



Dave Yost • Auditor of State



VILLAGE OF GRATIS  
PREBLE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, OH 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, (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 audit opinions.

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

As described in Note 1B 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 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 combined cash balances of the Village of Gratis, Preble 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 1B.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 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.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

January 4, 2016

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$21,876	\$36,619		\$58,495
Municipal Income Tax	26,743			26,743
Intergovernmental	22,679	48,716		71,395
Charges for Services		279,004		279,004
Fines, Licenses and Permits	27,907			27,907
Earnings on Investments	1,726	183		1,909
Miscellaneous	9,333	20,138		29,471
Total Cash Receipts	<u>110,264</u>	<u>384,660</u>		<u>494,924</u>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons and Property	46,839	54,263		101,102
Public Health Services		300,534		300,534
Transportation		40,528		40,528
General Government	48,246	949		49,195
Capital Outlay		20,605		20,605
<b>Debt Service:</b>				
Principal Retirement		1,193		1,193
Interest and Fiscal Charges		109		109
Total Cash Disbursements	<u>95,085</u>	<u>418,181</u>		<u>513,266</u>
Excess of Receipts Over (Under) Disbursements	<u>15,179</u>	<u>(33,521)</u>		<u>(18,342)</u>
Net Change in Fund Cash Balances	15,179	(33,521)		(18,342)
Fund Cash Balances, January 1	<u>(25,321)</u>	<u>198,966</u>	<u>\$58</u>	<u>173,703</u>
<b>Fund Cash Balances, December 31:</b>				
Restricted		162,973	58	163,031
Assigned		2,472		2,472
Unassigned (Deficit)	(10,142)			(10,142)
Fund Cash Balances, December 31	<u>(\$10,142)</u>	<u>\$165,445</u>	<u>\$58</u>	<u>\$155,361</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 (CASH BASIS)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals</u>
	<u>Enterprise</u>	<u>Agency</u>	<u>(Memorandum Only)</u>
<b>Operating Cash Receipts:</b>			
Charges for Services	\$409,333		\$409,333
Fines, Licenses and Permits			0
Total Operating Cash Receipts	<u>409,333</u>	<u>0</u>	<u>409,333</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	78,600		78,600
Employee Fringe Benefits	12,785		12,785
Contractual Services	143,052		143,052
Supplies and Materials	34,705		34,705
Total Operating Cash Disbursements	<u>269,142</u>	<u>0</u>	<u>269,142</u>
Operating Income (Loss)	<u>140,191</u>	<u>0</u>	<u>140,191</u>
<b>Non-Operating Receipts (Disbursements):</b>			
Miscellaneous Receipts	36,798		36,798
Other Financing Sources		\$28,403	28,403
Other Financing Uses		(28,401)	(28,401)
Capital Outlay	(28,629)		(28,629)
Principal Retirement	(43,900)		(43,900)
Interest and Other Fiscal Charges	(33,288)		(33,288)
Total Non-Operating Receipts (Disbursements)	<u>(69,019)</u>	<u>2</u>	<u>(69,017)</u>
Net Change in Fund Cash Balances	71,172	2	71,174
Fund Cash Balances, January 1	<u>397,480</u>	<u>2,347</u>	<u>399,827</u>
Fund Cash Balances, December 31	<u>\$468,652</u>	<u>\$2,349</u>	<u>\$471,001</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 (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$21,200	\$36,424		\$57,624
Intergovernmental	23,102	44,157		67,259
Charges for Services		274,836		274,836
Fines, Licenses and Permits	45,473			45,473
Earnings on Investments	145	337		482
Miscellaneous	7,952	22,246		30,198
Total Cash Receipts	<u>97,872</u>	<u>378,000</u>		<u>475,872</u>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
Security of Persons and Property	59,448	66,334		125,782
Public Health Services		286,963		286,963
Transportation		50,279		50,279
General Government	48,091	282		48,373
Capital Outlay		83,799		83,799
<b>Debt Service:</b>				
Principal Retirement		1,140		1,140
Interest and Fiscal Charges		162		162
Total Cash Disbursements	<u>107,539</u>	<u>488,959</u>		<u>596,498</u>
Excess of Receipts Over (Under) Disbursements	<u>(9,667)</u>	<u>(110,959)</u>		<u>(120,626)</u>
<b>Other Financing Receipts (Disbursements):</b>				
Other Financing Uses	<u>(216)</u>			<u>(216)</u>
Total Other Financing Receipts (Disbursements)	<u>(216)</u>			<u>(216)</u>
Net Change in Fund Cash Balances	(9,883)	(110,959)		(120,842)
Fund Cash Balances, January 1	<u>(15,438)</u>	<u>309,925</u>	<u>\$58</u>	<u>294,545</u>
<b>Fund Cash Balances, December 31:</b>				
Restricted		197,036	58	197,094
Assigned		1,930		1,930
Unassigned (Deficit)	<u>(25,321)</u>			<u>(25,321)</u>
Fund Cash Balances, December 31	<u>(\$25,321)</u>	<u>\$198,966</u>	<u>\$58</u>	<u>\$173,703</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 (CASH BASIS)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<b>Proprietary Fund Types</b>	<b>Fiduciary Fund Types</b>	<b>Totals</b>
	<b>Enterprise</b>	<b>Agency</b>	<b>(Memorandum Only)</b>
<b>Operating Cash Receipts:</b>			
Charges for Services	\$387,585		\$387,585
Fines, Licenses and Permits			0
Total Operating Cash Receipts	<u>387,585</u>	<u>0</u>	<u>387,585</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	74,237		74,237
Employee Fringe Benefits	12,244		12,244
Contractual Services	133,420		133,420
Supplies and Materials	23,604		23,604
Total Operating Cash Disbursements	<u>243,505</u>	<u>0</u>	<u>243,505</u>
Operating Income (Loss)	<u>144,080</u>	<u>0</u>	<u>144,080</u>
<b>Non-Operating Receipts (Disbursements):</b>			
Miscellaneous Receipts	17,830		17,830
Other Financing Sources		\$52,024	52,024
Other Financing Uses		(52,852)	(52,852)
Capital Outlay	(25,377)		(25,377)
Principal Retirement	(42,262)		(42,262)
Interest and Other Fiscal Charges	(35,065)		(35,065)
Total Non-Operating Receipts (Disbursements)	<u>(84,874)</u>	<u>(828)</u>	<u>(85,702)</u>
Net Change in Fund Cash Balances	59,206	(828)	58,378
Fund Cash Balances, January 1	<u>338,274</u>	<u>3,175</u>	<u>341,449</u>
Fund Cash Balances, December 31	<u>\$397,480</u>	<u>\$2,347</u>	<u>\$399,827</u>

