

Village of New Bavaria

Financial Condition

As of

December 31, 2016 and 2015

Together with Auditor's Report



Dave Yost • Auditor of State

Village Council
Village of New Bavaria
PO Box 256
New Bavaria, OH 43548

We have reviewed the *Independent Auditor's Report* of the Village of New Bavaria, Henry County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2015 through December 31, 2016. 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 New Bavaria is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

July 10, 2017

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VILLAGE OF NEW BAVARIA

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Independent Auditor's Report

Village of New Bavaria
Henry County
P.O. Box 256
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Report on the Financial Statements

I have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Village of New Bavaria, Henry County, (the Village) as of and for the years ended December 31, 2016 and 2015.

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

My responsibility is to opine on these financial statements based on my audit. I 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 my judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, I 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, I 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 my evaluation of the overall financial statement presentation.

I believe the audit evidence I obtained is sufficient and appropriate to support my 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 (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, I presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. My opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In my 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, 2016 and 2015, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In my opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of New Bavaria, Henry County as of December 31, 2016 and 2015, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 8, 2017, on my consideration of the Village's internal control over financial reporting and my 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.

Kevin L. Penn, Inc.

May 8, 2017

Village of New Bavaria
Henry County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2016

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 36,845		\$ 36,845
Intergovernmental Receipts	6,162	5,618	11,780
Charges for Services	784		784
Earnings on Investments	18	13	31
Other Revenue	168	4	172
Total Cash Receipts	<u>43,977</u>	<u>5,635</u>	<u>49,612</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	3,435		3,435
Leisure Time Activities	5,273		5,273
Transportation		2,434	2,434
General Government	10,036		10,036
Total Cash Disbursements	<u>18,744</u>	<u>2,434</u>	<u>21,178</u>
Total Receipts Over/(Under) Disbursements	<u>25,233</u>	<u>3,201</u>	<u>28,434</u>
Other Financing Receipts/(Disbursements)			
Transfers-In			-
Transfers-Out			-
Total Other Financing Receipts/(Disbursements)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	25,233	3,201	28,434
Fund Cash Balance - January 1, 2016	<u>44,907</u>	<u>38,818</u>	<u>83,725</u>
Fund Cash Balance - December 31, 2016			
Restricted		42,019	42,019
Unassigned	70,140		70,140
Fund Cash Balance - December 31, 2016	<u>\$ 70,140</u>	<u>\$ 42,019</u>	<u>\$ 112,159</u>

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

Village of New Bavaria
Henry County
Combined Statement of Cash Receipts, Disbursements
and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2015

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 37,713	\$ -	\$ 37,713
Intergovernmental Receipts	4,476	5,234	9,710
Charges for Services	784		784
Earnings on Investments	10	11	21
Other Revenue	35	4	39
Total Cash Receipts	<u>43,018</u>	<u>5,249</u>	<u>48,267</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	3,275		3,275
Leisure Time Activities	3,360		3,360
Transportation		2,000	2,000
General Government	10,906		10,906
Total Cash Disbursements	<u>17,541</u>	<u>2,000</u>	<u>19,541</u>
Total Receipts Over/(Under) Disbursements	<u>25,477</u>	<u>3,249</u>	<u>28,726</u>
Other Financing Receipts/(Disbursements)			
Transfers-In			-
Transfers-Out			-
Total Other Financing Receipts/(Disbursements)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	25,477	3,249	28,726
Fund Cash Balance - January 1, 2015	<u>19,430</u>	<u>35,569</u>	<u>54,999</u>
Fund Cash Balance - December 31, 2015			
Restricted		38,818	38,818
Unassigned	<u>44,907</u>		<u>44,907</u>
Fund Cash Balance - December 31, 2015	<u>\$ 44,907</u>	<u>\$ 38,818</u>	<u>\$ 83,725</u>

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

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 New Bavaria, Henry County, Ohio (the Village), as a body corporate and politic. A publicly elected six-member Council directs the Village. The Village provides general government services, including park operations. The Village contracts with Pleasant Township to receive fire protection services.

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. 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.

2. Special Revenue Fund

This fund accounts 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.

D. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

1. Summary of Significant Accounting Policies (continued)

1. Appropriations

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 cancelled, and are reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2016 and 2015 budgetary activity appears in Note 3.

