



Dave Yost • Auditor of State



VILLAGE OF GRATIS  
PREBLE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Gratis, Preble County, Ohio (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***

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 2 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.

One First National Plaza, 130 W. Second St., Suite 2040, Dayton, Ohio 45402  
Phone: 937-285-6677 or 800-443-9274 Fax: 937-285-6688

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Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we 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. Our 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 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, 2016 and 2015, 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 cash balances, receipts and disbursements by fund type, and related notes of the Village of Gratis, Preble County as of December 31, 2016 and 2015, 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 2.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2018, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 10, 2018

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$25,817	\$40,456		\$66,273
Municipal Income Tax	75,043			75,043
Intergovernmental	26,505	47,493		73,998
Charges for Services		272,897		272,897
Fines, Licenses and Permits	28,953			28,953
Earnings on Investments	977	24		1,001
Miscellaneous	967	21,038		22,005
Total Cash Receipts	<u>158,262</u>	<u>381,908</u>		<u>540,170</u>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons and Property	77,118	45,032		122,150
Public Health Services	171	268,617		268,788
Transportation		42,890		42,890
General Government	81,777	972		82,749
Capital Outlay		17,916		17,916
Total Cash Disbursements	<u>159,066</u>	<u>375,427</u>		<u>534,493</u>
Excess of Receipts Over (Under) Disbursements	<u>(804)</u>	<u>6,481</u>		<u>5,677</u>
<b>Other Financing Receipts (Disbursements):</b>				
Transfers In		800		800
Transfers Out	(800)			(800)
Other Financing Uses	(63)			(63)
Total Other Financing Receipts (Disbursements)	<u>(863)</u>	<u>800</u>		<u>(63)</u>
Net Change in Fund Cash Balances	(1,667)	7,281		5,614
Fund Cash Balances, January 1	<u>38,059</u>	<u>140,340</u>	<u>\$58</u>	<u>178,457</u>
<b>Fund Cash Balances, December 31:</b>				
Restricted		145,213	58	145,271
Assigned	30,674	2,408		33,082
Unassigned (Deficit)	5,718			5,718
Fund Cash Balances, December 31	<u>\$36,392</u>	<u>\$147,621</u>	<u>\$58</u>	<u>\$184,071</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$400,216		\$400,216
Fines, Licenses and Permits		\$24,745	24,745
Total Operating Cash Receipts	<u>400,216</u>	<u>24,745</u>	<u>424,961</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	78,546		78,546
Employee Fringe Benefits	11,538		11,538
Contractual Services	136,958	30,230	167,188
Supplies and Materials	50,967		50,967
Total Operating Cash Disbursements	<u>278,009</u>	<u>30,230</u>	<u>308,239</u>
Operating Income (Loss)	<u>122,207</u>	<u>(5,485)</u>	<u>116,722</u>
<b>Non-Operating Receipts (Disbursements):</b>			
Miscellaneous Receipts	480		480
Capital Outlay	(11,785)		(11,785)
Principal Retirement	(45,737)		(45,737)
Interest and Other Fiscal Charges	(27,325)		(27,325)
Total Non-Operating Receipts (Disbursements)	<u>(84,367)</u>		<u>(84,367)</u>
Income (Loss) before Transfers	37,840	(5,485)	32,355
Transfers In	33,804		33,804
Transfers Out	<u>(33,804)</u>		<u>(33,804)</u>
Net Change in Fund Cash Balances	37,840	(5,485)	32,355
Fund Cash Balances, January 1	<u>516,955</u>	<u>6,701</u>	<u>523,656</u>
Fund Cash Balances, December 31	<u><u>\$554,795</u></u>	<u><u>\$1,216</u></u>	<u><u>\$556,011</u></u>

*See accompanying notes to the basic financial statements.*

*This is an unaudited financial statement.*



**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. REPORTING ENTITY**

The Village of Gratis (the Village), Preble County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, emergency medical services, fire services, and police services.

The Village participates in the Public Entities Pool of Ohio (PEP), a risk sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Note 6 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 responsible.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

**B. Fund Accounting**

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

**1. General Fund**

The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

**2. Special Revenue Funds**

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

**Fire Fund** - This fund receives real estate and personal property taxes and contracts with Gratis Township to provide for the protection of area citizens.

**EMS Fund** - This fund receives real estate and personal property taxes and contracts with Gratis Township and the Village of West Elkton to provide for the protection of area citizens.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Capital Project Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had a Capital Project Fund used to construct a capital improvement.

