as to manifest a substantial and improper influence upon the public official or employee with respect to that person's duties.

1998 Ohio Ethics Commission Opinion No. 98-004 states, in part, that Division (A)(1) of Section 2921.42 of the Revised Code, and Division (D) of Section 102.03 of the Revised Code, prohibit a Village Clerk-Treasurer from authorizing, or employing the authority or influence of her office to secure the authorization of, her husband's contract of employment, and from discussing, deliberating, or otherwise participating in any part of the Village's decision-making process authorizing or approving her husband's contract of employment or the continuation, implementation, or terms and conditions of her husband's contract of employment.

On November 11, 2001, Village Council authorized the hiring of Becky Hutcheson as assistant to the Clerk-Treasurer, Samuel Hutcheson. Becky Hutcheson is the wife of Samuel Hutcheson. Village Council re-affirmed the hiring of Becky Hutcheson with passage of Ordinance 2003-6A which was introduced on December 16, 2003.

This matter was referred to the Ohio Ethics Commission as a possible violation of Ohio Revised Code Section 2921.42(A)(1) and 102.03(D) as a result of the prior audit report dated November 12, 2003. This employment situation has not changed.

Client Response: The Village Solicitor believes the Village has followed the Ohio Revised Code in this matter.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

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

FINDING NUMBER 2012-05

Material Weakness

Management has a key role to play in ensuring the Village establish and maintain effective internal controls. Accordingly, Village management must establish procedures to ensure and document that the Village is complying with applicable legal requirements.

The results of our audit indicated a weakness in management's role to establish and maintain effective internal controls and to ensure and document the Village is complying with legal requirements as evidenced by the material noncompliance citations and material weaknesses included in our report. The small size of the Village's staff did not allow for an adequate segregation of duties as the Village Clerk-Treasurer performed all accounting functions, including receipting, depositing, disbursing, and reconciling Village monies

Monitoring controls could be implemented where Village Council could function as a finance and audit committee to monitor financial activity closely and to follow up on any audit findings.

We recommend Village Council become more actively involved in monitoring the financial activity of the Village. Village Council should assure that the Village Clerk-Treasurer performs a monthly bank reconciliation that includes total fund balances being reconciled to total deposits and investments, detailing outstanding checks and any other reconciling items. Village Council should then review the validity of the computations and attest to the reconciliation's accuracy. Village Council should also assure the Clerk-Treasurer maintains and presents to Council monthly the following records: receipts ledger, appropriations ledger, cash journal, budget vs, actual reports for receipts and disbursements, payroll journal and check register. Supervisory reviews should be performed by members of Village Council and evidenced by the initials of each members performing the review and the date of the review was performed.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

<i>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</i>

FINDING NUMBER 2012-05 (Continued)

The presentation of these records and reviews by Village Council should be noted in the Council's minutes. Council should make appropriate inquiries to help determine the continued integrity of financial information such as:

- Are Current receipts sufficient to cover expenditures?
- Are actual receipts and expenditures in line with the budget?
- Are receipts and expenditures in line with prior years?
- If unusual fluctuations occur, is the reason documented, and properly budgeted for?
- Are anticipated receipts being received in a timely manner.

The information obtained as a result of such reviews and inquiries will provide important data necessary to properly manage the Village. The Village Clerk-Treasurer, Council and Mayor should become familiar with the Ohio Compliance Supplement, which has been provided to the Village and use this as a tool to assist them in complying with applicable Ohio laws and regulations.

Client Response: The Clerk-Treasurer will monitor budgetary items monthly and will also incorporate appropriations and budgeted receipts in the accounting records.

FINDING NUMBER 2012-06

Material Weakness

The Water Clerk maintained a cash journal for the recording of quarterly payments received and forwarded water payments to the Village Clerk-Treasurer on a monthly basis. However, the Clerk-Treasurer did not issue pay-in orders each month to the Water Clerk. In addition, the Clerk-Treasurer did not issue a pay-in order to the individual forwarding monies from bulk sales to the Clerk-Treasurer.

This weakness resulted in a lack of accountability between the water department collections and the amounts entered in the Clerk-Treasurer's cashbook.

We recommend the Clerk-Treasurer issue a pay-in order to the Water Clerk when she forwards water payments to the Clerk-Treasurer. We also recommend a pay-in order be issued to the individual forwarding bulk water sales monies to the Clerk-Treasurer. The individual turning in bulk water sales should also record the meter reading at that time and turn it in to the Clerk-Treasurer for reviewed for reasonableness.

Client Response: The Clerk-Treasurer will consider using pay-ins for all receipts.

**VILLAGE OF PHILO
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

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

FINDING NUMBER 2012-07

Material Weakness

Pay-in orders were not issued by the Clerk-Treasurer for all amounts received by the Village. In addition, we noted multiple instances in which the Clerk-Treasurer either did not post receipts to the accounting records, or did not deposit receipts into the Village depository in a timely manner after they were received.

As a result, source documentation was not available in many instances to indicate to which account code revenue should be posted. The lack of posting and depositing receipts on a timely basis could also allow errors or fraud to occur and remain undetected by management.

We recommend the Clerk-Treasurer issue a pay-in order when any money is received on behalf of the Village. The pay-in order should be issued in duplicate, with the original given to the person making payment after all information has been entered in the spaces provided. The duplicate should remain in the binding and be used as a posting source to the cash journal. Monies should be deposited as soon as possible and the Clerk-Treasurer should properly safeguard monies until the time the deposit is made.

Client Response: The Clerk-Treasurer will consider using pay-ins for all receipts. The water department receipts are deposited by the water department clerk.

**VILLAGE OF PHILO
MUSKINGUM 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; Explain:
2010-01	ORC 5705.41(B) Expenditures exceeding Appropriations	No	In current audit as Finding 2012-01
2010-02	Ohio Admin Code 117-02-02 (A) Accounting System	No	In current audit as Finding 2012-02
2010-03	ORC 5705.41(D) expenditures made without prior certification	NO	In current audit as Finding 2012-03
2010-04	ORC 2921.42(A)(1) Public Contracts	No	In current audit as Finding 2012-04
2010-05	Material Weakness: Management role in financial records	No	In current audit as Finding 2012-05
2010-06	Material Weakness: Water Department not getting pay-ins	No	In current audit as Finding 2012-06
2010-07	Material Weakness: Pay-ins not used for all receipts	No	In current audit as Finding 2012-07

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Dave Yost • Auditor of State

VILLAGE OF PHILO

MUSKINGUM 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 10, 2013