



**VILLAGE OF GRATIS
PREBLE COUNTY
Regular Audit
For the Years Ended December 31, 2018 and 2017**

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Members of Council
Village of Gratis
404 Harrison Street PO Box 574
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We have reviewed the *Independent Auditor's Report* of the Village of Gratis, Preble County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2017 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

March 16, 2020

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VILLAGE OF GRATIS
PREBLE COUNTY

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INDEPENDENT AUDITOR'S REPORT

January 17, 2020

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

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the **Village of Gratis**, Preble County, Ohio (the Village) as of and for the years ended December 31, 2018 and 2017.

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.

Tax - Accounting - Audit - Review - Compilation - Agreed Upon Procedure - Consultation - Bookkeeping - Payroll - Litigation Support - Financial Investigations
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Auditor's Responsibility (Continued)

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 permitted 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, 2018 and 2017, or 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 Gratis, Preble County as of December 31, 2018 and 2017, 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 January 17, 2020, 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.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VILLAGE OF GRATIS
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$ 22,998	\$ 36,970	\$ -	\$ 59,968
Municipal Income Tax	90,103	-	-	90,103
Intergovernmental	45,764	277,207	-	322,971
Charges for Services	4,936	295,754	-	300,690
Fines, Licenses and Permits	17,238	-	-	17,238
Earnings on Investments	731	24	-	755
Miscellaneous	2,417	19,051	-	21,468
<i>Total Cash Receipts</i>	<u>184,187</u>	<u>629,006</u>	<u>-</u>	<u>813,193</u>
Cash Disbursements				
Current:				
Security of Persons and Property	73,300	81,222	-	154,522
Public Health Services	-	253,027	-	253,027
Leisure Time Activities	8,300	540	-	8,840
Transportation	-	21,165	-	21,165
General Government	79,888	6,237	-	86,125
Capital Outlay	-	472,148	-	472,148
Debt Service:				
Principal Retirement	-	3,150	-	3,150
<i>Total Cash Disbursements</i>	<u>161,488</u>	<u>837,489</u>	<u>-</u>	<u>998,977</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>22,699</u>	<u>(208,483)</u>	<u>-</u>	<u>(185,784)</u>
Other Financing Receipts (Disbursements)				
Other Debt Proceeds	-	189,000	-	189,000
Sale of Capital Assets	-	10,000	-	10,000
Transfers In	-	2,000	-	2,000
Transfers Out	(2,000)	-	-	(2,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(2,000)</u>	<u>201,000</u>	<u>-</u>	<u>199,000</u>
<i>Net Change in Fund Cash Balances</i>	20,699	(7,483)	-	13,216
<i>Fund Cash Balances, January 1</i>	<u>56,305</u>	<u>130,699</u>	<u>58</u>	<u>187,062</u>
Fund Cash Balances, December 31				
Restricted	-	123,216	58	123,274
Assigned	74,721	-	-	74,721
Unassigned	2,283	-	-	2,283
<i>Fund Cash Balances, December 31</i>	<u>\$ 77,004</u>	<u>\$ 123,216</u>	<u>\$ 58</u>	<u>\$ 200,278</u>

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

**VILLAGE OF GRATIS
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<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	\$ 392,494	\$ -	\$ 392,494
Fines, Licenses and Permits	-	16,480	16,480
<i>Total Operating Cash Receipts</i>	<u>392,494</u>	<u>16,480</u>	<u>408,974</u>
Operating Cash Disbursements			
Personal Services	75,533	-	75,533
Fringe Benefits	14,251	-	14,251
Contractual Services	244,794	14,775	259,569
Supplies and Materials	39,694	-	39,694
<i>Total Operating Cash Disbursements</i>	<u>374,272</u>	<u>14,775</u>	<u>389,047</u>
<i>Operating Income</i>	<u>18,222</u>	<u>1,705</u>	<u>19,927</u>
Non-Operating Receipts (Disbursements)			
Miscellaneous Receipts	2,187	-	2,187
Capital Outlay	(147)	-	(147)
Principal Retirement	(63,018)	-	(63,018)
Interest and Other Fiscal Charges	(32,738)	-	(32,738)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(93,716)</u>	<u>-</u>	<u>(93,716)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(75,494)</u>	<u>1,705</u>	<u>(73,789)</u>
<i>Fund Cash Balances, January 1</i>	<u>559,750</u>	<u>1,764</u>	<u>561,514</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 484,256</u>	<u>\$ 3,469</u>	<u>\$ 487,725</u>