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

**VILLAGE OF GRATIS  
PREBLE 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 Gratis, Preble County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, emergency medical services, fire services and police services.

The Village participates in the Public Entities Pool of Ohio, a risk sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entities Excess Pool (APEEP). Note 8 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.

**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 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.

**C. Cash and Deposits**

The Village's funds are pooled in checking and savings accounts with local commercial banks.

**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:

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**3. Capital Project Funds**

This fund accounts for receipts restricted to acquiring or construction major capital projects (except those financed through enterprise or trust funds). The Village had a Capital Project Fund used to construct a capital improvement.

**4. 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.

**5. Fiduciary Funds**

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.

**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 level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**2. Estimated Resources**

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year.

A summary of 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. Non-spendable**

The Village classifies assets as *non-spendable* 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 GRATIS  
PREBLE COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**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:

	<b>2014</b>	<b>2013</b>
Demand deposits	\$519,934	\$467,527
Other time deposits (savings and NOW accounts)	106,428	106,003
Total deposits	\$626,362	\$573,530

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

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

**2014 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$114,039	\$110,264	(\$3,775)
Special Revenue	343,630	384,660	41,030
Enterprise	341,572	446,131	104,559
Total	\$799,241	\$941,055	\$141,814

**2014 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$90,968	\$95,085	(\$4,117)
Special Revenue	510,461	418,181	92,280
Capital Projects	58		58
Enterprise	481,139	374,959	106,180
Total	\$1,082,626	\$888,225	\$194,401

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

<b>2013 Budgeted vs. Actual Receipts</b>			
<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$99,339	\$97,872	(\$1,467)
Special Revenue	324,182	378,000	53,818
Enterprise	341,045	405,415	64,370
Total	\$764,566	\$881,287	\$116,721

<b>2013 Budgeted vs. Actual Budgetary Basis Expenditures</b>			
<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$90,325	\$107,755	(\$17,430)
Special Revenue	483,783	488,959	(5,176)
Capital Projects	58		58
Enterprise	587,168	346,209	240,959
Total	\$1,161,334	\$942,923	\$218,411

Contrary to Ohio law, at December 31, 2014 and 2013, the General Fund had a cash deficit balance of \$10,142 and \$25,321, respectively.

**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. LOCAL INCOME TAX**

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.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**6. DEBT**

Debt outstanding at December 31, 2014 was as follows:

	<b>Principal</b>	<b>Interest Rate</b>
Sewer Revenue Bonds	\$167,000	5.00%
Ohio Public Works Commission Loan	74,636	0.00%
Ohio Water Development Authority Loan	523,192	4.42%
Ford Truck Loan	3,737	4.50%
Total	<b>\$768,565</b>	

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 water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements. The bonds are collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

Ohio Public Works Commission (OPWC) loan 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 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 and 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 had agreed to set water rates sufficient to cover bond payment requirements.

