



Dave Yost • Auditor of State



VILLAGE OF OTWAY  
SCIOTO COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of Otway  
Scioto County  
4139 State Route 348  
Otway, Ohio 45657

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 Village of Otway, Scioto County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our adverse and qualified audit opinions.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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

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

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

***Basis for Additional Opinion Qualification***

Gymnasium rentals in the amounts of \$6,314 and \$5,144 for the years ended December 31, 2014 and 2013, respectively, are reported in the Charges for Services line item in the Special Revenue funds. These receipts are 8 percent of total Special Revenue cash receipts in 2014 and 11 percent in 2013. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as gymnasium rental receipts. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

***Additional Opinion Qualification***

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Village of Otway, Scioto County as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Emphasis-of-Matter***

As discussed in Note 9 to the financial statements, the Village has suffered recurring negative changes in General fund cash balances and has a General fund cash balance deficiency at December 31, 2014. Note 9 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

January 28, 2016

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**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$7,742	\$4,383	\$12,125
Intergovernmental	1,328	14,276	15,604
Special Assessments		246	246
Charges for Services		45,214	45,214
Donations		17,000	17,000
Earnings on Investments	320	1	321
Miscellaneous	562	997	1,559
<i>Total Cash Receipts</i>	<u>9,952</u>	<u>82,117</u>	<u>92,069</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property		60,665	60,665
Community Environment		7,587	7,587
Transportation	583	3,530	4,113
General Government	18,517	15,733	34,250
Debt Service:			
Principal Retirement		4,867	4,867
Interest and Fiscal Charges		582	582
<i>Total Cash Disbursements</i>	<u>19,100</u>	<u>92,964</u>	<u>112,064</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(9,148)</u>	<u>(10,847)</u>	<u>(19,995)</u>
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Uses	(50)		(50)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(50)</u>	<u>0</u>	<u>(50)</u>
<i>Net Change in Fund Cash Balances</i>	(9,198)	(10,847)	(20,045)
<i>Fund Cash Balances, January 1</i>	<u>7,459</u>	<u>65,057</u>	<u>72,516</u>
<b>Fund Cash Balances, December 31</b>			
Restricted for:			
Fire Operations		53,971	53,971
Road Maintenance and Improvements		239	239
Unassigned (Deficit)	(1,739)		(1,739)
<i>Fund Cash Balances, December 31</i>	<u>(\$1,739)</u>	<u>\$54,210</u>	<u>\$52,471</u>

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

**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$6,806	\$3,020	\$9,826
Intergovernmental	1,530	5,371	6,901
Charges for Services	0	35,145	35,145
Earnings on Investments	501	0	501
Miscellaneous	44	2,853	2,897
<i>Total Cash Receipts</i>	<u>8,881</u>	<u>46,389</u>	<u>55,270</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property		28,163	28,163
Community Environment		36,233	36,233
Transportation	853	4,026	4,879
General Government	9,574	7,504	17,078
Debt Service:			
Principal Retirement		4,621	4,621
Interest and Fiscal Charges		828	828
<i>Total Cash Disbursements</i>	<u>10,427</u>	<u>81,375</u>	<u>91,802</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,546)</u>	<u>(34,986)</u>	<u>(36,532)</u>
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Uses		(181)	(181)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>0</u>	<u>(181)</u>	<u>(181)</u>
<i>Net Change in Fund Cash Balances</i>	(1,546)	(35,167)	(36,713)
<i>Fund Cash Balances, January 1</i>	<u>9,005</u>	<u>100,224</u>	<u>109,229</u>
<b>Fund Cash Balances, December 31</b>			
Restricted for:			
Community Development		763	763
Fire Operations		64,037	64,037
Road Maintenance and Improvements		257	257
Assigned	1,880		1,880
Unassigned (Deficit)	5,579		5,579
<i>Fund Cash Balances, December 31</i>	<u>\$7,459</u>	<u>\$65,057</u>	<u>\$72,516</u>

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

**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Otway, Scioto County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides street and state highway maintenance and fire protection.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis 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.

**C. Deposits**

The Village maintains an interest bearing checking account.

**D. Fund Accounting**

The Village uses fund accounting to segregate cash and investments that are restricted as to use. The Village classifies its funds into the following types:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

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

Community Building Fund - This fund receives money for rental of the gymnasium and storage unit at the Community Building for maintaining and repairing the Village property.

VILLAGE OF OTWAY  
SCIOTO COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

Volunteer Fire Department Fund – This fund receives property tax money for fire protection in the Village.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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. The Village did not file their 2013 appropriations with the County Budget Commission until June 28, 2013.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2014 and 2013 budgetary activity appears in Note 3.

**F. 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:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

VILLAGE OF OTWAY  
SCIOTO COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

2. **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.

3. **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.

4. **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.

5. **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.