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

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Note 1 – Reporting Entity

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

Public Entity Risk Pools

The Village participates in a public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

The Village's management believes these financial statements present all activities for which the Village is financially 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 sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village has the following significant Special Revenue Funds:

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

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

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

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 2 – Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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

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

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

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 collection and distribution of Mayor's Court fines and fees.

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 Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the 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 (except certain agency funds) be budgeted annually.

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control and appropriations may not exceed estimated resources. The 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. The Village did not encumber all commitments required by Ohio law.

A summary of 2018 budgetary activity appears in Note 4.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 2 – Summary of Significant Accounting Policies (Continued)

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 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 fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 3 – Compliance

Contrary to Ohio law, the Village did not timely adopt an operating budget for the year ended December 31, 2018.

Contrary to Ohio law, the Village did not timely pass an ordinance or resolution to authorize the necessary tax levies for the year ended December 31, 2018.

Contrary to Ohio law, the Village did not timely pass an appropriations measure for the year ended December 31, 2018.

Contrary to Ohio law, an increased amended certificate was not certified when revenues were higher than originally budgeted for all Funds for the year ended December 31, 2018.

Contrary to Ohio law, appropriations exceeded estimated resources for the General, Street Construction Maintenance and Repair, Parks Recreation, Fire, EMS, Gratis Beautification, Water and Trash Funds for the year ended December 31, 2018.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General, Street Construction Maintenance and Repair, Fire, EMS, Water and Trash Funds for the year ended December 31, 2018.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 5,394	\$ 184,187	\$ 178,793
Special Revenue	1,205	830,006	828,801
Enterprise	-	394,681	394,681
Total	<u>\$ 6,599</u>	<u>\$ 1,408,874</u>	<u>\$ 1,402,275</u>

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 123,016	\$ 163,959	\$ (40,943)
Special Revenue	365,923	841,137	(475,214)
Capital Projects	58	-	58
Enterprise	482,610	471,885	10,725
Total	<u>\$ 971,607</u>	<u>\$ 1,476,981</u>	<u>\$ (505,374)</u>

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 5 – 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>2018</u>
Demand deposits	\$ 579,765
Other time deposits (savings account)	108,238
Total deposits	<u>\$ 688,003</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; and collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Note 6 – 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.

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

Income Taxes

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

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

Note 7 – Risk Management

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

Worker's Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate of \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material).

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 7 – Risk Management (Continued)

Risk Pool Membership

The Village is a member of the Public Entities Pool of Ohio (The Pool). The Pool assumes the risk of loss up to the limits of the Village's policy. The Pool covers the following risks:

- General liability and casualty
- Public official's liability
- Cyber
- Law enforcement liability
- Automobile liability
- Vehicles
- Property
- Equipment breakdown

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

	2018
Cash and Investments	<u>\$ 35,381,789</u>
Actuarial Liabilities	<u>\$ 12,965,015</u>

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2018.

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, 2018.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 9 – 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 OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2018.

Note 10 – Debt

Debt outstanding at December 31, 2018 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC CK06U	\$ 182,700	0.00%
OPWC CK19I	51,471	0.00%
OWDA 4497	455,250	4.42%
Sewer Revenue Bonds	61,000	5.00%
Ambulance Lease	86,819	0.00%
Fire Equipment Lease	31,452	0.00%
Total	<u>\$ 868,692</u>	

Ohio Public Works Commission (OPWC) loan CK06U was obtained in 2018 in the amount of \$189,000 for street improvements. Starting in July 2018, the loan will be repaid in semi-annual installments of \$3,150 over 30 years.