The Ford truck loan was obtained in March 2010 for \$17,147 for the purpose of acquiring a new truck. The loan is to be repaid in annual installment payments of \$3,906 over 5 years. The loan is collateralized by the truck.

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

<b>Year ending December 31:</b>	<b>Sewer Revenue Bonds</b>	<b>OPWC</b>	<b>OWDA</b>	<b>Ford Truck Loans</b>
2015	\$33,350	\$5,147	\$36,937	\$3,906
2016	33,100	5,147	36,937	
2017	32,800	5,147	36,937	
2018	32,450	5,147	36,937	
2019	33,050	5,147	36,937	
2020-2024	32,550	25,737	184,685	
2025-2029		23,164	184,685	
2030-2034			184,685	
2035-2039			92,343	
Total	<b>\$197,300</b>	<b>\$74,636</b>	<b>\$831,083</b>	<b>\$3,906</b>



**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**7. RETIREMENT SYSTEMS**

The Village's full-time 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. For 2014 and 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, 2014.

**8. RISK MANAGEMENT**

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

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of 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 ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**A. 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, 2014, 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.

**B. Financial Position**

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2013 and 2014.

	<u>2013</u>	<u>2014</u>
Assets	\$34,411,883	\$35,402,177
Liabilities	<u>(12,760,194)</u>	<u>(12,363,257)</u>
Net Position	<u>\$21,651,689</u>	<u>\$23,038,920</u>

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**8. RISK MANAGEMENT (Continued)**

At December 31, 2013 and 2014, respectively, the liabilities above include approximately 11.6 million and \$11.1 million of estimated incurred claims payable. The assets above also include approximately \$11.1 million and \$10.8 million of unpaid claims to be billed. The Pool's membership increased from 475 members in 2013 to 488 members in 2014. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Village's share of these unpaid claims collectible in future years is approximately \$14,000.

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.

<b>Contributions to PEP</b>	
<b>2013</b>	<b>2014</b>
<u>\$20,730</u>	<u>\$21,079</u>

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**9. CONTINGENT LIABILITIES**

The Village is a defendant in a lawsuit. Management cannot presently determine the outcome of this suit nor the impact on the Village's financial condition. Also see Finding 2014-001.



# 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 Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, OH 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 Village of Gratis, Preble County, (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 4, 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.

### ***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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

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. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-003 described in the accompanying schedule of findings to be a significant deficiency.

***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 item 2014-001 and 2014-002.

***Entity'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 4, 2016

VILLAGE OF GRATIS  
PREBLE 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 §731.17(A)(2)** requires that each ordinance or resolution of a municipal corporation be read on three different days, "provided the legislative authority may dispense with this rule by a vote of at least three-fourths of its members."

**Ohio Rev. Code §731.30** indicates that municipal corporations may pass emergency ordinances or measures necessary for the immediate preservation of the public peace, health, or safety in such municipal corporation, and emergency ordinances or measures shall go into immediate effect. This section also provides that "emergency ordinances or measures must, upon a yea and nay vote, receive a two-thirds vote of all the members elected to the legislative authority, and the reasons for such necessity shall be set forth in one section of the ordinance or other measure."

**Ohio Const. Article II, Section 28** states, "The general assembly shall have no power to pass retroactive laws, or laws impairing the obligation of contracts; but may, by general laws, authorize courts to carry into effect, upon such terms as shall be just and equitable, the manifest intention of parties, and officers, by curing omissions, defects, and errors, in instruments and proceedings, arising out of their want of conformity with the laws of this state." This constitutional prohibition against retroactive substantive laws has been applied to ordinances and resolutions of municipal corporations by Ohio courts. See *Stasia et al. v. City of Dublin et al.*, 93 Ohio App.3d 185, 189, 638 N.E.2d 108 (1994); see also *Gibson v. Oberlin*, 171 Ohio St. 1, 167 N.E.2d (1960). In addition, in Ohio Attorney General Opinion 1964-898, the Attorney General indicates his opinion that without express authorization, a statutory municipal corporation is without power to enact retroactive legislation which affects substantive rights.

