



Dave Yost • Auditor of State

VILLAGE OF UNION CITY
DARKE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Union City
Darke County
419 East Elm Street
Union City, Ohio 45390

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 Union City, Darke 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 such 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.

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 opinions on this accounting basis are in the *Additional Opinion Qualification and Unmodified Opinion on Regulatory Basis of Accounting* paragraphs 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, and the respective changes in financial position or cash flows thereof for the years then ended.

Basis for Additional Opinion Qualification

Water and sewer utility charges for services are reported at \$456,757, and \$554,241 for the years ended December 31, 2016 and 2015, respectively, which are 94 percent of Enterprise Fund operating receipts for the year ended December 31, 2016, and 95 percent of Enterprise Fund operating receipts for the year ended December 31, 2015. Emergency medical service (EMS) billing charges for services receipts are reported at \$519,888 and \$457,448 for the years ended December 31, 2016 and 2015 respectively, which is 66 percent of total Special Revenue Fund receipts for the year ended December 31, 2016, and 76 percent of total Special Revenue Fund receipts for the year ended December 31, 2015. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as water and sewer utility charges for services and EMS billing charges for services receipts. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Additional Opinion Qualification

In our opinion, except for the possible effects of the matters described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements of the Special Revenue and Enterprise Funds and related notes of the Village of Union City, Darke County as of December 31, 2016 and 2015, and 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.

Unmodified 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 of the General, Debt Service, Capital Projects and Agency Funds and related notes of the Village of Union City, Darke County, as of December 31, 2016 and 2015, and 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 December 7, 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

December 7, 2018

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Village of Union City, Ohio
Darke 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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$72,689	\$37,200			\$109,889
Municipal Income Tax	273,871				273,871
Intergovernmental	96,859	79,729		\$35,550	212,138
Special Assessments	12,057				12,057
Charges for Services	99,471	519,888			619,359
Fines, Licenses and Permits	14,512	2,626			17,138
Earnings on Investments	1,635	134			1,769
Miscellaneous	3,626	3,289			6,915
<i>Total Cash Receipts</i>	<u>574,720</u>	<u>642,866</u>		<u>35,550</u>	<u>1,253,136</u>
Cash Disbursements					
Current:					
Security of Persons and Property	183,002	533,386			716,388
Public Health Services	3,928				3,928
Leisure Time Activities		84			84
Community Environment	29				29
Basic Utility Services	70,533				70,533
Transportation	21,358	71,903			93,261
General Government	120,214	14,700			134,914
Capital Outlay		115,000		36,600	151,600
Debt Service:					
Principal Retirement			96,856		96,856
Interest and Fiscal Charges			2,481		2,481
<i>Total Cash Disbursements</i>	<u>399,064</u>	<u>735,073</u>	<u>99,337</u>	<u>36,600</u>	<u>1,270,074</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>175,656</u>	<u>(92,207)</u>	<u>(99,337)</u>	<u>(1,050)</u>	<u>(16,938)</u>
Other Financing Receipts (Disbursements)					
Other Debt Proceeds		115,000			115,000
Transfers In			99,337		99,337
Transfers Out	(99,337)				(99,337)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(99,337)</u>	<u>115,000</u>	<u>99,337</u>	<u>0</u>	<u>115,000</u>
<i>Net Change in Fund Cash Balances</i>	76,319	22,793	0	(1,050)	98,062
<i>Fund Cash Balances, January 1</i>	<u>190,594</u>	<u>286,223</u>		<u>12,461</u>	<u>489,278</u>
Fund Cash Balances, December 31					
Nonspendable	0	0	0	0	0
Restricted	0	309,016	0	11,411	320,427
Committed	0	0	0	0	0
Assigned	266,913	0	0	0	266,913
Unassigned (Deficit)	0	0	0	0	0
<i>Fund Cash Balances, December 31</i>	<u>\$266,913</u>	<u>\$309,016</u>	<u>\$0</u>	<u>\$11,411</u>	<u>\$587,340</u>

See accompanying notes to the basic financial statements.

Village of Union City, Ohio
Darke 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 Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts			
Charges for Services	\$456,757		\$456,757
Fines, Licenses and Permits		\$18,372	18,372
Miscellaneous	28,259		28,259
<i>Total Operating Cash Receipts</i>	<u>485,016</u>	<u>18,372</u>	<u>503,388</u>
Operating Cash Disbursements			
Personal Services	81,307		81,307
Employee Fringe Benefits	40,214		40,214
Contractual Services	174,639	20,763	195,402
Supplies and Materials	17,976		17,976
Other	57,617		57,617
<i>Total Operating Cash Disbursements</i>	<u>371,753</u>	<u>20,763</u>	<u>392,516</u>
<i>Operating Income (Loss)</i>	<u>113,263</u>	<u>(2,391)</u>	<u>110,872</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	3,223		3,223
Principal Retirement	(10,402)		(10,402)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(7,179)</u>	<u>0</u>	<u>(7,179)</u>
<i>Net Change in Fund Cash Balances</i>	106,084	(2,391)	103,693
<i>Fund Cash Balances, January 1</i>	<u>829,813</u>	<u>2,924</u>	<u>832,737</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$935,897</u></u>	<u><u>\$533</u></u>	<u><u>\$936,430</u></u>

See accompanying notes to the basic financial statements.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Union City (the Village), Darke 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, park operations, fire protection, rescue service, police services, and street services.

