



Dave Yost • Auditor of State

VILLAGE OF NORTH FAIRFIELD
HURON COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of North Fairfield
Huron County
3 East Main Street
P.O. Box 188
North Fairfield, Ohio 44855

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 North Fairfield, Huron County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016.

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 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, 2017 and 2016, and the respective changes in financial position or cash flows 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 North Fairfield, Huron County, Ohio as of December 31, 2017 and 2016, 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 19, 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 19, 2018

**Village of North Fairfield
Huron County**

Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2017

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$18,143	\$2,778		\$20,921
Intergovernmental	33,539	24,151		57,690
Charges for Services	30,494			30,494
Fines, Licenses and Permits	4,608			4,608
Earnings on Investments	52	23		75
Miscellaneous	57,015			57,015
<i>Total Cash Receipts</i>	<u>143,851</u>	<u>26,952</u>		<u>170,803</u>
Cash Disbursements				
Current:				
Security of Persons and Property	8,659			8,659
Leisure Time Activities	5,207			5,207
Community Environment	1,079			1,079
Basic Utility Services	22,416			22,416
Transportation		14,624		14,624
General Government	45,267	21,361		66,628
Capital Outlay			\$10,000	10,000
Debt Service:				
Principal Retirement		84	1,387	1,471
Interest		23	386	409
<i>Total Cash Disbursements</i>	<u>82,628</u>	<u>36,092</u>	<u>11,773</u>	<u>130,493</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>61,223</u>	<u>(9,140)</u>	<u>(11,773)</u>	<u>40,310</u>
Other Financing Receipts (Disbursements)				
Other Debt Proceeds			10,000	10,000
Transfer In			1,773	1,773
Transfer Out	(1,773)			(1,773)
Other Financing Sources	1,359	1,288		2,647
Other Financing Uses	(415)			(415)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(829)</u>	<u>1,288</u>	<u>\$11,773</u>	<u>12,232</u>
<i>Net Change in Fund Cash Balances</i>	60,394	(7,852)		52,542
<i>Fund Cash Balances, January 1</i>	<u>17,009</u>	<u>59,338</u>		<u>76,347</u>
Fund Cash Balances, December 31				
Restricted		51,486		51,486
Assigned	29,021			29,021
Unassigned	48,382			48,382
<i>Fund Cash Balances, December 31</i>	<u>\$77,403</u>	<u>\$51,486</u>		<u>\$128,889</u>

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

**Village of North Fairfield
Huron County**

Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2017

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$57,078</u>
Operating Cash Disbursements	
Personal Services	17,810
Employee Fringe Benefits	579
Contractual Services	12,804
Supplies and Materials	<u>6,710</u>
<i>Total Operating Cash Disbursements</i>	<u>37,903</u>
<i>Operating Income</i>	<u>19,175</u>
Non-Operating Receipts (Disbursements)	
Capital Outlay	(36)
Principal Retirement	(5,868)
Interest and Other Fiscal Charges	(59)
Other Financing Sources	<u>250</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(5,713)</u>
<i>Net Change in Fund Cash Balances</i>	13,462
<i>Fund Cash Balances, January 1</i>	<u>107,685</u>
<i>Fund Cash Balances, December 31</i>	<u>\$121,147</u>

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

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The Village of North Fairfield (the Village), Huron County, Ohio 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 utilities, trash removal services, park operations (leisure time activities), road and bridge maintenance (transportation) and general government services. The Village contracts with Fairfield Township for fire protection services.

Public Entity Risk Pool

The Village participates in the Public Entities Pool of Ohio (PEP), a public entity risk pool. 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 the proprietary fund type 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 Fund:

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.

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:

Other Capital Projects Fund This fund receives loan proceeds to finance capital projects within the Village.

Enterprise Fund 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 Fund:

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

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

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.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or 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.

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.

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

A summary of 2017 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.

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.

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

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.

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$93,249	\$145,210	\$51,961
Special Revenue	28,225	28,240	15
Capital Projects	10,000	11,773	1,773
Enterprise	55,126	57,328	2,202
Total	\$186,600	\$242,551	\$55,951

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$104,485	\$85,279	\$19,206
Special Revenue	86,275	36,220	50,055
Capital Projects		11,773	(11,773)
Enterprise	161,001	44,206	116,795
Total	\$351,761	\$177,478	\$174,283

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Note 4 – Deposits

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

	<u>2017</u>
Demand deposits	<u><u>\$250,036</u></u>

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation. The Village's deposits are 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.

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, 2017, 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.

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

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, 2017.

	<u>2017</u>
Assets	\$44,452,326
Liabilities	(13,004,011)
Net Position	\$31,448,315

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Village's share of these unpaid claims collectible in future years is approximately \$6,000.

