



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF OTWAY
SCIOTO COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2018 and 2017
Fiscal Years Audited Under GAGAS: 2018 and 2017

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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(800) 282-0370

Members of Council
Village of Otway
4139 State Route 348
Otway, Ohio 45657

We have reviewed the *Independent Auditor's Report* of the Village of Otway, Scioto County, prepared by BHM CPA Group, Inc., 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 Otway 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

September 20, 2019

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Village of Otway
Scioto County, Ohio
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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 the Village of Otway, Scioto 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

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

As described in Note 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.

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, 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 Otway, Scioto 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 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2019, on our consideration of the Village's internal control over financial reporting and on 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 Standard* in considering the Village's internal control over financial reporting and compliance.



BHM CPA Group, Inc.
Piketon, Ohio
July 29, 2019

**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, 2018**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 9,078	\$ 3,931	\$ 13,009
Intergovernmental	3,341	4,619	7,960
Charges for Services	-	48,994	48,994
Earnings on Investments	121	276	397
Miscellaneous	84	563	647
	<u>12,624</u>	<u>58,383</u>	<u>71,007</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Security of Persons & Property	-	51,748	51,748
Community Environment	-	46	46
Transportation	-	4,137	4,137
General Government	13,447	3,986	17,433
Debt Service:			
Redemption of Principal	-	11,812	11,812
	<u>13,447</u>	<u>71,729</u>	<u>85,176</u>
Total Cash Disbursements			
<i>Net Change in Fund Cash Balances</i>	(823)	(13,346)	(14,169)
Fund Cash Balances, January 1	<u>6,461</u>	<u>54,991</u>	<u>61,452</u>
Restricted	-	41,645	41,645
Assigned	<u>5,638</u>	<u>-</u>	<u>5,638</u>
Fund Cash Balances, December 31	<u><u>\$ 5,638</u></u>	<u><u>\$ 41,645</u></u>	<u><u>\$ 47,283</u></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)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 21,556
Total Operating Cash Receipts	21,556
Operating Cash Disbursements	
Personal services	5,316
Fringe benefits	894
Contractual services	8,231
Supplies and Materials	8,930
Total Operating Cash Disbursements	23,371
<i>Operating Income (Loss)</i>	(1,815)
Non-Operating Receipts (Disbursements)	
Intergovernmental	390,324
OWDA Loan Proceeds	174,187
Capital Outlay	(515,237)
Debt Service:	
Principal	(53,055)
Total Non-Operating Receipts (Disbursements)	(3,781)
<i>Net Change in Fund Cash Balances</i>	(5,596)
Fund Cash Balances, January 1	6,276
Fund Cash Balances, December 31	\$ 680

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

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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 that is 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
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (continued)

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

3. 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:

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing the utility. This fund accounted for the Otway Sanitary Sewer Project between the Village of Otway, Ohio and the Ohio Water Development Authority.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object by department level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

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.

A summary of 2018 budgetary activity appears in Note 3.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	<u>2018</u>
Demand deposits	<u>\$47,963</u>
Total deposits:	<u>\$47,963</u>

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

3. BUDGETARY ACTIVITY

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

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$11,399	\$12,624	\$1,225
Special Revenue	56,263	58,383	2,120
Enterprise	599,418	586,067	(13,351)
Total	<u>\$667,080</u>	<u>\$657,074</u>	<u>(\$10,006)</u>

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$16,244	\$13,447	\$2,797
Special Revenue	106,724	71,729	34,995
Enterprise	604,447	591,663	12,784
Total	<u>\$727,415</u>	<u>\$676,839</u>	<u>\$50,576</u>

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

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, 2018 was as follows:

	Principal	Interest Rate
Fire Department Mortgage	\$206,711	0%
Ohio Water Development Authority Loans	121,132	3.06-3.39%
Total	\$327,843	

In 2016, the Village entered into a no interest twenty-year loan to construct a new fire station to house its fire apparatus. The fire station is collateralized against the loan. Payments will be made quarterly over twenty years from the Volunteer Fire Department fund.

In 2018, the Village obtained OWDA loan #7515 in the amount of \$174,187. Of this amount, \$49,275 was paid off through principal forgiveness and a \$3,780 principal payment was made by the Village. This loan does not have a loan amortization that was finalized at December 31, 2018.

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

Year ending December 31:	Fire Department Mortgage
2019	11,812
2020	11,812
2021	11,812
2022	11,812
2023	11,812
2024-2028	59,060
2029-2033	59,060
2034-2036	29,531
Total	\$206,711

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

6. RETIREMENT SYSTEM

Not applicable. The village opted out of OPERS several years ago. This was approved through OPERS.