Ohio Public Works Commission (OPWC) loan CK19I was obtained in 2005 in the amount of \$102,947 for water treatment storage and distribution improvements. Starting in July 2009, the loan will be repaid in semi-annual installments of \$2,574 over 20 years.

The Ohio Water Development Authority (OWDA) loan 4497 was obtained in 2004 in the amount of \$768,390 for water system improvements. The loan had a negative disbursement of \$138,008 in February 2008, which brought the disbursed funds capitalized interest at December 31, 2009 to \$610,552, and was a reduction of the principal balance. The loan will be repaid over 30 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover loan repayment requirements.

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

Leases

The Village leases equipment under noncancelable leases. The Village disbursed \$39,393 to pay costs related to the equipment leases for the year ended December 31, 2018.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 10 – Debt (Continued)

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

Year ending December 31:	OPWC CK06U	OPWC CK19I	OWDA 4497	Sewer Revenue Bonds	Ambulance Lease	Fire Equipment Lease
2019	\$ 6,300	\$ 5,147	\$ 35,008	\$ 33,050	\$ 28,927	\$ 10,484
2020	6,300	5,147	35,079	32,550	28,946	10,484
2021	6,300	5,147	35,152	-	28,946	10,484
2022	6,300	5,147	35,229	-	-	-
2023	6,300	5,147	35,310	-	-	-
2024-2028	31,500	23,166	177,890	-	-	-
2029-2033	31,500	2,570	180,517	-	-	-
2034-2038	31,500	-	128,262	-	-	-
2039-2043	31,500	-	-	-	-	-
2044-2048	25,200	-	-	-	-	-
Total	<u>\$ 182,700</u>	<u>\$ 51,471</u>	<u>\$ 662,447</u>	<u>\$ 65,600</u>	<u>\$ 86,819</u>	<u>\$ 31,452</u>

Note 11 – Contingent Liabilities

The Village is defendant in several lawsuits. Management cannot presently determine the outcome of these lawsuits.

**VILLAGE OF GRATIS
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$ 23,174	\$ 36,380	\$ -	\$ 59,554
Municipal Income Tax	82,879	-	-	82,879
Intergovernmental	28,541	84,157	-	112,698
Charges for Services	-	267,309	-	267,309
Fines, Licenses and Permits	18,561	-	-	18,561
Earnings on Investments	909	23	-	932
Miscellaneous	1,943	44,358	-	46,301
<i>Total Cash Receipts</i>	<u>156,007</u>	<u>432,227</u>	<u>-</u>	<u>588,234</u>
Cash Disbursements				
Current:				
Security of Persons and Property	64,996	44,100	-	109,096
Public Health Services	-	286,057	-	286,057
Transportation	-	38,787	-	38,787
General Government	71,098	744	-	71,842
Capital Outlay	-	79,461	-	79,461
<i>Total Cash Disbursements</i>	<u>136,094</u>	<u>449,149</u>	<u>-</u>	<u>585,243</u>
<i>Net Change in Fund Cash Balances</i>	19,913	(16,922)	-	2,991
<i>Fund Cash Balances, January 1</i>	<u>36,392</u>	<u>147,621</u>	<u>58</u>	<u>184,071</u>
Fund Cash Balances, December 31				
Restricted	-	130,699	58	130,757
Assigned	56,305	-	-	56,305
<i>Fund Cash Balances, December 31</i>	<u>\$ 56,305</u>	<u>\$ 130,699</u>	<u>\$ 58</u>	<u>\$ 187,062</u>