Joint Ventures, Jointly Governed Organizations, Public Entity Risk Pools and Related Organizations

The Village participates in a public entity risk pool for liability insurance. Note 6 to the financial statements provide additional information for this entity. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

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.

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:

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.

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 The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Fire and Rescue Fund The fire and rescue fund accounts for and reports charges for services and contractual payments restricted for providing fire and EMS run services.

Police Levy Fund The police levy fund accounts for that portion of property taxes restricted to support the Village police department.

Debt Service Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

General Obligation Bond Retirement Fund The general obligation bond retirement fund accounts for the accumulation of resources for the payment of bond and note indebtedness.

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project fund:

Grant Construction Fund The grant construction fund accounts for grant awards restricted for construction projects.

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 The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village. The fund receives charges for services revenue from customers to cover the cost of providing those services.

Sewer Fund The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village. The fund receives charges for services revenue from customers to cover the cost of providing those services.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

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

Mayor's Court The mayor's court fund accounts for monies collected from fines imposed for tickets issued by the Village's police protection force. In part, funds collected are on behalf of the State of Ohio. In addition, funds are used in part for safety programs, computerization and general Village operations.

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.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Budgetary Process

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

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. Appropriations lapse at year end.

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must 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 canceled, and re-appropriated in the subsequent year.

A summary of 2016 budgetary activity appears in Note 3.

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.

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.

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.

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:

Nonspendable The Village classifies assets as *nonspendable* 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.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

Note 3 - Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$510,857	\$574,720	\$63,863
Special Revenue	542,783	757,866	215,083
Debt Service	103,000	99,337	(3,663)
Capital Projects	406,600	35,550	(371,050)
Enterprise	485,080	488,239	3,159
Total	\$2,048,320	\$1,955,712	(\$92,608)

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$701,214	\$498,401	\$202,813
Special Revenue	829,684	735,073	94,611
Debt Service	103,000	99,337	3,663
Capital Projects	419,061	36,600	382,461
Enterprise	1,314,447	382,155	932,292
Total	\$3,367,406	\$1,751,566	\$1,615,840

Note 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:

	2016
Demand deposits	\$1,303,299
Certificates of deposit	220,471
Total deposits	\$1,523,770

Deposits

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

Note 5 – Taxes

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.

Public utilities are also taxed on personal and real property located within the Village.

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

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Income Taxes

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

Note 6 - 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 Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services 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 York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

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 the obligation of the respective government.

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.

	<u>2016</u>
Assets	\$42,182,281
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 approximately \$11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members 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 collectible in future years is approximately \$19,000.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Based on discussions with PEP, the expected 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 the historical contributions detailed below. By contract, 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.

<u>2016 Contributions to PEP</u> <u>\$30,327</u>

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 future obligation to PEP. Also upon withdrawal, payments for all 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.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some Village 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.

Ohio Police and Fire Retirement System

The Village's full-time police officers belong to the Police and Fire Pension Fund (OP&F). OP&F 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. OP&F participants contributed 12.25% of their gross wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2016.

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 Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 8 - Postemployment Benefits

Both OPERS and OP&F offer 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016. OP&F contributes 0.5 percent to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
OPWC Loan- Water Tower	\$93,618	0.00%
OPWC Loan- Elm Street	185,025	0.00%
ODSA Commerce Park Loan	3,476	3.93%
Main Source Commerce Park Loan	26,351	2.80%
Main Source Ambulance Loan	111,519	2.60%
Total	\$419,989	

The Water System Improvement loan was issued for the construction of a new water tower; the interest free loan was financed through the Ohio Public Works Commission and matures on July 1, 2025. The loan is being repaid in semi-annual installments of \$5,201.

The Elm Street Reconstruction loan was issued for improvements to Elm Street within the Village; the interest free loan was financed through the Ohio Public Works Commission and matures on January 1, 2029. The loan is being repaid in semi-annual installments of \$7,401.

The Commerce Park loan was issued for improvements to Commerce Park within the Village; the loan was financed through the Ohio Development Services Agency and matures in January 2017. The loan is being repaid in monthly installments.

The Main Source Commerce Park loan financed the purchase of two properties to demolish. The note is being repaid in monthly installments and will be paid off in 2017.