**G. Property, Plant, and Equipment**

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

2. **Equity in Pooled Deposits**

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

**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**2. Equity in Pooled Deposits and Investments (Continued)**

	2014	2013
Demand deposits	\$52,471	\$72,516

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$10,032	\$9,952	(\$80)
Special Revenue	65,481	82,117	16,636
Total	\$75,513	\$92,069	\$16,556

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$11,593	\$19,485	(\$7,892)
Special Revenue	117,843	93,073	24,770
Total	\$129,436	\$112,558	\$16,878

2013 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$7,675	\$8,881	\$1,206
Special Revenue	41,202	46,389	5,187
Total	\$48,877	\$55,270	\$6,393

2013 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$10,400	\$13,819	(\$3,419)
Special Revenue	60,958	82,270	(21,312)
Total	\$71,358	\$96,089	(\$24,731)

**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**3. Budgetary Activity (Continued)**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General fund by \$7,892 and \$3,419 for the year ended December 31, 2014 and 2013, respectively. In addition to this, the Community Building Fund had an excess of \$25,753 for the year ended December 31, 2013.

Also contrary to Ohio law, appropriations were in excess of estimated resources in the State Highway Fund for 2014 and the General Fund for 2013. Appropriation amendments were posted to the system, but were not approved by Village Council in both 2014 and 2013.

**4. Property Tax**

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

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

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

**5. Debt**

Debt outstanding at December 31, 2014 was as follows:

	Principal	Interest Rate
Wesbanco - Air System	\$5,127	5%

The Village received a note in 2011 through Wesbanco Bank for the purchase of an air system for the Fire Department. The original loan was \$19,000. The full faith and credit of the Village is pledged to repay this debt.

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

Year ending December 31:	Wesbanco
2015	Principal
	\$5,399

**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**6. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2013, 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, 2013. In 2014, the Village officials opted out of paying into OPERS.

**7. Risk Management**

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 and 783 members as of December 31, 2013 and 2014 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**7. Risk Management (Continued)**

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2013 and 2014:

	<b>2013</b>	<b>2014</b>
Assets	\$13,774,304	\$14,830,185
Liabilities	(7,968,395)	(8,942,504)
Members' Equity	\$5,805,909	\$5,887,681

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**8. Significant Commitments**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. Encumbrances outstanding at fiscal year-end may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2013, the amount of encumbrances expected to be honored upon performance by the vendor in the next year in the General Fund was \$1,880.

**9. Financial Condition**

As of December 31, 2014, the Village had a General Fund negative fund balance of (\$1,739). In addition to this, the Street Construction Maintenance and Repair Fund, State Highway Fund, and Community Building funds all had balances of less than \$250. The Village is taking steps to attempt to increase revenues and reduce expenditures. Such items they have considered were to increase taxes and stop incurring unnecessary costs such as Christmas Lighting and additional trainings. However, they are still struggling to be able to pay regular monthly bills.

**10. Subsequent Event**

In February 2015, the Village authorized a cooperative agreement for the planning of the Otway Sanitary Sewer Project between the Village of Otway, Ohio and the Ohio Water Development Authority.

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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 Otway  
Scioto County  
4139 State Route 348  
Otway, Ohio 45657

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 Village of Otway, Scioto County, Ohio (the Village) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated January 28, 2016, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the amounts recorded for gymnasium rentals in the Special Revenue funds charges for services line item. We also noted that the General fund has a cash fund balance deficiency at December 31, 2014.

### ***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.

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 2014-001 and 2014-007 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 Findings as items 2014-001 through 2014-006.

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

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

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

January 28, 2016

VILLAGE OF OTWAY  
SCIOTO COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013

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

FINDING NUMBER 2014-001

**Noncompliance Citation/Material Weakness**

**Ohio Rev. Code, §149.351 (A)**, states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section 149.33 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred, or destroyed unlawfully.

The Village Mayor did not maintain supporting documentation for 100% of gymnasium rental receipts recorded in the Charges for Services line item in the accompanying financial statements. Documentation, such as copy of check, duplicate receipt issued, and log of rentals should be retained by the Village Mayor. Although Village Clerk/Treasurer did make deposits, it could not be determined if the receipts were being timely deposited without support being maintained by Village Mayor showing when revenues were originally received. In addition to this, it was not possible to determine if the amounts received were related to gymnasium rentals or if the revenues were complete. This lack of documentation resulted in an opinion qualification.

We recommend that all records be maintained for audit purposes and supporting documentation be maintained with revenues received.

**Officials' Response**

We did not receive a response from officials to this finding.

FINDING NUMBER 2014-002

**Noncompliance Citation**

**Ohio Rev. Code, §5705.10(I)**, states money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance indicates that money from one fund was used to cover the expenses of another fund.