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

**VILLAGE OF GRATIS
PREBLE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<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	\$ 382,295	\$ -	\$ 382,295
Fines, Licenses and Permits	-	16,984	16,984
<i>Total Operating Cash Receipts</i>	<u>382,295</u>	<u>16,984</u>	<u>399,279</u>
Operating Cash Disbursements			
Personal Services	72,663	-	72,663
Fringe Benefits	14,298	-	14,298
Contractual Services	143,153	16,436	159,589
Supplies and Materials	37,962	-	37,962
<i>Total Operating Cash Disbursements</i>	<u>268,076</u>	<u>16,436</u>	<u>284,512</u>
<i>Operating Income</i>	<u>114,219</u>	<u>548</u>	<u>114,767</u>
Non-Operating Receipts (Disbursements)			
Miscellaneous Receipts	2,491	-	2,491
Capital Outlay	(41,505)	-	(41,505)
Principal Retirement	(44,815)	-	(44,815)
Interest and Other Fiscal Charges	(25,435)	-	(25,435)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(109,264)</u>	<u>-</u>	<u>(109,264)</u>
<i>Income (Loss) before Transfers</i>	4,955	548	5,503
Transfers In	17,430	-	17,430
Transfers Out	(17,430)	-	(17,430)
<i>Net Change in Fund Cash Balances</i>	4,955	548	5,503
<i>Fund Cash Balances, January 1</i>	<u>554,795</u>	<u>1,216</u>	<u>556,011</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 559,750</u>	<u>\$ 1,764</u>	<u>\$ 561,514</u>

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

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 – Reporting Entity

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

Public Entity Risk Pools

The Village participates in a public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

The Village's management believes these financial statements present all activities for which the Village is financially 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 sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village has the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund - The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing streets within the Village.

Park Fund - This fund accounts for and reports donations and general fund transfers that are committed to fund construction of the park.

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

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

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2 – Summary of Significant Accounting Policies (Continued)

Fund Accounting (Continued)

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

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

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

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

Trash Fund - This fund receives charges for services from residents to cover trash service costs.

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 collection and distribution of Mayor's Court fines and fees.

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 Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e. when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the 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 (except certain agency funds) be budgeted annually.

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control and appropriations may not exceed estimated resources. The 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.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2 – Summary of Significant Accounting Policies (Continued)

Budgetary Process (Continued)

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. The Village did not encumber all commitments required by Ohio law.

A summary of 2017 budgetary activity appears in Note 4.

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 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 fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2 – Summary of Significant Accounting Policies (Continued)

Fund Balance (Continued)

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

Note 3 – Compliance

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Street Construction Maintenance and Repair and EMS Funds for the year ended December 31, 2017.

Note 4 – 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	\$ 153,475	\$ 156,007	\$ 2,532
Special Revenue	399,739	432,227	32,488
Capital Projects	58	-	(58)
Enterprise	464,797	402,216	(62,581)
Total	\$ 1,018,069	\$ 990,450	\$ (27,619)

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 185,932	\$ 158,550	\$ 27,382
Special Revenue	464,103	476,471	(12,368)
Enterprise	553,827	414,394	139,433
Total	\$ 1,203,862	\$ 1,049,415	\$ 154,447

Note 5 – 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:

	2017
Demand deposits	\$ 640,865
Other time deposits (savings account)	107,711
Total deposits	\$ 748,576

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 5 – Deposits (Continued)

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; and collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Note 6 – 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.

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

Income Taxes

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

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

Note 7 – Risk Management

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

Worker's Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate of \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material).

Risk Pool Membership

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.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 7 – Risk Management (Continued)

Risk Pool Membership (Continued)

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.

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	<u>\$31,448,315</u>

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 \$16,000.

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>
\$24,789

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.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

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, 2017.

Note 9 – 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 OPERS members in the Member Directed Plan was 2.0 percent during calendar year 2017.

Note 10 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
OPWC CK19I	\$ 59,192	0.00%
OWDA 4497	479,397	4.42%
Sewer Revenue Bonds	89,000	5.00%
Ambulance Lease	115,728	0.00%
Total	\$ 743,317	

Ohio Public Works Commission (OPWC) loan CK19I was obtained in 2005 in the amount of \$102,947 for water treatment storage and distribution improvements. Starting in July 2009, the loan will be repaid in semi-annual installments of \$2,574 over 20 years.

The Ohio Water Development Authority (OWDA) loan 4497 was obtained in 2004 in the amount of \$768,390 for water system improvements. The loan had a negative disbursement of \$138,008 in February 2008, which brought the disbursed funds capitalized interest at December 31, 2009 to \$610,552, and was a reduction of the principal balance. The loan will be repaid over 30 years. The loan is collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover loan repayment requirements.