7. POSTEMPLOYMENT BENEFITS

Not Applicable. See Note 6.

8. RISK MANAGEMENT

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (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. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 764 members as of December 31, 2018.

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.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2017 (the latest information available).

Assets	\$14,853,620
Liabilities	<u>(9,561,108)</u>
Members' Equity	<u>\$ 5,292,512</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

9. FINANCIAL CONDITION

As of December 31, 2018, the Village had a General Fund balance of \$5,637.91. In addition to this, the Street Construction Maintenance and Repair Fund had a balance of \$595.73. The State Highway Fund as well as the Community Building Fund had combined balances of less than \$500. The Village is taking steps to attempt to increase revenues and reduce expenditures. However, they are still struggling to be able to pay regular monthly bills.

10. SUBSEQUENT EVENTS

The Village continues to incur debt and receive loans for the Otway Sanitary Sewer Project between the Village of Otway, Ohio and the Ohio Water Development Authority.

**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, 2017**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 8,147	\$ 3,877	\$ 12,024
Intergovernmental	4,129	13,804	17,933
Charges for Services		48,118	48,118
Earnings on Investments	114	334	448
Miscellaneous	1,223	1,015	2,238
	<u>13,613</u>	<u>67,148</u>	<u>80,761</u>
Total Cash Receipts			
	<u>13,613</u>	<u>67,148</u>	<u>80,761</u>
Cash Disbursements:			
Current:			
Security of Persons & Property	-	46,461	46,461
Community Environment	-	250	250
Transportation	-	3,746	3,746
General Government	9,387	3,346	12,733
Capital Outlay	-	66,690	66,690
Debt Service:			
Redemption of Principal	-	11,812	11,812
	<u>9,387</u>	<u>132,305</u>	<u>141,692</u>
Total Cash Disbursements			
	<u>9,387</u>	<u>132,305</u>	<u>141,692</u>
<i>Net Change in Fund Cash Balances</i>	4,226	(65,157)	(60,931)
Fund Cash Balances, January 1	<u>2,235</u>	<u>120,148</u>	<u>122,383</u>
Restricted	-	54,991	54,991
Assigned	6,461	-	6,461
	<u>6,461</u>	<u>-</u>	<u>6,461</u>
Fund Cash Balances, December 31	<u>\$ 6,461</u>	<u>\$ 54,991</u>	<u>\$ 61,452</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)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$ 14,929
Total Operating Cash Receipts	14,929
Operating Cash Disbursements	
Personal services	4,415
Contractual services	3,251
Supplies and Materials	1,108
Total Operating Cash Disbursements	8,774
<i>Operating Income (Loss)</i>	6,155
Non-Operating Receipts (Disbursements)	
Intergovernmental	1,759,453
OWDA Loan Proceeds	152,030
Capital Outlay	(1,450,400)
Debt Service:	
Principal	(463,343)
Total Non-Operating Receipts (Disbursements)	(2,260)
<i>Net Change in Fund Cash Balances</i>	3,895
Fund Cash Balances, January 1	2,381
Fund Cash Balances, December 31	<u>\$ 6,276</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, 2017**

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 that is 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, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (continued)

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

3. 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:

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing the utility. This fund accounted for the Otway Sanitary Sewer Project between the Village of Otway, Ohio and the Ohio Water Development Authority.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object by department level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

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.

A summary of 2017 budgetary activity appears in Note 3.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	<u>2017</u>
Demand deposits	<u>\$67,728</u>
Total deposits:	<u>\$67,728</u>

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

3. BUDGETARY ACTIVITY

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

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$14,508	\$13,613	(\$895)
Special Revenue	65,848	67,148	1,300
Enterprise	3,531,454	1,926,412	(1,605,042)
Total	<u>\$3,611,810</u>	<u>\$2,007,173</u>	<u>(\$1,604,637)</u>

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$16,576	\$9,387	\$7,189
Special Revenue	175,621	132,305	43,316
Enterprise	3,073,131	1,922,517	1,150,614
Total	<u>\$3,265,328</u>	<u>\$2,064,209</u>	<u>\$1,201,119</u>

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017 was as follows:

	Principal	Interest Rate
Fire Department Mortgage	\$218,523	0%
Total	\$218,523	

In 2016, the Village entered into a no interest twenty-year loan to construct a new fire station to house its fire apparatus. The fire station is collateralized against the loan. Payments will be made quarterly over twenty years from the Volunteer Fire Department fund.