**4. Enterprise Funds**

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

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

**Sewer Fund** - This fund receives charges for services from residents to cover sewer services costs.

**5. Fiduciary Funds**

Fiduciary funds include agency funds.

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

**C. Basis of Accounting**

These financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

**D. Budgetary Process**

The Ohio Revised Code requires that each fund 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. Unencumbered appropriations lapse at year end.

VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be appropriated.

A summary of 2016 budgetary activity appears in Note 3.

E. 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.

F. Capital Assets

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.

H. 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:

**Non-spendable** - The Village classifies assets as non-spendable when legally or contractually required to maintain the amounts intact.

**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.

**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.

**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.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2016 follows:

<b>2016 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$172,166	\$158,262	(\$13,904)
Special Revenue	433,038	382,708	(50,330)
Enterprise	370,434	434,500	64,066
Total	\$975,638	\$975,470	(\$168)

<b>2016 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$203,598	\$159,929	\$43,669
Special Revenue	555,981	375,427	180,554
Capital Projects	58	0	58
Enterprise	870,517	396,660	473,857
Total	\$1,630,154	\$932,016	\$698,138

**4. DEPOSITS AND INVESTMENTS**

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

	<b>2016</b>
Demand deposits	\$632,800
Other time deposits (savings accounts)	107,282
Total deposits	\$740,082

**Deposits**

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

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**5. TAXES**

**A. Property Taxes**

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.

**B. Income Taxes**

The Village levies a municipal income tax of one 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.

**6. RISK MANAGEMENT**

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

The Village insures against injury to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Service Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements, and other expenses resulting from covered claims that exceed that members' deductibles.

**A. Casualty and Property Coverage**

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are obligations of the respective government.

**B. Financial Position**

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities, and net position at December 31, 2016.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

	<u>2016</u>
Assets	<u>\$42,182,281</u>
Liabilities	<u>(13,396,700)</u>
Net Position	<u>\$28,785,581</u>

At December 31, 2016, the liabilities above include approximately \$12.0 million of estimated incurred claims payable. The assets above also include \$12.0 million of unclaimed pains to be billed. The Pool's membership increase to 520 in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Village's share of these unpaid claims collectable in future years is approximately \$14,000.

Based on discussion with PEP, the expanded rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine historical contributions detailed below. By contrast, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

**2016 Contributions to PEP**  
\$23,544

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other further obligation to PEP. Also, upon withdrawal, payments for casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**7. DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

Some employees 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. 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.

**B. Social Security**

Several of the Village's employees contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**8. POST-EMPLOYMENT BENEFITS**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**9. DEBT**

Debt outstanding at December 31, 2015 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Sewer Revenue Bonds	\$116,000	5.00%
Ohio Public Works Commission Loan	61,766	0.00%
Ohio Water Development Authority Loan	494,638	4.42%
Ambulance Lease	144,610	0.00%
Total	\$817,014	

The Sewer Revenue Bonds relate to mortgage revenue bonds issued in 1980. The bonds will be repaid in annual installments over 40 years. The bonds are collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

Ohio Public Works Commission (OPWC) loan was obtained in 2005 in the amount of \$102,947 for water treatment storage and distribution improvements. Starting in July 2009, the loan will be repaid in semi-annual installments of \$2,574 over 20 years.

The Ohio Water Development Authority (OWDA) loan was obtained in 2004 in the amount of \$768,390 for water system improvements. The loan had a negative disbursement of \$138,008 in February 2008, which brought the disbursed funds capitalized interest at December 31, 2009 to \$610,552, and was a reduction of the principal balance. The loan will be repaid over 30 years. The loan is collateralized by water and sewer receipts. The Village had agreed to set utility rates sufficient to cover loan repayment requirements.

**A. Lease**

The Village leases equipment under non-cancelable leases. This District disbursed \$14,416 to pay costs for the year ended December 31, 2016.

**B. Amortization**

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

<b>Year Ending December 31:</b>	<b>Sewer Revenue Bonds</b>	<b>OPWC Loan</b>	<b>OWDA Loan</b>	<b>Ambulance Lease</b>
2017	\$32,800	\$5,147	\$36,937	\$28,832
2018	32,450	5,147	36,937	28,832
2019	33,050	5,147	36,937	28,832
2020	32,550	5,147	36,937	28,832
2021		5,147	36,937	28,832
2022 - 2026		25,735	184,685	
2027 - 2031		10,296	184,685	
2032 - 2036			184,685	
2037 - 2041			18,469	
Total	\$130,850	\$61,766	\$757,209	\$144,160

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**10. CONTINGENT LIABILITIES**

The Village is a defendant in a lawsuit. Management cannot presently determine the outcome of this suit, nor the impact on the Village's financial condition.