The Main Source Ambulance loan financed the acquisition of a new 2016 Medix 150 in October 2016 for \$115,000. The note is being repaid in monthly installments and will mature in October 2021.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Amortization

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

Year ending December 31:	OPWC Loan Water Tower	OPWC Loan Elm Street	ODSA Commerce Park Loan	Main Source Commerce Park Loan	Main Source Ambulance Loan
2017	\$10,402	\$14,802	\$3,487	\$31,834	\$24,600
2018	10,402	14,802			24,600
2019	10,402	14,802			24,600
2020	10,402	14,802			24,600
2021	10,402	14,802			20,500
2022-2026	41,608	74,010			
2027-2031		37,005			
Total	<u>\$93,618</u>	<u>\$185,025</u>	<u>\$3,487</u>	<u>\$31,834</u>	<u>\$118,900</u>

Note 10 – Construction and Contractual Commitments

The Village has two major ongoing construction projects as follows:

- The First Street Project was started in 2016 and will be completed in 2017. The total project cost was \$188,717; of this total, the Village received a Community Development Block Grant (CDBG) in the amount of \$48,400 and the remainder of the total project cost was paid by the Village.
- The Sanitary Sewer Rehabilitation Phase IV Project was started in 2016 and will be completed in 2017. The total project cost was \$465,097; of this total, the Village paid \$97,670. The remainder of the total project cost of \$367,427 was paid through an Ohio Public Works Commission (OPWC) grant.

Note 11 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 12 – Subsequent Events

The Auditor of State initiated a special audit on August 9, 2018. As of the date of this report, the investigation is ongoing.

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Village of Union City, Ohio
Darke 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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$75,228	\$38,500			\$113,728
Municipal Income Tax	245,375				245,375
Intergovernmental	74,354	92,425			166,779
Special Assessments	1,368				1,368
Charges for Services	100,260	458,489			558,749
Fines, Licenses and Permits	57,424	6,679			64,103
Earnings on Investments	746	76			822
Miscellaneous	4,952	2,940		\$8,819	16,711
<i>Total Cash Receipts</i>	<u>559,707</u>	<u>599,109</u>		<u>8,819</u>	<u>1,167,635</u>
Cash Disbursements					
Current:					
Security of Persons and Property	147,805	428,191			575,996
Public Health Services	3,851				3,851
Leisure Time Activities	56				56
Basic Utility Services	75,038				75,038
Transportation	20,773	65,673			86,446
General Government	131,659	14,126			145,785
Capital Outlay				10,800	10,800
Debt Service:					
Principal Retirement			\$95,988		95,988
Interest and Fiscal Charges			5,539		5,539
<i>Total Cash Disbursements</i>	<u>379,182</u>	<u>507,990</u>	<u>101,527</u>	<u>10,800</u>	<u>999,499</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>180,525</u>	<u>91,119</u>	<u>(101,527)</u>	<u>(1,981)</u>	<u>168,136</u>
Other Financing Receipts (Disbursements)					
Transfers In			101,527		101,527
Transfers Out	(101,527)				(101,527)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(101,527)</u>	<u>0</u>	<u>101,527</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	78,998	91,119	0	(1,981)	168,136
<i>Fund Cash Balances, January 1</i>	<u>111,596</u>	<u>195,104</u>		<u>14,442</u>	<u>321,142</u>
Fund Cash Balances, December 31					
Nonspendable	0	0	0	0	0
Restricted	0	286,223	0	12,461	298,684
Committed	0	0	0	0	0
Assigned	190,357	0	0	0	190,357
Unassigned (Deficit)	237	0	0	0	237
<i>Fund Cash Balances, December 31</i>	<u>\$190,594</u>	<u>\$286,223</u>	<u>\$0</u>	<u>\$12,461</u>	<u>\$489,278</u>

See accompanying notes to the basic financial statements.

Village of Union City, Ohio
Darke 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 Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
Operating Cash Receipts			
Charges for Services	\$554,241		\$554,241
Fines, Licenses and Permits		\$48,129	48,129
Miscellaneous	26,987		26,987
<i>Total Operating Cash Receipts</i>	<u>581,228</u>	<u>48,129</u>	<u>629,357</u>
Operating Cash Disbursements			
Personal Services	78,005		78,005
Employee Fringe Benefits	40,328		40,328
Contractual Services	168,790	48,423	217,213
Supplies and Materials	23,258		23,258
Other	13,753		13,753
<i>Total Operating Cash Disbursements</i>	<u>324,134</u>	<u>48,423</u>	<u>372,557</u>
<i>Operating Income (Loss)</i>	<u>257,094</u>	<u>(294)</u>	<u>256,800</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	2,340		2,340
Principal Retirement	(10,402)		(10,402)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(8,062)</u>	<u>0</u>	<u>(8,062)</u>
<i>Net Change in Fund Cash Balances</i>	249,032	(294)	248,738
<i>Fund Cash Balances, January 1</i>	<u>580,781</u>	<u>3,218</u>	<u>583,999</u>
<i>Fund Cash Balances, December 31</i>	<u>\$829,813</u>	<u>\$2,924</u>	<u>\$832,737</u>

See accompanying notes to the basic financial statements.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Reporting Entity

The Village of Union City (the Village), Darke 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, park operations, fire protection, rescue services, police services, and street services.