VILLAGE OF GRATIS
PREBLE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 10 – Debt (Continued)

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

Lease

The Village leases equipment under noncancelable leases. This Village disbursed \$28,871 to pay costs related to the equipment lease for the year ended December 31, 2017. The prior audit balance was incorrectly reflected as \$144,610. The correct balance as of December 31, 2016 was \$144,599.

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

Year ending December 31:	OPWC CK19I	OWDA 4497	Sewer Revenue Bonds	Ambulance Lease
2018	\$ 5,147	\$ 34,940	\$ 32,450	\$ 28,909
2019	5,147	35,008	33,050	28,927
2020	5,147	35,079	32,550	28,946
2021	5,147	35,152	-	28,946
2022	5,147	35,229	-	-
2023-2027	25,735	177,430	-	-
2028-2032	7,722	179,944	-	-
2033-2037	-	164,605	-	-
Total	<u>\$ 59,192</u>	<u>\$ 697,387</u>	<u>\$ 98,050</u>	<u>\$ 115,728</u>

Note 11 – Interfund Transfers

During 2017, the Village approved the following transfers:

Transfer from the Water Fund to:

Water Debt Service Fund	\$17,430
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All transfers were deemed to be appropriate and in compliance with the Ohio Revised Code.

Note 12 – Contingent Liabilities

The Village is defendant in several lawsuits. Management cannot presently determine the outcome of these lawsuits.

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

January 17, 2020

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

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the **Village of Gratis**, Preble County (the Village) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated January 17, 2020, 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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. 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.

Internal Control Over Financial Reporting (Continued)

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 deficiencies in internal control 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 audit findings, that we consider material weaknesses. We consider findings 2018-001 through 2018-007 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 audit findings as items 2018-006 and 2018-007.

Village's Response to Findings

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

Purpose of this Report

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



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

VILLAGE OF GRATIS
PREBLE COUNTY
SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2018-001

Material Weakness

Posting Receipts, Disbursements, and Fund Balance Classification

The Village should have procedures and controls in place to prevent and detect errors in financial reporting. Fund balances should be properly classified based on Governmental Accounting Standards Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions.

During 2018 and 2017, receipts, disbursements, and fund balances were not always posted or classified correctly. The following errors were noted:

- During 2018 and 2017, subsequent year appropriations over estimated receipts within the General Fund were classified as Unassigned fund balance rather than Assigned;
- During 2018 and 2017, rollback receipts within the General, Fire and EMS Funds were classified as Property and Other Local Taxes rather than Intergovernmental;
- During 2018 and 2017, income tax receipts within the General Fund were classified as Property and Other Local Taxes rather than Municipal Income Tax;
- During 2018 and 2017, local license tax receipts within the Street Construction Maintenance and Repair and State Highway Funds were classified as Intergovernmental rather than Property and Other Local Taxes;
- During 2018 and 2017, permissive tax receipts were incorrectly recorded in the Street Construction Maintenance and Repair Fund rather than the Permissive Motor Vehicle Tax Fund;
- During 2018 and 2017, capital lease payment disbursements within the Fire and EMS Funds were classified as Principal Retirement, Interest and Fiscal Charges, and Security of Persons and Property rather than Capital Outlay;
- During 2018 and 2017, OPWC grant receipts, OPWC debt proceeds and the corresponding capital outlay disbursements were not recorded in the Street Construction Maintenance and Repair Fund;
- During 2018, a grant receipt within the General Fund was classified as Miscellaneous rather than Intergovernmental;
- During 2018, an EMS receipt was incorrectly recorded in the General Fund as Miscellaneous rather than in the EMS Fund as Charges for Services;
- During 2018, a receipt for the sale of a truck within the EMS Fund was classified as Miscellaneous rather than Sale of Capital Assets;
- During 2018, a debt payment disbursement within the Street Construction Maintenance and Repair Fund was classified as Transportation rather than Principal Retirement;
- During 2018, debt payment disbursements within the Water Fund were classified as Contractual Services rather than Principal Retirement and Interest and Other Fiscal Charges;
- During 2018, reconciling entries within the General, Street Construction Maintenance and Repair, Fire, EMS, Water, Sewer and Trash Funds were not recorded correctly;
- During 2018, Mayor's Court activity was not properly recorded in an Agency Fund;
- During 2017, Mayor's Court activity for December was not properly recorded in an Agency Fund;
- During 2017, a refund receipt within the EMS Fund was classified as Charges for Services rather than Miscellaneous; and
- During 2017, a utility receipt within the Sewer Fund was classified as Property and Other Local Taxes rather than Charges for Services.