**11. COMPLIANCE**

Contrary to Ohio law, the Village failed to approve appropriations at the legal level of control in 2016.



**VILLAGE OF GRATIS  
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$17,674	\$38,159		\$55,833
Municipal Income Tax	82,183			82,183
Intergovernmental	23,816	76,238		100,054
Charges for Services		291,269		291,269
Fines, Licenses and Permits	32,102			32,102
Earnings on Investments	935	27		962
Miscellaneous	16,767	28,295		45,062
Total Cash Receipts	<u>173,477</u>	<u>433,988</u>		<u>607,465</u>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons and Property	64,096	59,689		123,785
Public Health Services		280,899		280,899
Leisure Time Activities	424			424
Transportation		48,700		48,700
General Government	60,756	508		61,264
Capital Outlay		67,995		67,995
<b>Debt Service:</b>				
Principal Retirement		1,246		1,246
Interest and Fiscal Charges		56		56
Total Cash Disbursements	<u>125,276</u>	<u>459,093</u>		<u>584,369</u>
Excess of Receipts Over (Under) Disbursements	<u>48,201</u>	<u>(25,105)</u>		<u>23,096</u>
Net Change in Fund Cash Balances	48,201	(25,105)		23,096
Fund Cash Balances, January 1	<u>(10,142)</u>	<u>165,445</u>	<u>\$58</u>	<u>155,361</u>
<b>Fund Cash Balances, December 31:</b>				
Restricted		138,262	58	138,320
Assigned		2,347		2,347
Unassigned (Deficit)	38,059	(269)		37,790
Fund Cash Balances, December 31	<u>\$38,059</u>	<u>\$140,340</u>	<u>\$58</u>	<u>\$178,457</u>

*See accompanying notes to the basic financial statements.*

*This is an unaudited financial statement.*

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$411,194		\$411,194
Fines, Licenses and Permits		\$40,335	40,335
Total Operating Cash Receipts	<u>411,194</u>	<u>40,335</u>	<u>451,529</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	79,196		79,196
Employee Fringe Benefits	14,066		14,066
Contractual Services	150,705	35,983	186,688
Supplies and Materials	21,495		21,495
Total Operating Cash Disbursements	<u>265,462</u>	<u>35,983</u>	<u>301,445</u>
Operating Income	<u>145,732</u>	<u>4,352</u>	<u>150,084</u>
<b>Non-Operating Receipts (Disbursements):</b>			
Miscellaneous Receipts	4,161		4,161
Capital Outlay	(20,978)		(20,978)
Principal Retirement	(49,178)		(49,178)
Interest and Other Fiscal Charges	(31,434)		(31,434)
Total Non-Operating Receipts (Disbursements)	<u>(97,429)</u>		<u>(97,429)</u>
Net Change in Fund Cash Balances	48,303	4,352	52,655
Fund Cash Balances, January 1	<u>468,652</u>	<u>2,349</u>	<u>471,001</u>
Fund Cash Balances, December 31	<u>\$516,955</u>	<u>\$6,701</u>	<u>\$523,656</u>

*See accompanying notes to the basic financial statements.*

*This is an unaudited financial statement.*

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015**

**1. REPORTING ENTITY**

The Village of Gratis (the Village), Preble County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, emergency medical services, fire services, and police services.

The Village participates in the Public Entities Pool of Ohio (PEP), a risk sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Note 6 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 responsible.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

**B. Fund Accounting**

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

**1. General Fund**

The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

**2. Special Revenue Funds**

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

**Fire Fund** - This fund receives real estate and personal property taxes and contracts with Gratis Township to provide for the protection of area citizens.

**EMS Fund** - This fund receives real estate and personal property taxes and contracts with Gratis Township and the Village of West Elkton to provide for the protection of area citizens.

**3. Capital Project Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had a Capital Project Fund to construct a capital improvement.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4. Enterprise Funds**

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

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

**Sewer Fund** - This fund receives charges for services from residents to cover sewer services costs.

**5. Fiduciary Funds**

Fiduciary funds include agency funds.

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

**C. Basis of Accounting**

These financial statements follow 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). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

**D. Budgetary Process**

The Ohio Revised Code requires that each fund 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. 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 approve estimated resources.

VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be appropriated.

A summary of 2015 budgetary activity appears in Note 3.