The Village had a negative fund balance after audit adjustments in the General Fund as of December 31, 2014 in the amount of (\$1,739).

We recommend the Village Clerk/Treasurer monitor fund balances to ensure they do not become negative.

**Officials' Response**

We did not receive a response from officials to this finding.

**FINDING NUMBER 2014-003**

**Noncompliance Citation**

**Ohio Rev. Code §5705.38 (A)** requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

The Village approved their 2013 appropriations on February 18, 2013; however, they did not file these appropriations with the County Budget Commission until June 28, 2013. The Village approved their 2014 appropriations on January 21, 2014. They filed them with the County Budget Commission on the same date. Late filing of annual appropriations may result in any expenditures made prior to this date being unappropriated.

We recommend Village Council approve annual appropriations on or about the first day of the fiscal year. In addition to this, we recommend they also file those appropriations with the County Budget Commission on the same date.

**Officials' Response:**

It is not possible for Appropriations to be approved by council and be filed with the county auditor on the same day. Our council meetings are held in the evenings. And the auditor's office loses around 4:15pm. The earliest that the appropriations can be filed would be the next day.

**FINDING NUMBER 2014-004**

**Noncompliance Citation**

**Ohio Rev. Code, § 5705.39**, provides in part that total appropriations from each fund shall not exceed the total estimated resources.

Appropriations exceeded estimated resources at year end in the following funds:

Fund	Approved Appropriations	Estimated Resources	Variance
State Highway Fund (2014)	\$1,050	\$ 638	\$ 412
General Fund (2013)	\$10,400	\$ 9,030	\$1,370

This could cause the Village to overspend and could result in negative fund balances.

We recommend the Village Council not approve appropriations that exceed estimated resources.

**Officials' Response**

We did not receive a response from officials to this finding.

**FINDING NUMBER 2014-005**

**Noncompliance Citation**

**Ohio Rev. Code §5705.40** states that any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them.

Rulings filed in the case of *C. B. Transportation, Inc. v. Butler County Board of Mental Retardations*, 60 Ohio Misc. 71, 397 N.E.2d 781 (C.P. 1979), as well as *Burkholder v. Lauber*, 6 Ohio Misc. 152 (1965), held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a local government's governing board would be prohibited from delegating duties statutorily assigned to it, such as the ability to amend appropriations as provided for in Ohio Rev. Code §5705.40.

The Village made changes to the appropriation amounts posted to the accounting system from the beginning of the year to the end of the year in both 2013 and 2014; however, there was no evidence in the minutes that Council approved these amounts. We also noted the following differences in the approved amounts and the system amounts at year end:

As of December 31, 2014:

Fund	PY Encumbrances + Appropriations	Per Appropriation Status Report at 12/31/14:	Variance
General Fund	\$11,593	\$21,183	(\$9,590)
Street Construction Maintenance & Repair Fund	\$4,800	\$6,838	(\$2,038)
State Highway Fund	\$1,050	\$1,096	(\$46)
Community Building Fund	\$7,357	\$7,629	(\$272)
Volunteer Fire Department Fund	\$104,635	\$135,059	(\$30,424)

As of December 31, 2013:

Fund	PY Encumbrances + Appropriations	Per Appropriation Status Report at 12/31/13:	Variance
General Fund	\$10,400	\$16,920	(\$6,520)
Volunteer Fire Department Fund	\$45,620	\$60,620	(\$15,000)

The notes to the financial statements were adjusted to accurately present appropriations approved by the Village Council.

**FINDING NUMBER 2014-005  
 (Continued)**

We recommend the Village Council approve all appropriation amendments, record approval in the Council minutes, and file all appropriation amendments with the County Auditor in order to receive confirmation from the County Auditor that appropriations do not exceed estimated resources. The Village Fiscal Officer should only post legislatively approved amendments to the Village's accounting system.

**Officials' Response**

We did not receive a response from officials to this finding.

**FINDING NUMBER 2014-006**

**Noncompliance Citation**

**Ohio Rev. Code, § 5705.41(B)**, prohibits subdivisions or taxing authorities from expending money unless it has been appropriated.

At December 31, 2014, expenditures exceeded appropriations, as follows:

Fund	Approved Appropriation	Expenditures	Encumbrances	Total Budgetary Expenditures	Variance
General Fund	\$11,593	\$19,150	\$335	\$19,485	(\$7,892)

At December 31, 2013, expenditures exceeded appropriations, as follows:

Fund	Approved Appropriation	Expenditures	Encumbrances	Total Budgetary Expenditures	Variance
General Fund	\$10,400	\$10,427	\$3,392	\$13,819	(\$3,419)
Community Building Fund	\$10,537	\$36,233	\$57	\$36,290	(\$25,753)

The practice of allowing expenditures to exceed appropriations could result in negative fund balances for the Village.