In 2017, the Village obtained OWDA loans that were paid off through a principal forgiveness program.

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

Year ending December 31:	Fire Department Mortgage
2018	11,812
2019	11,812
2020	11,812
2021	11,812
2022	11,812
2023-2027	59,060
2028-2032	59,060
2033-2036	41,343
Total	\$218,523

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

6. RETIREMENT SYSTEM

Not applicable. The village opted out of OPERS several years ago. This was approved through OPERS.

7. POSTEMPLOYMENT BENEFITS

Not Applicable. See Note 6.

8. RISK MANAGEMENT

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (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. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 764 members as of December 31, 2017.

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.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2017.

Assets	\$14,853,620
Liabilities	<u>(9,561,108)</u>
Members' Equity	<u>\$ 5,292,512</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

**VILLAGE OF OTWAY
SCIOTO COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

9. FINANCIAL CONDITION

As of December 31, 2017, the Village had a General Fund balance of only \$6,461. In addition to this, the Street Construction Maintenance and Repair Fund had balances of less than \$595.73. The Community Building fund had a balance of \$1,164. The Village is taking steps to attempt to increase revenues and reduce expenditures. However, they are still struggling to be able to pay regular monthly bills.

10. SUBSEQUENT EVENTS

The Village continues to incur debt and receive loans for the Otway Sanitary Sewer Project between the Village of Otway, Ohio and the Ohio Water Development Authority.



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 the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Otway, Scioto 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 July 29, 2019, wherein we noted the Village followed financial reporting provisions that Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-002.

Purpose of this Report

This report only describes the scope of our internal control testing 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.

A handwritten signature in black ink that reads "BHM CPA Group". The letters are cursive and somewhat stylized.

BHM CPA Group, Inc.
Piketon, Ohio
July 29, 2019

**Village of Otway
Scioto County
Schedule of Findings
December 31, 2018 and 2017**

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

FINDING NUMBER	2018-001
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MATERIAL WEAKNESS

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

Material and immaterial misstatements were identified during the course of the audit which have not been prevented or detected by the Village’s internal controls over financial reporting. Misstatements were identified in the following areas for both 2017 and 2018:

- General Fund: Intergovernmental receipts and Property Tax receipts
- Special Revenue Funds General Government disbursements
- Special Revenue Funds Transportation disbursements
- Special Revenue Funds Security and Persons of Property disbursements
- Special Revenue Funds Capital Outlay disbursements (2017 only)
- Enterprise Fund Principal Payments disbursements,
- Enterprise Fund OWDA Loan Proceeds receipts
- Enterprise Fund Intergovernmental receipts
- Enterprise Fund Capital Outlay disbursements
- Enterprise Fund Contractual Services disbursements

To ensure the Village’s financial statements and notes to the financial statements are complete and accurate, we recommend the Fiscal Officer review the Ohio Village Officer’s Handbook for guidance on the correct line item to post various receipts and expenditures of the Village.

Client Response: The client did not respond to the finding.

FINDING NUMBER	2018-002
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MATERIAL NONCOMPLIANCE

Ohio Rev. Code, Section 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

<p>Village of Otway Scioto County Schedule of Findings December 31, 2018 and 2017</p>
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FINDING NUMBER	2018-002 (continued)
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This section also provides two “exceptions” to the above requirements:

- A. Then and Now Certificate – If the fiscal officer can certify that both at the time That the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment or the amount due. The Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 maybe paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Village.

- B. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any on particular line item appropriation.
- C. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonable predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Fiscal Officer’s certification was not utilized for several material disbursements made by the Village. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Every effort should be made by the Village to properly utilize the encumbrance method of accounting by certifying funds prior to making a purchase obligation. Failure to properly certify funds could result in overspending and negative fund balances.

The Village should certify purchases to which 5705.41 (D) applies. The most convenient method is to use purchase orders that include the certification language 5705.41 (D) requires to authorize disbursements. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Client Response: The client did not provide a response to the finding.

**VILLAGE OF OTWAY
SCIOTO COUNTY
DECEMBER 31, 2018 AND 2017**

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	Material Weakness – Financial Reporting	No	Reissued as finding 2018-001
2016-002	Material Noncompliance – ORC 5705.10(I) Negative Cash Fund Balance in General Fund at December 31, 2015.	Yes	

OHIO AUDITOR OF STATE
KEITH FABER



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
OCTOBER 3, 2019