E. Capital Assets

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

F. 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.

G. 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:

**Non-spendable** - The Village classifies assets as non-spendable when legally or contractually required to maintain the amounts intact.

**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.

**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.

**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.

**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 GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the year ending December 31, 2015 follows:

<b>2015 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$168,827	\$173,477	\$4,650
Special Revenue	402,580	433,988	31,408
Capital Projects	7,155		(7,155)
Enterprise	432,995	415,355	(17,640)
Total	\$1,011,557	\$1,022,820	\$11,263

<b>2015 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$156,127	\$125,276	\$30,851
Special Revenue	528,104	459,093	69,011
Capital Projects	58		58
Enterprise	898,659	367,052	531,607
Total	\$1,582,948	\$951,421	\$631,527

**4. DEPOSITS AND INVESTMENTS**

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

	<b>2015</b>
Demand deposits	\$595,259
Other time deposits (savings accounts)	106,854
Total deposits	\$702,113

**Deposits**

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

**5. TAXES**

**A. Property Taxes**

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.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

**5. TAXES (Continued)**

**B. Income Taxes**

The Village levies a municipal income tax of one 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.

**6. RISK MANAGEMENT**

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

The Village insures against injury to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Service Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements, and other expenses resulting from covered claims that exceed that members' deductibles.

**A. Casualty and Property Coverage**

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2015, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are obligations of the respective government.

**B. Financial Position**

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities, and net position at December 31, 2015.

	<b>2015</b>
Assets	<u>\$38,307,677</u>
Liabilities	<u>(12,759,127)</u>
Net Position	<u><u>\$25,548,550</u></u>

At December 31, 2015, the liabilities above include approximately \$11.5 million of estimated incurred claims payable. The assets above also include \$11.0 million of unclaimed pains to be billed. The Pool's membership increase to 499 in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Village's share of these unpaid claims collectable in future years is approximately \$14,000.

**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

Based on discussion with PEP, the expanded rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine historical contributions detailed below. By contrast, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

**2015 Contributions to PEP**  
\$21,885

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other further obligation to PEP. Also, upon withdrawal, payments for casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**7. DEFINED BENEFIT PENSION PLANS**

**A. Ohio Public Employees Retirement System**

Some employees 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. 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, 2015.

**B. Social Security**

Several of the Village's employees contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

**8. POST-EMPLOYMENT BENEFITS**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.



**VILLAGE OF GRATIS, OHIO  
PREBLE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2015  
(Continued)**

**9. DEBT**

Debt outstanding at December 31, 2015 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Sewer Revenue Bonds	\$142,000	5.00%
Ohio Public Works Commission Loan	66,915	0.00%
Ohio Water Development Authority Loan	509,227	4.42%
Total	<b>\$718,142</b>	

The Sewer Revenue Bonds relate to mortgage revenue bonds issued in 1980. The bonds will be repaid in annual installments over 40 years. The bonds are collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

Ohio Public Works Commission (OPWC) loan was obtained in 2005 in the amount of \$102,947 for water treatment storage and distribution improvements. Starting in July 2009, the loan will be repaid in semi-annual installments of \$2,574 over 20 years.

The Ohio Water Development Authority (OWDA) loan was obtained in 2004 in the amount of \$768,390 for water system improvements. The loan had a negative disbursement of \$138,008 in February 2008, which brought the disbursed funds capitalized interest at December 31, 2009 to \$610,552, and was a reduction of the principal balance. The loan will be repaid over 30 years. The loan is collateralized by water and sewer receipts. The Village had agreed to set utility rates sufficient to cover loan repayment requirements.

**Amortization**

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

<b>Year ending December 31:</b>	<b>Sewer Revenue Bonds</b>	<b>OWDA Loan</b>	<b>OPWC</b>
2016	\$33,100	\$36,937	\$5,147
2017	32,800	36,937	5,147
2018	32,450	36,937	5,147
2019	33,050	36,937	5,147
2020	32,550	36,937	5,147
2021-2025		184,685	25,735
2026-2030		184,685	15,445
2031-2035		184,685	
2036-2040		55,406	
Total	<b>\$163,950</b>	<b>\$794,146</b>	<b>\$66,915</b>

**10 CONTINGENT LIABILITIES**

The Village is a defendant in a lawsuit. Management cannot presently determine the outcome of this suit, nor the impact on the Village's financial condition.

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# Dave Yost • Auditor of State

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

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

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 cash balances, receipts, and disbursements by fund type of the Village of Gratis, Preble 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 our report thereon dated May 10, 2018 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.