VILLAGE OF GRATIS
PREBLE COUNTY
SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2018-001 (Continued)

Posting Receipts, Disbursements, and Fund Balance Classification (Continued)

Not posting receipts, disbursements, and fund balances accurately resulted in the financial statements requiring several adjustments and reclassifications. The Village has made the adjustments to their accounting system. The financial statements reflect all adjustments and reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all receipts and disbursements are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to the Ohio Village Officer's Handbook for guidance to determine the proper establishment of receipts and disbursement accounts and posting receipts and disbursements. The Fiscal Officer should refer to Auditor of State Technical Bulletin 2011-004 for assistance in properly classifying fund balances.

Officials' Response: All of this was previous Fiscal Officer.

FINDING NUMBER 2018-002

Material Weakness

Bank Reconciliations

The Village Fiscal Officer did not prepare accurate monthly reconciliations of bank balances to book balances. There were significant numbers of reconciling items and other adjusting factors that were not identified. The lack of proper reconciliations among the bank statements and ledgers resulted in numerous errors which remained undetected and/or uncorrected until the audit. The extensive problems with these reconciliations resulted in the need for the Village to obtain assistance from Local Government Services.

We recommend the Village Fiscal Officer prepare detailed bank reconciliations that include all bank account balances being reconciled to total fund balances, with support for all reconciling items or other adjusting factors. Bank reconciliations should be presented to Council for review and use in managing the Village.

Officials' Response: All of this was previous Fiscal Officer.

FINDING NUMBER 2018-003

Material Weakness

Lack of Council Oversight

Monitoring controls include management and governing board activities established to ensure compliance with policies and procedures, achievement of operational objectives, and proper and effective use of available resources.

Our audit noted the following conditions which are indicative of weak management and governing board oversight of Village activities:

- Lack of employee knowledge of Village approved policies and procedures; and

VILLAGE OF GRATIS
PREBLE COUNTY
SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2018-003 (Continued)

Lack of Council Oversight (Continued)

- Purchase orders, detailed invoices, receipts, and monthly reconciliations, were not always reviewed and approved timely by the Council's Finance Committee, to evidence approval of expenses.

Lack of proper governing board oversight increases the risk that established policies and procedures are not followed, whether misinterpreted or intentional, and operational objectives are not met. In addition, the lack of oversight increases the possibility errors or irregularities could occur and not be discovered in a timely manner and increases the opportunity for fraud to occur.

We recommend Council take a more active role in monitoring compliance with Village policies and procedures. We also recommend Council strengthen their internal controls in the Village to help provide financial stability going forward.

Officials' Response: This was all previous Fiscal Officer.

FINDING NUMBER 2018-004

Material Weakness

Timely Posting of Financial Transactions

Throughout 2018 and 2017, we noted that a large number of receipts and disbursements were not entered into the UAN accounting system in a timely manner. Some transactions were not input into UAN until many months later. This resulted in inaccurate financial information being maintained in the accounting system. Bank reconciliations were not complete nor were they an accurate reflection of the Village's financial situation. Financial information that was presented for review was not reliable.

Failure to timely post transactions to the accounting system could result in difficulties with accurately completing monthly bank reconciliations and maintaining accurate financial reports.

The Village should timely post transactions to the accounting system.

Officials' Response: All previous Fiscal Officer.

FINDING NUMBER 2018-005

Material Weakness

Monitoring of Adjustments to Water and Sewer Accounts

Council was not presented with and did not review all adjustment reports relating to customer billing. This could result in an increased risk of the Village not receiving monies owed for water and sewer utilities. Also, inappropriate adjustments are more likely to occur without proper approval from the Council prior to an adjustment being made.