Joint Ventures, Jointly Governed Organizations, Public Entity Risk Pools and Related Organizations

The Village participates in a public entity risk pool for liability insurance. Note 6 to the financial statements provide additional information for this entity. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

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.

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:

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.

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 The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Fire and Rescue Fund The fire and rescue fund accounts for and reports charges for services and contractual payments restricted for providing fire and EMS run services.

Police Levy Fund The police levy fund accounts for that portion of property taxes restricted to support the Village police department.

Debt Service Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

General Obligation Bond Retirement Fund The general obligation bond retirement fund accounts for the accumulation of resources for the payment of bond and note indebtedness.

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project fund:

Grant Construction Fund The grant construction fund accounts for grant awards restricted for construction projects.

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 The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village. The fund receives charges for services revenue from customers to cover the cost of providing those services.

Sewer Fund The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village. The fund receives charges for services revenue from customers to cover the cost of providing those services.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

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

Mayor's Court The mayor's court fund accounts for monies collected from fines imposed for tickets issued by the Village's police protection force. In part, funds collected are on behalf of the State of Ohio. In addition, funds are used in part for safety programs, computerization and general Village operations.

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.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Budgetary Process

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

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. Appropriations lapse at year end.

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must 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 canceled, and re-appropriated in the subsequent year.

A summary of 2015 budgetary activity appears in Note 3.

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.

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.

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.

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:

Nonspendable The Village classifies assets as *nonspendable* 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.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

Note 3 - Budgetary Activity

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

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$498,877	\$559,707	\$60,830
Special Revenue	513,287	599,109	85,822
Debt Service	103,000	101,527	(1,473)
Capital Projects	0	8,819	8,819
Enterprise	494,274	583,568	89,294
Total	\$1,609,438	\$1,852,730	\$243,292

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$610,473	\$480,709	\$129,764
Special Revenue	708,393	507,990	200,403
Debt Service	103,000	101,527	1,473
Capital Projects	14,442	10,800	3,642
Enterprise	1,075,055	334,536	740,519
Total	\$2,511,363	\$1,435,562	\$1,075,801

Note 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:

	2015
Demand deposits	\$1,101,544
Certificates of deposit	220,471
Total deposits	\$1,322,015

Deposits

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

Note 5 – Taxes

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.

Public utilities are also taxed on personal and real property located within the Village.

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

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Income Taxes

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

Note 6 - 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 Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Insurance Services 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 York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

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 the obligation of the respective government.

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.

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

At December 31, 2015 the liabilities above include approximately \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$11.0 million of unpaid claims to be billed. The Pool's membership increased to 499 members 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 collectible in future years is approximately \$19,000.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Based on discussions with PEP, the expected 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 the historical contributions detailed below. By contract, 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.

<u>Contributions to PEP</u> <u>\$30,819</u>
--

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 future obligation to PEP. Also upon withdrawal, payments for all 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.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some Village 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.

Ohio Police and Fire Retirement System

The Village's full-time police officers belong to the Police and Fire Pension Fund (OP&F). OP&F 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 2015, OP&F participants contributed 11.5% until July 2, 2015 then 12.25% thereafter of their gross wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2015.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

Note 8 - Postemployment Benefits

Both OPERS and OP&F offer 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015 OP&F contributes 0.5 percent to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
OPWC Loan-Water Tower	\$104,020	0.00%
OPWC Loan- Elm Street	199,827	0.00%
ODSA Commerce Park Loan	44,290	3.93%
Main Source Commerce Park Loan	66,965	2.80%
Main Source Elm Street Note	1,564	2.80%
Total	\$416,666	

The Water System Improvement loan was issued for the construction of a new water tower; the interest free loan was financed through the Ohio Public Works Commission and matures on July 1, 2025. The loan is being repaid in semi-annual installments of \$5,201.

The Elm Street Reconstruction loan was issued for improvements to Elm Street within the Village; the interest free loan was financed through the Ohio Public Works Commission and matures on January 1, 2029. The loan is being repaid in semi-annual installments of \$7,401.

The Commerce Park loan was issued for improvements to Commerce Park within the Village; the loan was financed through the Ohio Development Services Agency and matures in January 2017. The loan is being repaid in monthly installments.

The Main Source Commerce Park loan financed the purchase of two properties to demolish. The note is being repaid in monthly installments and will be paid off in 2017.

The Main Source Elm Street loan financed a project to run new sanitary sewer lines and improve the layout of State Route 47 prior to the State repaving the highway. Sidewalks and curbs were also installed. The note is being repaid in monthly installments and will be paid off in 2016.