### ***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 and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider finding 2016-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2016-002 described in the accompanying schedule of findings to be a significant deficiency.

***Compliance and Other Matters***

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-003.

***Village's Response to Findings***

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

May 10, 2018

**VILLAGE OF GRATIS  
PREBLE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016 AND 2015**

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

**FINDING NUMBER 2016-001**

**Material Weakness – Posting of Financial Activity**

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16. The Village's financial statements contained the following errors, which were material and resulted in adjustments to the financial statements and the accounting system (as applicable):

- In 2015, the Village improperly posted Mayor's Court receipts in the amount of \$2,467 to Fines, Licenses and Permits in the General Fund instead of the Mayor's Court Fund (Agency Fund).
- In 2016, the Village improperly posted Mayor's Court expenditures in the amount of \$2,558 to Other Financing Uses in the General Fund instead of Contractual Services in the Mayor's Court Fund (Agency Fund). Also, the Village improperly posted a water deposit receipt in the amount of \$146 to Fines, Licenses and Permits in the Mayor's Court Fund instead of Charges for Services in the Water Fund (Enterprise Fund).

**Auditor of State Bulletin 2011-004** states that when the appropriation measure is adopted for the subsequent year, and those appropriations exceed estimated receipts, the excess is to be assigned as it uses existing fund balance at year-end. This would be applicable only to the General Fund, as it is the only fund with a positive unassigned fund balance. The Village failed to properly classify the amount by which appropriations exceeded estimated receipts for the subsequent fiscal year in the amount of \$30,674 for 2016. These amounts should have been classified as assigned fund balance rather than unassigned fund balance in the General Fund.

- In 2015 and 2016, Municipal Income Tax receipts in the amounts of \$82,183 and \$75,043, respectively were improperly posted as Property and Other Taxes rather than Municipal Income Tax in the General Fund.

The Village's financial statements contained the following errors, which were not material; however, adjustments were posted to the financial statements and the accounting system:

- In 2015, first half Rollback and Homestead receipts were improperly posted entirely to Property and Other Taxes in the General Fund, at net, in the amount of \$3,403, rather than allocated at gross to Intergovernmental Revenue in the General Fund (\$1,379) and Fire Levy Fund (\$1,159) and EMS Levy Fund (\$900) (both Special Revenue).
- In 2016, the Village improperly posted an expenditure in the amount of \$1,005 for fire department training to the EMS Fund instead of the Fire Fund (both Special Revenue).
- In 2015, local government fund receipts were improperly posted to Water Fund Charges for Services instead of General Fund Intergovernmental Revenue in the amount of \$2,047.

The Village's financial statements contained the following errors, which were not material and did not result in adjustment to the financial statements or accounting system:

- In 2015, second half Rollback and Homestead receipts were improperly posted, at net, to Property and Other Taxes in the General Fund and Special Revenue Funds (Fire Levy Fund and EMS Levy Fund) in the amounts of \$1,368 and \$2,042, respectively, instead of Intergovernmental Revenue at gross (amounts of \$1,379 and \$2,059, respectively).

**FINDING NUMBER 2016-001  
(Continued)**

- In 2015, local government fund receipts were improperly posted to Property and Other Taxes instead of Intergovernmental Revenue in the Street Construction Maintenance and Repair Fund and State Highway Fund in the amounts of \$5,147 and \$454, respectively. Also, the amount of one local government fund receipt was improperly posted which caused General Fund Intergovernmental Revenue to be understated by \$739, Street Construction Maintenance and Repair Property and Other Taxes to be overstated \$684 and the State Highway Fund Property and Other Taxes to be overstated by \$55.
- In 2016, second half Rollback and Homestead receipts were improperly posted, at net, to Property and Other Taxes in the General Fund and Special Revenue Funds (Fire Levy Fund and EMS Levy Fund) in the amounts of \$2,675 and \$4,049, respectively, instead of Intergovernmental Revenue at gross (amounts of \$2,689 and \$4,070, respectively).
- In 2016, local government fund receipts were improperly posted to Property and Other Taxes instead of Intergovernmental Revenue in the Street Construction Maintenance and Repair Fund and State Highway Fund in the amounts of \$5,578 and \$452, respectively.

Failure to properly post financial activity to the accounting system could result in inaccurate financial statements and misappropriation of funds. Policies and procedures should be developed and implemented to verify that all receipts and expenditures are properly posted to the accounting system. The Village should review postings each month and again at the end of the fiscal year to verify that all amounts are classified and posted correctly.