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>2017 Contributions to PEP</u>
\$10,195

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

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 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

Social Security

Several Village employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

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, 2017.

Note 8 – Postemployment 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
PNC Bank Loan	\$8,319	6.73%
Ohio Water Development Authority Loan 7026	6,135	
Ohio Public Works Commission Loan CI17J	25,379	
Ohio Public Works Commission Loan CI42Q	15,975	
Total	\$55,808	

The Ohio Public Works Commission Loan CI17J relates to the repair and upgrades to the Village water tower. The Village will repay the loan through semiannual installments through the year 2032.

The Ohio Public Works Commission Loan CI42Q relates to replacement of fire hydrants within the Village. The Village will repay the loan through semiannual installments through the year 2046.

In 2015, the Village entered into a loan with the Ohio Water Development Authority Loan 7026 for the Water Supply and Treatment Engineering project. The Village will repay the loan through semiannual installments through the year 2021. There is no amortization schedule available for this loan at this time. However, the outstanding principal balance is included above.

In 2017, the Village entered into a loan with PNC Bank for the replacement of the furnace within the Village hall. The Village will repay the loan through the year 2021.

Amortization

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

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Year Ending December 31:	PNC Bank Loan	Ohio Public Works Commission Loan CI17J	Ohio Public Works Commission Loan CI42Q
2018	\$2,864	\$1,692	\$561
2019	2,864	1,692	560
2020	2,864	1,692	561
2021	690	1,692	560
2022		1,692	560
2023-2027		8,460	2,803
2028-2032		8,459	2,803
2033-2038			2,803
2038-2042			2,803
2043-2046			1,961
Total	\$9,282	\$25,379	\$15,975

Note 10 – Interfund Transfers

The Village transferred \$1,773 from the General Fund to the Capital Improvement Fund to make debt payments on the furnace loan.

Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and use unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 11 – Miscellaneous Receipts

In 2017, General Fund miscellaneous receipts consist primarily of donations for the pipeline.

Note 12 – Compliance

Contrary to Ohio Rev. Code § 5705.05, the Village improperly paid debt expenses from the General Fund, which was comingled with funds from a levy for current expenses.

Contrary to Ohio Rev. Code § 5705.41(B), expenditures exceeded authorized appropriations in the Other Capital Projects Fund.

**Village of North Fairfield
Huron County**

Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$19,502	\$3,688	\$23,190
Intergovernmental	33,400	23,018	56,418
Charges for Services	29,788		29,788
Fines, Licenses and Permits	4,483		4,483
Earnings on Investments	118	67	185
Miscellaneous	136		136
<i>Total Cash Receipts</i>	<u>87,427</u>	<u>26,773</u>	<u>114,200</u>
Cash Disbursements			
Current:			
Security of Persons and Property	10,210		10,210
Leisure Time Activities	8,327		8,327
Community Environment	1,402		1,402
Basic Utility Services	22,332		22,332
Transportation		7,986	7,986
General Government	60,646	24,205	84,851
<i>Total Cash Disbursements</i>	<u>102,917</u>	<u>32,191</u>	<u>135,108</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(15,490)</u>	<u>(5,418)</u>	<u>(20,908)</u>
Other Financing Receipts			
Other Financing Sources	2,969	225	3,194
<i>Net Change in Fund Cash Balances</i>	(12,521)	(5,193)	(17,714)
<i>Fund Cash Balances, January 1</i>	<u>29,530</u>	<u>64,531</u>	<u>94,061</u>
Fund Cash Balances, December 31			
Restricted		59,338	59,338
Assigned	11,236		11,236
Unassigned	5,773		5,773
<i>Fund Cash Balances, December 31</i>	<u>\$17,009</u>	<u>\$59,338</u>	<u>\$76,347</u>

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

**Village of North Fairfield
Huron County**

Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2016

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$53,565
Operating Cash Disbursements	
Personal Services	18,275
Employee Fringe Benefits	648
Contractual Services	28,825
Supplies and Materials	12,428
<i>Total Operating Cash Disbursements</i>	60,176
<i>Operating Loss</i>	(6,611)
Non-Operating Receipts (Disbursements)	
Other Debt Proceeds	10,524
Miscellaneous Receipts	562
Capital Outlay	(4,465)
<i>Total Non-Operating Receipts (Disbursements)</i>	6,621
<i>Net Change in Fund Cash Balances</i>	10
<i>Fund Cash Balances, January 1</i>	107,675
<i>Fund Cash Balances, December 31</i>	\$107,685

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

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 – Reporting Entity

The Village of North Fairfield (the Village), Huron County, Ohio 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 utilities, trash removal services, park operations (leisure time activities), road and bridge maintenance (transportation) and general government services. The Village contracts with Fairfield Township for fire protection services.