Village of Union City, Ohio
Darke County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Amortization

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

Year ending December 31:	OPWC Water Tower	OPWC Elm Street	ODSA Commerce Park Loan	Main Source- Commerce Park Loan	Main Source- Elm Street Note
2016	\$10,402	\$14,802	\$41,907	\$42,000	\$1,564
2017	10,402	14,802	3,487	31,834	
2018	10,402	14,802			
2019	10,402	14,802			
2020	10,402	14,802			
2021-2025	52,010	74,010			
2026-2030		51,807			
Total	<u>\$104,020</u>	<u>\$199,827</u>	<u>\$45,394</u>	<u>\$73,834</u>	<u>\$1,564</u>

Note 10 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 11 – Subsequent Events

The Auditor of State initiated a special audit on August 9, 2018. As of the date of this report, the investigation is ongoing.

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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 Union City
Darke County
419 East Elm Street
Union City, Ohio 45390

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 Union City, Darke 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 December 7, 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. We also qualified our opinion due to the lack of sufficient audit evidence supporting the amounts recorded as Enterprise Fund water and sewer utility charges for services receipts and Special Revenue Fund emergency medical service billing charges for services receipts in fiscal years 2016 and 2015.

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.

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.

Our 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 through 2016-003 to be material weaknesses.

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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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 subject the Village's responses to the auditing procedures applied in the audit of the financial statements 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

December 7, 2018

**VILLAGE OF UNION CITY
DARKE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Material Weakness – Financial Statement Errors

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 for 2016 and 2015 contained material errors which resulted in reclassification and adjustments to the financial statements and accounting system to correctly report the financial activity during the audit period as follows:

- During 2015, the Village misposted local government funding as property tax receipts instead of intergovernmental revenue in the General Fund. As a result, property tax revenue was overstated by \$59,258 and intergovernmental revenue was understated by \$59,258.
- During 2016, the Village misposted local government funding as property tax receipts instead of intergovernmental revenue in the General Fund. As a result, property tax revenue was overstated by \$58,008 and intergovernmental revenue was understated by \$58,008.
- During 2015, the Village misposted charges for services revenues and special assessments as fines, licenses, and permits in the Enterprise Fund. As a result, Fines, Licenses and Permits was overstated by \$44,962, Charges for Services was understated by \$44,774, and Special Assessments was understated by \$188.
- During 2016, a grant distributed by the State related to law enforcement activities was improperly classified in the General Fund as Charges for Services in the amount of \$400. As a result, General Fund Charges for Services and fund balance were overstated by \$400 and Special Revenue Funds (Police Fund) intergovernmental revenue and fund balance were understated by the same amount.
- During 2016, a grant distributed by the State was improperly classified in the General Fund as Charges for Services in the amount of \$20,000. As a result, General Fund Charges for Services was overstated by \$20,000 and General Fund intergovernmental revenue was understated by the same amount.
- The Village failed to record loan proceeds and related disbursements for the acquisition of a new ambulance in the amount of \$115,000 in 2016. As a result, Special Revenue Funds Other Debt Proceeds and Capital Outlay disbursements were both understated by \$115,000, respectively.
- During 2016, the Village misclassified a grant from Darke County in the General Fund as Charges for Services in the amount of \$4,990. As a result, General Fund Charges for Services was overstated by \$4,990 and General Fund intergovernmental revenue was understated by the same amount.
- During 2016, the Village misclassified a grant from the National Association of Mental Illness in the General Fund as Charges for Services in the amount of \$1,000. As a result, General Fund Charges for Services and fund balance were overstated by \$1,000 and Special Revenue Fund (Police Fund) intergovernmental revenue and fund balance were understated by the same amount.
- During 2015, the Village misposted special assessments revenue resulting in the following misstatements:

FINDING NUMBER 2016-001
(Continued)

- General Fund Charges for Services revenue was overstated by \$541, Miscellaneous revenue was overstated by \$591 and Special Assessment revenue was understated by \$1,368.
- Street Special Revenue Fund Charges for Services revenue and Miscellaneous revenue were overstated by \$90 and \$591, respectively.
- Water Enterprise Fund Utilities revenue and Charges for Services revenue were overstated by \$760 and \$188, respectively.
- Sewer Enterprise Fund Utilities revenue was overstated by \$759 and Special Assessment revenue was understated by \$2,152.
- During 2016, the Village misposted special assessments revenue resulting in the following misstatements:
 - General Fund Charges for Services revenue was overstated by \$742, Miscellaneous revenue was overstated by \$122 and Special Assessment revenue was understated by \$243.
 - Street Special Revenue Fund Miscellaneous revenue was overstated by \$122.
 - Water Enterprise Fund Utilities revenue and Charges for Services revenue were overstated by \$1,192 and \$322, respectively.
 - Sewer Enterprise Fund Utilities revenue was overstated by \$966 and Special Assessment revenue was understated by \$3,223.
- During 2015, the Village failed to report Mayor's Court activity as an Agency Fund on the financial statements which resulted in the following misstatements:
 - Beginning Fund Balance was understated by \$3,218, Contractual Services disbursements were understated by \$48,423, Fines, Licenses and Permits revenue was understated by \$48,129 and Ending Fund Balance was understated by \$2,924.
- During 2016, the Village failed to report Mayor's Court activity as an Agency Fund on the financial statements which resulted in the following misstatements:
 - Beginning Fund Balance was understated by \$2,924, Contractual Services disbursements were understated by \$20,763, Fines, Licenses and Permits revenue was understated by \$18,372 and Ending Fund Balance was understated by \$533.
- During 2016 and 2015, General Fund Assigned fund balance was understated by \$266,913 and \$190,357, respectively, due to the application of the GASB 54 provision that states that the amount by which subsequent year appropriations exceed estimated receipts should be reported as Assigned fund balance. As a result, 2016 and 2015 General Fund Unassigned fund balance was overstated by \$266,913 and \$190,357, respectively.