We recommend the Council review and approve bill adjustment reports on a monthly basis.

Officials' Response: Previous Clerk and Fiscal Officer.

VILLAGE OF GRATIS
PREBLE COUNTY
SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2018-006

Material Weakness/Noncompliance

Remittances for Payroll Withholdings

26 U.S.C. Section 3402(a)(1) states that except as otherwise provided in this section, every employer making payments of wages shall deduct and withhold such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary. Furthermore, **26 U.S.C. Section 3403** states that an employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter, and shall not be liable to any person for the amount of any such payment. Also, **Ohio Revised Code Section 5747.06(A)** states that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year. In addition, **Ohio Revised Code Section 145.47(A)** states that each public employee who is a contributor to the public employees retirement system shall contribute eight per cent of the contributor's earnable salary to the employees' savings fund, except that the public employees retirement board may raise the contribution rate to a rate not greater than ten per cent of the employee's earnable salary.

During 2018 and 2017, we noted the following required payments were not made:

- Federal tax payments totaling \$52,302; and
- Ohio state tax payments totaling \$7,124.

As a result of nonpayment, liens and fines were levied against the Village.

In addition, we noted that during 2018 and 2017, there were eight instances of late payments to the Ohio Public Employees Retirement System resulting in fines and interest charges being accrued.

As of the date of this report, all amounts required to be remitted for 2018 and 2017 to federal and state agencies have been paid. All liens have been removed.

The Village should remit withholdings to the appropriate federal and state agencies in a timely manner. This will help ensure the Village complies with various federal and state laws and reduce the likelihood of interest and penalties.

Officials' Response: Previous Fiscal Officer.

VILLAGE OF GRATIS
PREBLE COUNTY
SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2018-007

Material Weakness/Noncompliance

Budgetary Controls

The budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations. Ohio Revised Code Section 5705 deals with a variety of budgetary requirements that all subdivisions must comply with in order to ensure fiscal responsibility.

In performing the audit, we noted several violations of budgetary law which, although they do not in and of themselves, result in errors in financial reporting, may lead to the Village making financial decisions based on incorrect or incomplete information. We noted the following:

- **Violations of 5705.28(B)(2A)** stating that, on or before the fifteenth day of July of each year, the taxing authority shall adopt an operating budget for the taxing unit for the ensuing fiscal year;
- **Violations of 5705.34** stating that the taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies before October 1st;
- **Violations of 5705.36 (A)** stating that upon determination that the revenue will be greater or less than the amount included in the official certificate of estimated resources, the Village Fiscal Officer should certify an amended certificate;
- **Violations of 5705.38** stating that on or about the first day of each fiscal year, an appropriation measure is to be passed;
- **Violations of 5705.39** indicating appropriations cannot exceed estimated resources;
- **Violations of 5705.41(B)** stating no subdivision is to expend money unless it has been appropriated (expenditures exceeded appropriations); and
- **Violations of 5705.41(D)** relating to expenditures having prior certification of availability of funds.

Although Council approves budgets for revenue and expenses and receives monthly reports of budget and actual information, it does not ensure budgetary forms are properly completed, submitted to the County Budget Commission timely or that transfers are done in compliance with laws and regulations.

Council should review the requirements of ORC section 5705 to be familiar with these laws and to make sure the Village is complying with applicable sections. If the Council does not consider these necessary steps should be taken to make sure amounts are encumbered (purchase orders are used and assigned to each purchase prior to ordering), certifications of available funds are done by the Village Fiscal Officer prior to purchasing and unencumbered balances are tracked for each line item.

Officials' Response: Previous Fiscal Officer.

VILLAGE OF GRATIS
PREBLE COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Posting of Financial Activity	Not Corrected	Repeated as Finding 2018-001
2016-002	Leave Time	Corrected	N/A
2016-003	Budgetary	Not Corrected	Repeated as Finding 2018-007

OHIO AUDITOR OF STATE KEITH FABER



VILLAGE OF GRATIS

PREBLE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 26, 2020