Public Entity Risk Pool

The Village participates in the Public Entities Pool of Ohio (PEP), a public entity risk pool. 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 the proprietary fund type 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 Fund:

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.

Enterprise Fund 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 Fund:

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

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).

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

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.

Budgetary Process

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

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or 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.

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.

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

A summary of 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.

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.

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

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

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	\$87,460	\$90,396	\$2,936
Special Revenue	27,200	26,998	(202)
Enterprise	70,600	64,651	(5,949)
Total	\$185,260	\$182,045	(\$3,215)

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$114,649	\$103,397	\$11,252
Special Revenue	91,463	32,406	59,057
Enterprise	166,642	64,925	101,717
Total	\$372,754	\$200,728	\$172,026

Note 4 – Deposits

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

	2016
Demand deposits	\$184,032

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

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.

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>

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

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 \$6,000.

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.

2016 Contributions to PEP
\$10,282

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

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 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Social Security

Several Village 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.

Note 8 – Postemployment 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. 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.

Village of North Fairfield
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal
Ohio Public Works Commission Loan C117J	\$27,071
Ohio Public Works Commission Loan C142Q	16,536
Ohio Water Development Authority Loan 7026	9,540
Total	\$53,147

The Ohio Public Works Commission Loan C117J relates to the repair and upgrades to the Village water tower. The Village will repay the loan through semiannual installments through the year 2032.

The Ohio Public Works Commission Loan C142Q relates to replacement of fire hydrants within the Village. The Village will repay the loan through semiannual installments through the year 2046.

In 2015, the Village entered into a loan with the Ohio Water Development Authority Loan 7026 for the Water Supply and Treatment Engineering project. The Village will repay the loan through semiannual installments through the year 2021. There is no amortization schedule available for this loan at this time. However, the outstanding principal balance is included above.

Amortization

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

Year Ending December 31:	Ohio Public Works Commission Loan C117J	Ohio Public Works Commission Loan C142Q
2017	\$1,692	\$560
2018	1,692	561
2019	1,692	560
2020	1,692	561
2021	1,692	560
2022-2026	8,460	2,803
2027-2031	8,460	2,803
2032-2036	1,691	2,803
2037-2041		2,803
2042-2046		2,522
Total	\$27,071	\$16,536

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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 North Fairfield
Huron County
3 East Main Street
P.O. Box 188
North Fairfield, Ohio 44855

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 North Fairfield, Huron County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated December 19, 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.

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 2017-001 and 2017-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2017-002 and 2017-003.

Village's Response to Findings

The Village's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not subject the Village's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 19, 2018

VILLAGE OF NORTH FAIRFIELD
HURON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 and 2016

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

FINDING NUMBER 2017-001

Material Weakness

Financial Reporting

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. In addition, Governmental Accounting Standards Board (GASB) Statement No. 54 (codified as GASB Cod 1800.165-.179) requires fund balance be divided into one of five classifications based on the extent to which constraints are imposed upon the resources. The following errors were identified in the accompanying 2017 and 2016 financial statements:

- In 2017, Budgeted Receipts in the budgetary note to the financial statements did not agree to amounts certified by the County Budget Commission in the General, Special Revenue, Capital Projects, and Enterprise Funds by \$6,942, \$11,600, \$10,000, and \$5,449, respectively.
- In 2017, variances were noted in Actual Receipts in the budgetary note to the financial statements in the General, Special Revenue, and Capital Projects Funds, by \$41,310, \$8,039, and \$1,293, respectively.
- In 2017, Appropriation Authority in the budgetary note to the financial statements were overstated by \$10,164, \$5,188, and \$5,641, in the General, Special Revenue, and Enterprise Funds, respectively.
- In 2017, variances were noted in Budgetary Expenditures in the budgetary note to the financial statements in the General, Special Revenue, Capital Projects, and Enterprise Funds, by \$16,078, \$4,029, \$11,773, and \$21,995, respectively.
- In 2016, Budgeted Receipts in the budgetary note to the financial statements did not agree to amounts certified by the County Budget Commission in the General, Special Revenue, and Enterprise Funds by \$12,731, \$12,625, and \$10,025, respectively.
- In 2016, variances were noted in Actual Receipts in the budgetary note to the financial statements in the General, Special Revenue, Capital Projects, and Enterprise Funds, by \$13,504, \$9,281, \$13,066, and \$6,194, respectively.
- In 2017 and 2016, General Fund encumbrances and subsequent year appropriations in excess of estimated receipts was incorrectly classified as unassigned instead of assigned fund balance in the amounts of \$29,021 and \$11,236, respectively.
- In 2017, miscellaneous revenue in the amount of \$54,500 was incorrectly classified as other financing sources in the General Fund.
- In 2016, other debt proceeds in the amount of \$10,524 were incorrectly classified as other financing sources in the Enterprise Fund.
- In 2017, other debt proceeds in the amount of \$10,000 were incorrectly classified as sale of notes in the Capital Projects Fund.
- In 2017, principal payments in the amount of \$5,658 were incorrectly classified as capital outlay in the Enterprise Fund.