We also noted the Village's financial statements for 2016 and 2015 contained the following errors that were not material and did not require adjustment or reclassification to the financial statements:

- The Village misclassified revenue received from consumer rent as Fines, Licenses, and Permits instead of Charges for Services in the amount of \$14,400 during 2015 in the General Fund. As a result, Fines, Licenses, and Permits was overstated and Charges for Services was understated by this same amount.
- During 2015 and 2016, the Village misclassified permissive motor vehicle license taxes in Special Revenue Funds as intergovernmental revenue instead of property taxes in the amounts of \$6,975 and \$7,017, respectively. As a result, intergovernmental revenue was overstated by \$6,975 and \$7,017 and property taxes were understated by the same amounts, respectively in 2015 and 2016.
- During 2016, the Village misclassified ambulance loan principal and interest payments as Security of Persons and Property disbursements in Special Revenue Funds. As a result, Principal Retirement was understated by \$3,481, Interest & Fiscal Charges was understated by \$619 and Security of Persons and Property disbursements were overstated by \$4,100.
- During 2016, the Village did not properly classify revenue received from its cell tower lease as Charges for Services in the General Fund in the amount of \$11,814. This revenue was improperly recorded as Special Assessments. As a result, Special Assessments revenue was overstated by \$11,814 and Charges for Services revenue was understated by the same amount in the General Fund.

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

- During 2016, the Village did not properly classify revenue received from Time Warner franchise fees as Fines, Licenses and Permits in the General Fund in the amount of \$8,442. This revenue was improperly recorded as Charges for Services. As a result, Charges for Services revenue was overstated by \$8,442 and Fines, Licenses and Permits revenue was understated by the same amount in the General Fund.

Policies and procedures should be developed and implemented to verify that all receipts and expenditures are posted in correct accounts. 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. Due care is advised when posting revenues to the accounting system. Failure to post revenues to the correct funds could result in audit adjustments, incorrect fund balances being maintained, and unallowable revenue sources being used for expenditures.

Officials' Response:

The financial statements have been prepared by the same Fiscal Officer for 13 years and this audit indicated line items were misclassified, Fiscal Officer will make necessary changes which may not reflect at the next audit as this audit will not be concluded until the end of 2018.

FINDING NUMBER 2016-002

Material Weakness – Utility Receipts

In November 2014, Village Council approved Ordinance 2014-11 replacing the quarterly utility billing cycle with a monthly utility billing cycle, effective January 1, 2015. The quarterly utility rates previously approved in Ordinance 2011-26 were not amended to monthly rates until August 2016 in Ordinance 2016-14. Ordinance 2007-11, section 2.5 of the Village's utility rules and regulations provides, in part, that bills shall be pro-rated as to the month(s) of service provided to the customer in the billing cycle. Pro-rating will include the billing for the water utility, waste water utility, and any applicable fees to such utilities. If one month or less of service is provided the bill of services shall be prorated to one month. During testing of utility receipts, we identified the following issues:

- The parameters in the Village's utility billing system, UB Pro, were not updated to calculate monthly billing; therefore, the Fiscal Officer and Utility Clerk manually adjusted utility customers' bills. The adjustments were not reflected on the utility system adjustment report and there was no indication that Council approved the adjustments.
- Council does not review or approve non-cash adjustments made to utility bills. The Village does not have a policy governing non-cash adjustments.
- The Village was billing new customer bills and final customer bills on a daily pro-rated basis rather than a monthly pro-rated basis, which resulted in the Village under-billing for utilities services.
- Additional variances were noted between the amount charged by the Village for utility services and the recalculated amount per Council approved rates that were not a result of the above issues. We were not able to identify the cause of these variances.