**Officials' Response:** Current clerk uses due care in entering deposits. Current clerk not sure of previous clerk's actions.

**FINDING NUMBER 2016-002**

**Significant Deficiency - Leave**

When designing the public office's system of internal control and the specific control activities, management should ensure that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

We noted the following errors:

- Three out of 115 times (2.6%) comp time was earned and the comp time was entered incorrectly in the accounting system.
- Fifty-one out of 115 times (44.3%) comp time was earned and the timecard was not signed or initialed by the supervisor.
- Twenty-four out of 95 times (25.3%) comp time was used and leave forms were not completed.
- Six out of 95 times (6.3%) comp time was used and the comp time per the timecard was entered incorrectly in the accounting system or not at all.
- Twenty-one out of 95 times (22.1%) comp time was used and the timecards were not signed or initialed by the supervisor.
- Four out of 95 times (4.2%) comp time was used and leave forms were completed subsequent to the date the comp time was used.
- Five out of 17 times (29.4%) vacation leave was used and the timecard was not signed or initialed by the supervisor and/or a leave form was not completed.
- One out of 17 times (5.8%) vacation leave was used and the vacation leave per the timecard was entered incorrectly in the accounting system.
- Ten out of 25 times (40%) sick leave was used and leave forms were not completed.

**FINDING NUMBER 2016-002  
(Continued)**

- Four out of 25 times (16%) sick leave was used and leave forms were completed subsequent to the date the sick leave was used.
- The comp time balance for one employee was 118.99 hours less in the accounting system than the AOS recalculated amount in 2015.
- The vacation leave balance for one employee was 80 hours less in the accounting system than the AOS recalculated amount in 2015.
- The comp time balance for one employee was 36.03 hours more in the accounting system than the AOS recalculated amount in 2016.
- The comp time balance for one employee showed 39.25 hours less in the accounting system than the AOS recalculated amount in 2015 and 2016.
- The comp time balance for one employee showed 4.5 hours more in the accounting system than the AOS recalculated amount in 2015 and 2016. The sick leave balance for the same employee showed 5 more hours in the accounting system than the AOS recalculated amount in 2016.

The Village should implement procedures to ensure that all comp time earned and used is approved by a supervisor. Leave forms should be submitted consistently by all employees and maintained on file for all leave requested and used. Leave forms should be completed and approved prior to taking the leave. The consistent use of forms will promote accurate leave and decrease the risk of errors. Due care should be used when recording leave earned and used in the accounting system. This will decrease the risk of overpaying or underpaying employees for leave.

**Officials' Response:** Current clerk request leaves slips at time of leave if not already turned in. Current clerk uses due care in entering time earned and time used. Current clerk not sure of previous clerk's actions.

**FINDING NUMBER 2016-003**

**Noncompliance - Legal Level of Control**

**Ohio Rev. Code § 5705.38(C)** provides that for subdivisions other than schools, appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services.

**Ohio Rev. Code § 5705.41(B)** states no taxing unit shall make any expenditure of money unless it has been appropriated as provided in such chapter.

The Village failed to approve appropriations at the level required by **Ohio Rev. Code § 5705.39(C)** in 2016 (i.e. Council only approved the appropriations by fund type). As such, with the exception of the General Fund and Capital Improvement Fund, we were unable to determine if actual expenditures exceeded appropriations by fund due to the Village approving the 2016 appropriations by fund type. Expenditures did not exceed appropriations by fund type in 2016 in the General and Capital Improvement Funds.

Failure to appropriate and monitor expenditures at the required level of control could lead to ineffective oversight of expenditures and negative fund balances. Expenditures should not be made unless funds have been sufficiently appropriated. The Village Council should approve all annual appropriation measures and amendments at the required level of control.

**Officials' Response:** Budget for 2018 was filed with Preble County Auditor by object code. Current clerk not sure of previous clerk's actions.

VILLAGE OF GRATIS  
PREBLE COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2016 AND 2015

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2014-001	Deficiencies in the enactment of the income tax ordinance	Corrected	
2014-002	Ohio Rev. Code 5705.10(l) negative fund balance	Not Corrected; repeated in Management Letter	Current clerk not sure of previous clerk's actions. Corrective actions and partial corrections made – current clerk does/will use due caution when entering payments and deposits to avoid having any negative balances.
2014-003	Failure to properly reconcile bank accounts	Corrected	





# Dave Yost • Auditor of State

VILLAGE OF GRATIS

PREBLE 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 19, 2018