These errors were the result of inadequate policies and procedures in reviewing the financial statements. As a result, the Village's financial statements and notes to the financial statements did not correctly reflect the financial activity of the Village. The accompanying financial statements and notes to the financial statements have been adjusted to correct these and other errors. Additional errors were noted in smaller relative amounts.

To help ensure the Village's financial statements and notes to the financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Council, to identify and correct errors and omissions. In addition, the Fiscal Officer should also review the Auditor of State's Village Handbook which contains a chart of accounts as well as Audit Bulletin 2011-004 for guidance on GASB Statement No. 54.

FINDING NUMBER 2017-002

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.05 provides that the purpose and intent of the general levy for current expenses is to provide one general operating fund derived from taxation from which any expenditures for current expenses of any kind may be made. The taxing authority of a political subdivision may include in such levy the amounts required for carrying into effect any of the general or special powers granted by law to such subdivision, including the acquisition or construction of permanent improvements and the payment of judgments, but excluding the payment of debt charges. The power to include in the general levy for current expenses additional amounts for purposes for which a special tax is authorized shall not affect the right or obligation to levy such special tax.

1981 Ohio Att'y Gen. Op. No. 81-035 provides that certain moneys paid into the General Fund which are not derived from a general levy for current expenses are placed in the General Fund precisely because their use is not restricted. Such monies may be used to pay debt charges provided that they have not been comingled with general fund monies which may not be used for debt payment. Where otherwise unrestricted monies have been paid into the General Fund and have been comingled with restricted monies to the extent that the particular source from which the monies originated cannot be distinguished, such monies may be used to pay debt charges only after they have been transferred to an appropriate fund pursuant to **Ohio Rev. Code § 5705.14**.

The Village's general levy is restricted for current expenses and is comingled with unrestricted monies. In 2017, the Village paid the furnace loan payments from the General Fund in the amount of \$1,773. These funds should have been paid from the Capital Improvement Fund or transferred from the General Fund to the Capital Improvement Fund, with payment being made from the Capital Improvement Fund.

This error was a result of inadequate policies and procedures in monitoring financial statement information. As a result, the Village's financial statements did not correctly reflect the financial activity of the Village. The financial statements have been adjusted to correct this error.

The Fiscal Officer should pay the furnace loan payments out of the Capital Improvement Fund or transfer out of the General Fund to a separate allowable fund to pay debt.

FINDING NUMBER 2017-003

Noncompliance Citation

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing unit from making any expenditure of money unless it has been appropriated in accordance with the Ohio Revised Code.

Management did not sufficiently monitor budget versus actual reports to ensure disbursements did not exceed Council approved appropriations. As a result, Expenditures exceeded authorized appropriations by \$11,773 in the Other Capital Projects Fund as of December 31, 2017.

These errors were a result of inadequate policies and procedures in approving and reviewing budgetary information. Failure to have adequate appropriations in place at the time expenditures are made could cause expenditures to exceed available resources, further resulting in deficit spending practices. The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations.

Officials' Response:

The Village Fiscal Officer has made corrections requested by the Auditor. Fiscal Officer will ensure appropriations are correct with loan monies to Capital Projects Fund going forward. Fiscal Officer will also ensure certain revenue will be classified and additional financial reports will be provided to Council. Council will also address the need for policies and procedures.



Incorporated
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VILLAGE OF NORTH FAIRFIELD

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	This finding was first reported in 2014. Material weakness for lack of monitoring of financial transactions due to errors in the financial statements.	Not corrected and reissued as finding 2017-001 in this report.	This comment was reissued primarily due to mispostings of debt proceeds and payments; fund balance classifications; and budgetary notes. The Fiscal Officer will review the mispostings and take them into consideration for future audits.
2015-002	Material weakness and noncompliance with Ohio Rev. Code § 5705.41(D)(1) for not properly certifying expenditures.	Corrective action taken and finding is fully corrected.	



Dave Yost • Auditor of State

VILLAGE OF NORTH FAIRFIELD

HURON 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
JANUARY 10, 2019