FINDING NUMBER 2016-002
(Continued)

- Ordinance 2004-41 established the Water Improvement and Maintenance Program by establishing a rate of \$5 per month that will be collected in addition to utility bills. The revenue collected is earmarked for water department improvement and maintenance projects with the first \$10,000 earmarked annually for debt service payments toward the Commerce Park Water Tower debt until the debt is paid in full. After which the funds collected shall be used for water department improvement and maintenance projects. During 2015, the Village recorded the Water Improvement and Maintenance Fee as Fines, Licenses, and Permits in the Water Fund. During 2016, Village recorded the Water Improvement and Maintenance Fee as Charges for Services in the Water Fund. The Village made principal payments of \$10,402 from the Water Fund toward the Commerce Park Water Tower debt during 2015 and 2016, respectively, in accordance with the approved ordinance. However, the Village did not maintain the Water Improvement and Maintenance program fee in a separate fund; therefore, we were unable to determine if the remaining revenue collected was being used for water department improvement and maintenance projects in accordance with the approved ordinance.
- The Village maintains a cash register to collect cash receipts received from customers, including utility payments. During testing of utility receipts and corresponding bank deposits, we determined the Village Fiscal Officer "cashed" a personal check in the amount of \$20.17 with cash maintained in the cash register drawer and subsequently signed her personal check in the same amount over to the Village. The Fiscal Officer's personal check was deposited into the Village's bank account. There is no Village policy allowing or prohibiting this practice. We did not identify any further instances of personal checks being "cashed" in the Village's cash register; however, the Fiscal Officer indicated that this was a practice that occurred infrequently throughout the year.
- Utility customers were assigned account numbers by the Village's utility billing system, UB Pro. Many of the utility reports provided for audit reflected the utility account number, customer name, and service address. However, there were several instances identified where accounts were closed and final billed for customers that had new accounts opened with the same name and service address.
- Ordinance 2007-11, section 2.18 of the Village's utility rules and regulations provides, in part, that once per year, prior to the first Monday in September, all delinquent water bills will be tallied and sent to the Darke County Auditor's Office for inclusion as liens on the Real Property Tax Duplicate. The ordinance further provides that once submitted to the Auditor, as a lien, the action is binding and shall not be reversed. In August of 2015 and 2016, the Fiscal Officer certified a listing of delinquent utility charges to the Darke County Auditor for assessment, which were approved by Council in Resolutions 2015-08 and 2016-07. There were discrepancies in the accounts assessed to the County Auditor and the delinquent accounts in the utility billing system. Accounts were noted as delinquent in the utility billing system which were not sent to the County for assessment. Likewise, accounts were sent to the County for assessment which were not noted as delinquent in the utility billing system. Additionally, the Fiscal Officer subsequently requested that the County Auditor remove several assessments due to payment being received from the utility customer, which was contrary to the ordinance.
- The Village uses a subsidiary accounting system for utilities. However, the Village did not perform a comparison of revenue posted to the Village's subsidiary utilities system, UB Pro and its general ledger accounting system, Keystone. The Village's Keystone system did not agree with amounts posted to UB Pro during 2015 and 2016. We were unable to determine the cause of the variances.

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

2015	Total From UBPro	Total From Keystone	Variance
Water	\$254,484	\$263,132	(\$8,648)
Sewer	246,346	246,524	(178)
Water Maintenance Fee	38,622	38,479	143
Water Turn-On	2,277	2,252	25
Water Other Charges	4,045	4,043	2
Waste Haul	83,525	87,135	(3,610)
Unapplied	12,092	0	12,092

2016	Total From UBPro	Total From Keystone	Variance
Water	\$214,746	\$214,388	\$358
Sewer	197,869	194,404	3,465
Water Maintenance Fee	33,104	39,932	(6,828)
Water Turn-On	2,323	2,322	1
Water Other Charges	4,735	5,708	(973)
Waste Haul	71,972	76,630	(4,658)
Unapplied	8,686	0	8,686

Water and sewer utility charges for services are reported at \$456,757 and \$554,241 for the years ended December 31, 2016 and 2015, respectively, which are 94 percent of Enterprise Fund operating receipts for the year ended December 31, 2016, and 95 percent of Enterprise Fund operating receipts for the year ended December 31, 2015.

Village Council should implement policies and procedures to verify that utility customers are being charged in accordance with approved ordinances, including updating the parameters in the UB Pro utility billing system for rate cycles, proration, meter sizes, and approved rates. Council should adopt a policy governing non-cash adjustments. Likewise, Council should review and approve non-cash adjustments. Council should review the requirements of Ordinance 2004-41 to verify that the water improvement and maintenance fee is being utilized for authorized purposes. Council should also take steps to approve and implement formal delinquency procedures, which should include the pursuit of delinquent accounts, certification of delinquent balances to the County Auditor for collection, and a system to track delinquent accounts. Council should review the practice of cashing personal checks in the Village cash register and determine if this practice should be prohibited or permitted, including procedures to verify that proper safeguards are in place. Finally, the Village should implement procedures to verify that revenue amounts are periodically reconciled, by revenue type, between UB Pro and Keystone. A reconciliation between Keystone and the amount deposited in the bank should also be performed on at least a monthly basis to verify that recorded revenue has been deposited. Failure to do so could lead to errors and/or irregularities going undetected for a significant period of time, which could result in uncollected revenues, and possible findings for recovery or findings for adjustments in future audits.

