



Dave Yost • Auditor of State

VILLAGE OF ST HENRY
MERCER COUNTY
DECEMBER 31, 2017

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of St. Henry
Mercer County
371 North Linn Street
St. Henry, Ohio 45883

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 St. Henry, Mercer County, Ohio (the Village) as of and for the year ended December 31, 2017.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2017, and the respective changes in financial position thereof for the year 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 St. Henry, Mercer County as of December 31, 2017, for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

December 11, 2018

Village of St. Henry, Ohio
Mercer County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2017

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$109,121	\$37,149	\$0	\$146,270
Municipal Income Tax	910,236	0	0	910,236
Intergovernmental	56,578	141,144	240,941	438,663
Charges for Services	0	37,611	0	37,611
Fines, Licenses and Permits	37,795	0	0	37,795
Earnings on Investments	15,636	1,581	0	17,217
Miscellaneous	26,732	34,000	0	60,732
<i>Total Cash Receipts</i>	<u>1,156,098</u>	<u>251,485</u>	<u>240,941</u>	<u>1,648,524</u>
Cash Disbursements				
Current:				
Security of Persons and Property	254,982	0	0	254,982
Public Health Services	18,066	0	0	18,066
Leisure Time Activities	0	124,849	0	124,849
Basic Utility Services	10,276	0	0	10,276
Transportation	66,334	131,481	0	197,815
General Government	499,713	0	0	499,713
Capital Outlay	297,987	0	356,734	654,721
Debt Service:				
Principal Retirement	20,519	0	0	20,519
<i>Total Cash Disbursements</i>	<u>1,167,877</u>	<u>256,330</u>	<u>356,734</u>	<u>1,780,941</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(11,779)</u>	<u>(4,845)</u>	<u>(115,793)</u>	<u>(132,417)</u>
Other Financing Receipts (Disbursements)				
Sale of Capital Assets	500	0	0	500
Transfers In	0	75,000	600,000	675,000
Transfers Out	(675,000)	0	0	(675,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(674,500)</u>	<u>75,000</u>	<u>600,000</u>	<u>500</u>
<i>Net Change in Fund Cash Balances</i>	(686,279)	70,155	484,207	(131,917)
<i>Fund Cash Balances, January 1</i>	<u>1,396,664</u>	<u>149,022</u>	<u>14,431</u>	<u>1,560,117</u>
Fund Cash Balances, December 31				
Restricted	0	219,177	498,638	717,815
Assigned	669,867	0	0	669,867
Unassigned (Deficit)	40,518	0	0	40,518
<i>Fund Cash Balances, December 31</i>	<u>\$710,385</u>	<u>\$219,177</u>	<u>\$498,638</u>	<u>\$1,428,200</u>

See accompanying notes to the basic financial statements

Village of St. Henry, Ohio
Mercer County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary Fund Types
For the Year Ended December 31, 2017

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts	
Charges for Services	\$1,113,721
Fines, Licenses and Permits	275
Earnings on Investments (trust funds only)	0
<i>Total Operating Cash Receipts</i>	<i>1,113,996</i>
Operating Cash Disbursements	
Personal Services	303,026
Employee Fringe Benefits	46,817
Contractual Services	504,977
Supplies and Materials	119,297
Other	52,425
<i>Total Operating Cash Disbursements</i>	<i>1,026,542</i>
<i>Operating Income (Loss)</i>	<i>87,454</i>
Non-Operating Receipts (Disbursements)	
Debt Proceeds	703,008
Capital Outlay	(703,008)
Principal Retirement	(51,964)
Interest and Other Fiscal Charges	(17,418)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(69,382)</i>
<i>Net Change in Fund Cash Balances</i>	<i>18,072</i>
<i>Fund Cash Balances, January 1</i>	<i>447,253</i>
<i>Fund Cash Balances, December 31</i>	<i>\$465,325</i>

See accompanying notes to the basic financial statements.

Village of St. Henry, Ohio
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

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

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

The Village participates in the Ohio Municipal League Self Insurance Pool. Note 7 to the financial statements provides additional information for the public risk pool.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary fund type which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Street Construction Maintenance and Repair The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

Parks and Recreation The parks and recreation fund accounts for the swimming pool and shelter house activity.