We recommend the Village Fiscal Officer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Village Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Village Fiscal Officer should deny requests for payment when appropriations are not available.

**Officials' Response**

We did not receive a response from officials to this finding.

**FINDING NUMBER 2014-007**

**Material Weakness**

Sound financial reporting is the responsibility of the Village Clerk/Treasurer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the financial statements had the following errors that required audit adjustment or reclassification:

In 2013:

- General Fund General Government Expenditures in the amount of \$5,023 was misposted to basic utility services;
- Community Building Fund Community Environment Expenditures in the amount of \$7,678 was misposted to basic utility services;
- Fire Fund Security of Persons and Property Expenditures in the amount of \$4,053 was misposted to basic utility services;
- Street Fund Transportation Expenditures in the amount of \$3,514 was misposted to security of persons and property;
- Fire Fund General Government Expenditures in the amount of \$690 was misposted to other financing sources;
- Fire Fund Principal Expenditures in the amount of \$4,621 was misposted as other financial sources;
- Fire Fund Interest and Fees Expenditures in the amount of \$828 was misposted as other financial sources;
- General Fund Intergovernmental Revenue (homestead and rollback) in the amount of \$1,339 was misposted as Property Taxes.
- General Fund Property Tax Revenue in the amount of \$4,087 was misposted to Fire Fund Property Taxes.
- General Fund Assigned Fund Balance in the amount of \$1,880 was misposted to Unassigned Fund Balance.
- General Fund Intergovernmental Revenue (homestead and rollback) in the amount of \$416 was overstated. This amount should have been posted to the Fire Fund, so the Fire Fund was understated.
- Street Fund Intergovernmental Revenue (motor vehicle license tax) in the amount of \$480 was misposted as Property Taxes.

In 2014:

- General Fund Miscellaneous Revenue was reduced by \$1,225 due to the clerk misposting the closing of a bank account as revenue

**FINDING NUMBER 2014-007  
(Continued)**

- General Fund General Government Expenditures in the amount of \$7,297 was misposted to basic utility services;
- Community Building Fund Community Environment Expenditures in the amount of \$6,818 was misposted to basic utility services;
- Fire Fund Security of Persons and Property Expenditures in the amount of \$5,341 was misposted to basic utility services;
- Street Fund Transportation Expenditures in the amount of \$3,079 was misposted to security of persons and property;
- Fire Fund Security of Persons and Property Expenditures in the amount of \$30,000 was misposted to general government;
- Fire Fund Principal Expenditures in the amount of \$4,867 was misposted as other financial sources;
- Fire Fund Interest and Fees Expenditures in the amount of \$582 was misposted as other financial sources;
- General Fund Intergovernmental Revenue (homestead and rollback) in the amount of \$1,194 was misposted as Property Taxes.
- General Fund Intergovernmental Revenue (homestead and rollback) in the amount of \$394 was overstated. This amount should have been posted to the Fire Fund, so the Fire Fund was understated.
- Street Fund Intergovernmental Revenue (motor vehicle license) in the amount of \$549 was misposted as Property Taxes.
- Fire Fund Donation Revenue in the amount of \$17,000 was misposted as Miscellaneous Revenue.

The Village Fiscal Officer made classification errors in posting of revenues and expenditures. This caused the mispostings of revenues and expenditures as noted above, where appropriate. The audited financial statements and the Village's UAN accounting system have been adjusted for the issues noted above.

We recommend the Village Fiscal Officer review the Village Officer's Handbook for guidance on the correct line items to post various receipts and disbursements of the Village to ensure the Village's financial statements are complete and accurate.

**Officials' Response:**

Clerk will correct these items for future years.

**VILLAGE OF OTWAY  
SCIOTO COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2012-001	Ohio Rev. Code § 5705.41(D)(1): Expenditures not properly encumbered.	No	Partially Corrected. Reissued in Management Letter.
2012-002	Ohio Rev. Code § 149.351(A): Receipts with no supporting documentation.	No	Not corrected; Re-issued as Finding Number 2014-001
2012-003	Ohio Rev. Code § 5705.39: Appropriations exceeded estimated resources	No	Not corrected; Re-issued as Finding Number 2014-004
2012-004	Ohio Rev. Code § 5705.40: Appropriation amendments posted to accounting system but not approved by Village Council	No	Not corrected; Re-issued as Finding Number 2014-005
2012-005	Ohio Rev. Code § 5705.41(B): Expenditures exceeded appropriations	No	Not corrected; Re-issued as Finding Number 2014-006
2012-006	Sound Reporting: Adjustments and reclassifications	No	Not corrected; Re-issued as Finding Number 2014-007
2012-007	Ineffective Monitoring Controls: Lack of monitoring of financial activity by Village Council	Yes	

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# Dave Yost • Auditor of State

VILLAGE OF OTWAY

SCIOTO 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  
FEBRUARY 11, 2016