FINDING NUMBER 2016-002
(Continued)

Officials' Response:

The parameters in the Village's utility billing system have been corrected and bills are being calculated correctly on a monthly basis. The water ordinance allows the Village Administration to make non-cash adjustments on monthly bills for leak adjustments with proper documentation. The water improvement and maintenance program is receipted into a line item established for the charge and expenditures in this fund are to the benefit of the water fund. A personal check was cashed from the drawer by the Fiscal Officer, this practice does not happen frequently. Same name and service address are for residents that go to Florida in the winter and do not want utility service at their address. We final their accounts when they leave and re-open when they return. Assessments to the county auditor are passed by resolution and filed with the county auditor. Delinquent utility bills assessed to the county auditor go to bad debt in the UB pro system and is cleared out when paid. Payment taken by the Village after assessed to the county auditor but prior to the county auditor placing on the taxes serves the same purpose. The moneys receipted into the UB Pro program and Keystone program do match, what does not match is what is billed verses what is collected for several reasons, late fees, adjustments, and turn off fees or bills not paid.

FINDING NUMBER 2016-003

Material Weakness – EMS Billing Receipts

The Village outsourced the processing of emergency medical service (EMS) billing processing, which is a significant accounting function, to a third party administrator, Romar Professional Services. The following internal control weaknesses were noted with regard to the processing of EMS billings and collections:

- Romar Professional Services provided monthly reports which detailed how many EMS runs were billed, how much money was collected, and how much money owed was still outstanding. However, the Village could not provide any of these reports for audit and there was no evidence that these reports were reviewed for accuracy nor verified by any Village personnel to monitor whether the EMS runs were being properly billed and collected.
- The Village had not established procedures to determine whether the service organization had sufficient controls in place and operating effectively to reduce the risk that ambulance billings and collections had been completely and accurately processed in accordance with the contract between the Village and Romar Professional Services.
- The contract between the Village and Romar Professional Services expired on December 31, 2015. The Village and Romar Professional Services verbally agreed to extend the same contract terms for 2016 as well; however, no formal written agreement was executed.
- Section 2, part 4, of the contract stated, in part, that Romar Professional Services was required to have a SAS70 audit performed at least every other year (bi-annually) and provide results of said audit upon request to Village officials. Romar Professional Services failed to have this SAS70 audit performed and was therefore not in compliance with the contract.
- Per testing, there were three instances in 2016 and six instances in 2015 where the billed amount for an EMS run did not agree to the corresponding EMS run report code and respective fee schedule.
- Per testing, there were 3 out of 37 instances in 2016 and 63 out of 90 instances in 2015 where no corresponding EMS run report was attached to the customer billing receipt or otherwise provided. As a result, we could not verify that the correct billing rate was used in the calculation of the billing amount.

The Village did not provide us with evidence we requested regarding the design and proper operation of the service organization's internal controls or with certain information regarding EMS billing receipts.

**FINDING NUMBER 2016-003
(Continued)**

Romar processed \$519,888 and \$457,448 in 2016 and 2015, respectively, in EMS receipts for the Village. We were therefore unable to satisfy ourselves as to the proper processing of EMS billings and collections.

These conditions may not assure the completeness and accuracy of EMS billings and collections processed by the third party administrator.

Statement of Standards for Attestation Engagements No. 16 Reporting on Controls at a Service Organization (SSAE No. 16), prescribes standards for reporting on service organizations. An unqualified Type Two Report on Management's Description of a Service Organization's System and the Suitability of Design and Operating Effectiveness of Controls in accordance with SSAE No. 16 should provide the Village with reasonable assurance that EMS billings and collections conform to the contract. If alternative procedures cannot be applied to gain assurances over completeness and accuracy, we recommend the Village request a Type Two SSAE 16 SOC 1 report or Agreed Upon Procedures report in its contract with Romar Professional Services. The Village should review the SOC 1 report timely. The report should follow American Institute of Certified Public Accountants standards and be performed by a firm registered and considered in good standings with the Accountancy Board of the respective state. In addition, if agreed upon procedures are to be done; the Auditor of State's SSAE Coordinator should be consulted prior to entering into a contract for these services.

The Village should take steps to implement proper monitoring and oversight over the contracted EMS billing service organization in order to verify that customers are billed the correct rates and that sufficient supporting documentation is maintained by both the Village and the EMS billing service organization to support EMS billing charges and related revenues.

Failure to have a mutually agreed-upon, written contract in place could lead to potential misunderstandings and breach of contract terms by either party. The Village should implement procedures to verify that valid written contracts are in place for significant accounting functions outsourced to a third party administrator.

Officials' Response:

EMS is contracted out, the Village receipts monies collected, not what is billed. A new billing agency has taken over the billing process and the Safety Service Director monitors the activity.

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Dave Yost • Auditor of State

VILLAGE OF UNION CITY

DARKE 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
DECEMBER 27, 2018