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

Village of St. Henry, Ohio
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Capital Project Funds for Swimming Pool Construction The Capital Project fund for Swimming Pool Construction is money the Village has been setting aside each year in preparation for the project. The Village was approved for a state grant of \$600,000 to help fund the project. The proceeds are restricted for construction of the new swimming pool.

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 The water fund accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.

Sewer Fund The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

Water Improvement Fund The water improvement fund receives charges for upkeep and future expansion of our water distribution system.

Wastewater Improvement Fund The sewer improvement fund receives charges for previous expansion of our wastewater treatment facility to repay a loan to the Public Works Commission.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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

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

Village of St. Henry, Ohio
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

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

A summary of 2017 budgetary activity appears in Note 4.

Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

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

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

Village of St. Henry, Ohio
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

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

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

Note 3 - Compliance

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Water Improvement fund by \$669,851 for the year ended December 31, 2017.

Note 4 - Budgetary Activity

Budgetary activity for the year ending 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,260,953	\$1,156,598	(\$104,355)
Special Revenue	315,450	326,485	11,035
Capital Projects	600,000	840,941	240,941
Enterprise	1,053,488	1,817,004	763,516
Total	\$3,229,891	\$4,141,028	\$911,137

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,489,899	\$1,903,683	\$586,216
Special Revenue	385,470	256,786	128,684
Capital Projects	600,000	600,000	0
Enterprise	1,487,375	1,855,301	(367,926)
Total	\$4,962,744	\$4,615,770	\$346,974

Village of St. Henry, Ohio
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 5 – Deposits

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

	<u>2017</u>
Demand deposits	<u>\$1,893,525</u>
Total deposits	<u>\$1,893,525</u>

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation and collateralized by the financial institution's public entity deposit pool.

Note 6 – Taxes

Property Taxes

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

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.

Income Taxes

The Village levies a municipal income tax of 1% percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

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

Note 7 - Risk Management

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per Section 2744 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

Village of St. Henry, Ohio
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Risk Management (Continued)

The Pool cedes portions of its gross contribution written to a reinsurer under excess reinsurance agreements in order to limit its losses. Treaty basis excess-of-loss contracts in force protect the Pool against losses over the retention level; at March 31, 2017, retention levels are \$50,000 and \$100,000 for property and casualty coverages, respectively.

The Pool remains liable to the extent the reinsuring companies are unable to meet their contractual obligations under reinsurance agreements.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities and accumulated surplus at March 31, 2017.

Assets	\$1,091,882
Liabilities	<u>(757,765)</u>
Accumulated Surplus	\$ <u>334,117</u>

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

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

Ohio Police and Fire Retirement System

All of the Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F 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. OP&F participants contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2017.

Note 9 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. OP&F contributes 0.5 percent to fund these benefits.

Village of St. Henry, Ohio
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 10 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
OPWC - WWTP Loan	\$100,177	0%
OPWC Loan - Parkview & Willow St.	\$389,856	0%
St Henry Bank - Reier Property Loan	678,361	2.70%
Total	\$1,168,394	

The OPWC – WWTP Loan is for the expansion of our Waste Water Treatment Plant in 2007. The loan will be paid in full in 2027. The twenty year 0.00% interest loan’s original amount was for \$210,900, and is to be paid from the Wastewater Improvement Fund. The Village pays \$10,545 annually towards the principal balance of the loan.

The OPWC Loan – Parkview & Willow Street was for the reconstruction of the streets and replacement of water lines and storm sewer. The loan will be paid in full in 2037. The twenty year 0.00% interest loan’s original amount was for \$410,374, and is to be paid from the General Fund. The Village pays \$20,519 annually towards the principal balance of the loan.

The St. Henry Bank – Reier property is a bank loan for 66 acres of land purchased to establish a new well for the Village. The twenty-year 2.7% interest loan will be paid with money collected from the Water Improvement Fund. The Village pays \$45,534 annually towards the principal balance of the loan.