At the regular meeting of the Village Council held on September 19, 2013 six members of the six-member council and the mayor were present. The Council considered Income Tax Ordinance 2013-004. The minutes of the meeting include a discussion by the Council of the necessity of passing the ordinance as an emergency. Ordinance 2013-004, however, does not include a section which sets forth the reasons for the necessity of passing the legislation as an emergency measure. The absence of a section in the ordinance setting forth the necessity of the emergency appears to violate Ohio Rev. Code §731.30. Further, a motion to suspend the three reading requirement of Ohio Rev. Code §731.17(A)(2) was made and seconded by council members at the meeting. When subjected to vote, this motion received four yea votes and two nay votes. The four yea votes out of six total votes fell short of the three-fourths approval required by Ohio Rev. Code §731.17(A)(2) in order to suspend the three reading requirement. On January 1, 2014, the Village began collecting the one percent (1%) income tax imposed by Ordinance 2013-004. At the regular meeting of the Village Council held on September 4, 2014, according to the minutes, sitting council members present at the meeting decided to make a second reading of Ordinance 2013-004 "due to recent controversy." At that time, the Council consisted of four members elected and remaining in their positions on the Council following the resignation of two members. Three members were present at the meeting. At this meeting, the Council suspended the three reading requirement of Ohio Rev. Code §731.17(A)(2) with approval of three of the four remaining members. The Council voted to approve Ordinance 2013-004 as an emergency measure retroactive to January 1, 2014. The language of Ordinance 2013-004 had not been amended from its first reading in September of 2013, and again did not include a section setting forth the reasons for the necessity of passing it as an emergency, contrary to Ohio Rev. Code §731.30. Further, Ordinance 2013-004 was passed as a retroactive income tax which appears to violate Ohio Const. Article II, Section 28, which provision prohibits the passage of retroactive substantive laws by municipal corporations as held by Ohio courts.

**FINDING NUMBER 2014-001  
(Continued)**

Village officials should consult with the legal counsel for the Village to identify deficiencies which exist as to the enactment of the legislation at issue, and to consider remedial steps which may be necessary to address such deficiencies and their prospective effect on the propriety of the assessment and collection of the income tax. Further, village officials, including members of the Village Council, should take appropriate steps to ensure that all legislation enacted by the Council is adopted in a manner consistent with the procedural and substantive requirements of the Ohio Constitution and the Ohio Revised Code. In this context, said officials should consult regularly with the Village's legal counsel, and secure and follow the advice of that individual.

**Official's Response:**

The Village Council has consulted their current legal counsel in this matter.

**FINDING NUMBER 2014-002**

**Noncompliance Citation**

**Ohio Rev. Code §5705.10(I)** requires that money paid into a fund must be used only for the purposes for which such fund has been established. A negative fund balance indicates that money from one fund was used to cover the expenses of another fund. At December 31, 2013 and 2014 including posted audit adjustments the General Fund had a negative cash balance of (\$25,321) and (\$10,142), respectively.

The Village should monitor financial activity and implement a plan to decrease negative cash balances.

**Official's Response:**

A Resolution was passed in 2015 to allow the current Fiscal Officer to move line items within a fund to eliminate negative balances.

**FINDING NUMBER 2014-003**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Fiscal Officer prepared monthly bank reconciliations. Village Council approved the reconciliations in the minutes. However, there were unsupported "other adjusting factors" and adjustments for all of 2013, January through July 2014, and October 2014.

At December 31, 2013 the reconciled bank balance was \$1,370 higher than the book balance. At December 31, 2014 the reconciled bank balance equaled the book balance. The following items contributed to the unreconciled differences:

- The Fiscal Officer did not properly record activity from the ambulance billing account.
- The Fiscal Officer did not properly record activity from the mayor's court account.
- The Fiscal Officer did not use the correct bank balances when completing the monthly bank reconciliations.

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Village officials rely on accurate reconciliations to make sound financial decisions.

**FINDING NUMBER 2014-003  
(Continued)**

The Village Fiscal Officer should complete accurate monthly reconciliations. Other adjusting factors should be documented and adequately explained. Adjustments should be documented, and any unexplained differences should be investigated and resolved immediately. All transactions should be accurately posted to the accounting system. The Village should also consider periodic monthly reconciliations by someone independent of the record keeping system.

**Official's Response:**

The current Fiscal Officer is aware of the improper recording activity. Monthly bank reconciliations have been prepared and any adjusting factors noted are supported and corrected.

**VILLAGE OF GRATIS  
PREBLE 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	Failure to properly calculate adjustments on incorrect utility billings	Yes	
2012-002	Ohio Admin. Code §117-2-02(C)(1) appropriations and estimated receipts not accurately posted to the financial accounting system.	No	Not corrected. Repeated as Management Letter comment
2012-003	ORC 5705.41(D)(1) failure to properly certificate the availability of funds	Yes	
2012-004	ORC 5705.10(H) negative fund balance	No	Not corrected. Repeated as Finding 2014-002
2012-005	ORC 5705.40 failure to properly approve and post supplemental appropriations	No	Not corrected. Repeated as Management Letter comment.
2012-006	Failure to properly post financial activity	No	Not corrected. Repeated as Management Letter comment.
2012-007	Failure to properly post debt activity	Yes	





# Dave Yost • Auditor of State

**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  
FEBRUARY 9, 2016**