E. 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.

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 at December 31 was as follows:

	<u>2016</u>	<u>2015</u>
Total deposits	<u>\$112,159</u>	<u>\$83,725</u>

Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

3. Budgetary Activity

2015 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 27,184	\$ 43,018	\$ 15,834
Special Revenue	4,624	5,249	625
Total	\$ 31,808	\$ 48,267	\$ 16,459

2015 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 26,836	\$ 17,541	\$ 9,295
Special Revenue	4,600	2,000	2,600
Total	\$ 31,436	\$ 19,541	\$ 11,895

2016 Budgeted vs. Actual Receipts

Fund Type:	Budgeted Receipts	Actual Receipts	Variance
General	\$ 35,099	\$ 43,977	\$ 8,878
Special Revenue	4,624	5,635	1,011
Total	\$ 39,723	\$ 49,612	\$ 9,889

2016 Budgeted vs Actual Budgetary Basis Expenditures

Fund Type:	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 24,736	\$ 18,744	\$ 5,992
Special Revenue	7,200	2,434	4,766
Total	\$ 31,936	\$ 21,178	\$ 10,758

4. Property Tax

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

Public utilities are also taxed on personal and real property located within the Village. Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**VILLAGE OF NEW BAVARIA
HENRY COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

5. Retirement System

The Village's officials belong to the Ohio Public Employees Retirement System (OPERS). 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 2016 and 2015, 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, 2016.

6. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

7. Fund Balance

Fund balance is divided into two 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. 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.

2. 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.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

Village of New Bavaria
Henry County
P.O. Box 256
New Bavaria, Ohio 45848-0256

I 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 cash balances, receipts, and disbursements by fund type of the Village of New Bavaria, Henry County, (the Village), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued my report thereon dated May 8, 2017 wherein I noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of my financial statement audit, I 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 my opinion(s) on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, I have not opined on it.

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 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, I did not identify any deficiencies in internal control that I consider material weaknesses. I did identify a certain deficiency in internal control, described in the accompanying schedule of findings that I consider a significant deficiency. I consider finding 2016-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, I 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 my audit and accordingly, I do not express an opinion. The results of my tests disclosed no instances of noncompliance or other matters I must report under *Government Auditing Standards*.

I noted certain matters that I reported to management of Village of New Bavaria's in a separate letter dated May 8, 2017.

Entity's Response to Findings

The Village of New Bavaria's response to the finding identified in my audit is described in the accompanying schedule of findings. I did not audit the Village of New Bavaria's response and, accordingly, I express no opinion on it.

Purpose of this Report

This report only describes the scope of my internal control and compliance testing and my 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.

Kevin L. Penn, Inc.

May 8, 2017

Village of New Bavaria
Henry County

Schedule of Findings
December 31, 2016 and 2015

Finding Related to the Financial Statements
Required to be Reported in Accordance with GAGAS

2016-001

Separation of Duties

Condition:

The Fiscal Officer, signs and issues checks; receives and makes deposits, and reconciles the bank accounts. The basic premise is that no one individual should have access to both physical assets the related accounting records or to various phases of a transaction. One of the most critical areas of separation is cash, where I noted that there is not proper separation of duties, pertaining to the handling incoming checks; preparation of the deposit slips; and the reviewing of the monthly bank accounts.

Criteria:

The following functions should be performed by individuals/board member who are totally independent:

- Issuing and signing checks
- Maintaining the accounting records
- Reviewing the bank statements
- Performing bank reconciliations
- Maintaining vendor statements and invoices

Effect:

Resulted in inadequate separation of duties.

Cause:

As a result of the number of staff employed by the Village, there is a limit to the extent of separation of duties.

Recommendation:

In order to improve internal controls, I recommend that a board member performs the following functions: 1) signs the checks; 2) reviews invoices before disbursements are made, and 3) receives the bank statements directly from the bank so they can be reviewed prior to the Fiscal Officer's performance of the bank reconciliation. By performing these procedures, the risk of an inadequate segregation of duties over cash transactions will be significant reduced.

Village of New Bavaria
Henry County

Schedule of Findings
December 31, 2016 and 2015

Finding Related to the Financial Statements
Required to be Reported in Accordance with GAGAS

2016-001

Separation of Duties (continued)

Auditee's Response:

The Village of New Bavaria is in the process of working on correcting the deficiencies identified.

Village of New Bavaria
Henry County

Schedule of Prior Audit Findings
December 31, 2016 and 2015

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2014-001	The Fiscal Officer, signs and issues checks; receives and makes deposits, and reconciles the bank accounts. The basic premise is that no one individual should have access to both physical assets the related accounting records or to various phases of a transaction. One of the most critical areas of separation is cash, where I noted that there is not proper separation of duties, pertaining to the handling incoming checks; preparation of the deposit slips; and the reviewing of the monthly bank accounts.	No	Will be repeated in the 2016 audit.

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Dave Yost • Auditor of State

VILLAGE OF NEW BAVARIA

HENRY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 20, 2017