Amortization

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

Year Ending December 31:	OPWC - WWTP	OPWC Parkview & Willow St.	St. Henry Bank - Reier Property
2018	\$10,545	\$20,519	\$45,534
2019	10,545	20,519	45,534
2020	10,545	20,519	45,534
2021	10,545	20,519	45,534
2022	10,545	20,519	45,534
2023-2027	47,452	102,595	227,670
2028-2032		102,595	227,668
2033-3037		82,071	185,930
Total	\$100,177	\$389,856	\$868,938

Note 11 – Construction and Contractual Commitments

The Village is currently in the middle of the construction of a new swimming pool paid in part by a \$600,000 State Grant.

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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 St Henry
Mercer County
371 North Linn Street
St Henry, Ohio 45883

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of St Henry, Mercer County, (the Village) as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2017-001 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 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 2017-001.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

December 11, 2018

VILLAGE OF ST HENRY
MERCER COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017

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

FINDING NUMBER 2017-001

Noncompliance – Significant Deficiency

Accuracy of Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of its financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The Village did not properly classify all transactions. The following error was noted on the Village's annual report:

- The Village purchased land from the Wilbert G. Reier & Marcella Reier Trust for establishing a new well for the Village. The Village borrowed money in the amount of \$703,008 to purchase this land that should have been recorded as debt proceeds and as a capital outlay expenditure in the Wastewater Improvement Fund.

By not properly recording the land purchase, the Village then had corresponding expenditures exceed appropriations in the Wastewater Improvement Fund. **Ohio Rev. Code § 5705.41(B)** prohibits a subdivision or taxing unit from expending money unless it has been appropriated. The legal level of budgetary control for the Village is the fund level at which Council adopts the original appropriation measure. Budgetary expenditures exceeded appropriations for the year ended December 31, 2017 at the fund level for the Wastewater Improvement fund by \$669,851.

Failure to properly record activity could lead to not having adequate appropriation authority in place at the time expenditures are made and may result in expenditures exceeding available resources, and result in deficit spending.

Governmental Accounting Standards Board (GASB) Statement No. 54 (GASB Codification 1800.168-1800.179) - Fund Balance Reporting and Governmental Fund Type Definitions gives definitions for each of the following fund types General, Special Revenue, Capital Project, Debt Service, and Permanent. GASB Statement No. 54 also establishes fund balance classifications that stipulate use of fund balances based on the extent to which a government is required to observe constraints imposed upon the use of the resources reported in governmental funds and for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. The following errors were noted as a result of the Village not properly implementing GASB Statement No 54:

- The General Fund balance was incorrectly classified as unassigned. Part of the fund balance was reclassified from unassigned to assigned in the amount of \$609,061 to properly reflect 2018 appropriations made that exceeded 2018 estimated receipts per GASB 54 guidance. In addition, the encumbrances in the General Fund were not correctly classified as assigned in the amount of \$60,806.
- The Special Revenue Fund balance was incorrectly classified as committed. Part of the fund balance was reclassified from committed to restricted in the amount of \$32,681 to properly reflect the recreation programs classification per GASB 54 guidance.

**FINDING NUMBER 2017-001
(Continued)**

The 2017 annual report required audit adjustments and reclassifications for proper presentation. The adjustments are reflected on the accompanying financial statements and the Village's records.

Policies and procedures should be developed and implemented to verify that all receipts and expenditures are posted in correct accounts/line items. The fiscal officer should review postings each month and again at the end of the fiscal year to verify that all amounts are classified and posted in accordance with the Village's chart of accounts and amounts. The fiscal officer should review Auditor of State Bulletin 2011-004 when completing the annual report to properly implement GASB Statement No. 54. Failure to do so may result in incorrect classification of funds and inaccurate financial statements. The Village Council should review the activity that have been posted to the accounting system on a monthly basis and document this review either in the minutes or by signing off on the system generated reports.

Officials' Response:

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



Dave Yost • Auditor of State

VILLAGE OF ST. HENRY

MERCER 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
DECEMBER 27, 2018**