

VILLAGE OF POLK

ASHLAND COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2018 and 2017





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Village Council
Village of Polk
200 East Congress Road
Polk, Ohio 44866

We have reviewed the *Independent Auditor's Report* of the Village of Polk, Ashland County, prepared by Charles E. Harris & Associates, 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 Polk is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

July 12, 2019

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VILLAGE OF POLK
ASHLAND COUNTY, OHIO
Audit Report
For the years ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Village of Polk
Ashland County
200 East Congress Road
Polk, Ohio 44866

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 Polk, Ashland 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 the preparation and fair presentation of 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 includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as our evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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

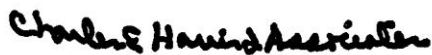
In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2018 and 2017, and the respective changes in financial position and its 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 Polk, Ashland County, Ohio, as of December 31, 2018 and 2017, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.



Charles E. Harris & Associates, Inc.
June 25, 2019

**VILLAGE OF POLK
ASHLAND COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 17,286	-	\$ 17,286
Intergovernmental	24,804	\$ 24,384	49,188
Charges for Services	3,701	-	3,701
Fines, Licenses and Permits	300	-	300
Earnings on Investments	482	136	618
Miscellaneous	2,051	-	2,051
<i>Total Cash Receipts</i>	48,624	24,520	73,144
Cash Disbursements			
Current:			
Security of Persons and Property	4,681	-	4,681
Leisure Time Activities	78	-	78
Community Environment	693	-	693
Transportation	-	32,558	32,558
General Government	25,620	-	25,620
<i>Total Cash Disbursements</i>	31,072	32,558	63,630
<i>Net Change in Fund Cash Balances</i>	17,552	(8,038)	9,514
<i>Fund Cash Balances, January 1</i>	29,413	117,911	147,324
Fund Cash Balances, December 31			
Restricted	-	109,873	109,873
Assigned	9,937	-	9,937
Unassigned	37,028	-	37,028
<i>Fund Cash Balances, December 31</i>	<u>\$ 46,965</u>	<u>\$ 109,873</u>	<u>\$ 156,838</u>

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

**VILLAGE OF POLK
ASHLAND COUNTY**

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

	Proprietary Fund Type Enterprise
Operating Cash Receipts	
Charges for Services	\$ 126,913
<i>Total Operating Cash Receipts</i>	126,913
Operating Cash Disbursements	
Personal Services	6,497
Employee Fringe Benefits	1,051
Contractual Services	28,433
Supplies and Materials	1,750
Other	2,032
<i>Total Operating Cash Disbursements</i>	39,763
<i>Operating Income (Loss)</i>	87,150
Non-Operating Receipts (Disbursements)	
Special Assessments	6,167
Capital Outlay	(228)
Principal Retirement	(47,341)
Interest and Other Fiscal Charges	(12,675)
<i>Total Non-Operating Receipts (Disbursements)</i>	(54,077)
<i>Net Income (Loss)</i>	33,073
<i>Fund Cash Balances, January 1</i>	236,002
<i>Fund Cash Balances, December 31</i>	\$ 269,075

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

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 - Reporting Entity

The Village of Polk (the Village), Ashland 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 general government services, wastewater treatment, storm sewers, maintenance of Village streets and park operations. The Polk-Jackson-Perry Fire District provides fire protection and emergency medical services.

Public Entity Risk Pool

The Village participates in the Ohio Plan Risk Management, a public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for the 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 Fund:

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.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

Utility Improvement Fund The utility improvement fund accounts for loan proceeds from the Ohio Water Development Authority and Ohio Public Works Commission restricted to the sewer system construction. Special assessments from residents recorded in this fund will repay these loans.

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. Council 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 disbursements 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 disbursements (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 cash as of January 1. The County Budget Commission must approve estimated resources.

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

A summary of 2018 budgetary activity appears in Note 3.

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.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 (ordinance or resolution). The Village must adhere to these commitments unless the Council amends the ordinance or 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. The Village may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

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 Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 3 - Budgetary Activity

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

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$39,992	\$48,624	\$8,632
Special Revenue	16,587	24,520	7,933
Enterprise	126,100	133,080	6,980

2018 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$51,174	\$31,691	\$19,483
Special Revenue	78,623	32,558	46,065
Enterprise	139,711	101,842	37,869

Note 4 – 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 demand deposits at December 31 was \$425,913.

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village. At December 31, 2018, all of the deposits were insured or collateralized.

Note 5 – 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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 6 - Risk Management

Risk Pool Membership

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, 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 (the latest information available).

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.

Note 7 - Defined Benefit Pension Plan

Ohio Public Employees Retirement System

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

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

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 8 - Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2018.

Note 9 – Debt

Debt outstanding at December 31, 2018 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan (6852)	\$826,483	1.5%
Ohio Public Works Loan (CT38Q)	623,595	0%
Total	\$1,450,078	

The Ohio Development Authority Loan # 6852 was entered into to finance the design and construction of wastewater collection and treatment system. The project was started in 2014. This loan will be repaid in semi-annual installments over thirty years at 1.5% interest. The loan is collateralized by the Village special assessments for sewer and the future revenue of the sewer system.

The Ohio Public Works Loan #CT38Q also relates to the design and construction of wastewater collection and treatment system. The project was started in 2014. This loan is being repaid in semi-annual installments over thirty years beginning in 2017. The loan is collateralized by the Village special assessments for sewer and the future revenue of the sewer system.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 9 – Debt (continued)

Amortization

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

Year Ending December 31:	OWDA Loan	OPWC Loan
2019	\$37,339	\$22,676
2020	37,339	22,676
2021	37,339	22,676
2022	37,339	22,676
2023	37,339	22,676
2024-2028	186,697	113,381
2029-2033	186,697	113,381
2034-2038	186,697	113,381
2039-2043	186,697	113,381
2044-2048	93,349	56,691
Total	<u>\$1,026,834</u>	<u>\$623,595</u>

Note 10 – Contingent Liabilities

The Village may be a defendant in lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

**VILLAGE OF POLK
ASHLAND COUNTY**

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

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 16,321	-	\$ 16,321
Intergovernmental	23,586	\$ 21,840	45,426
Charges for Services	2,535	-	2,535
Fines, Licenses and Permits	80	-	80
Earnings on Investments	365	149	514
Miscellaneous	1,631	-	1,631
<i>Total Cash Receipts</i>	44,518	21,989	66,507
Cash Disbursements			
Current:			
Security of Persons and Property	4,684	-	4,684
Leisure Time Activities	5,047	-	5,047
Transportation	-	4,569	4,569
General Government	29,200	-	29,200
<i>Total Cash Disbursements</i>	38,931	4,569	43,500
<i>Net Change in Fund Cash Balances</i>	5,587	17,420	23,007
<i>Fund Cash Balances, January 1</i>	23,826	100,491	124,317
Fund Cash Balances, December 31			
Restricted	-	117,911	117,911
Assigned	11,182	-	11,182
Unassigned	18,231	-	18,231
<i>Fund Cash Balances, December 31</i>	<u>\$ 29,413</u>	<u>\$ 117,911</u>	<u>\$ 147,324</u>

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

**VILLAGE OF POLK
ASHLAND COUNTY**

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

	Proprietary Fund Type Enterprise
Operating Cash Receipts	
Charges for Services	\$ 127,516
<i>Total Operating Cash Receipts</i>	127,516
Operating Cash Disbursements	
Personal Services	5,962
Employee Fringe Benefits	824
Contractual Services	39,423
Supplies and Materials	2,498
<i>Total Operating Cash Disbursements</i>	48,707
<i>Operating Income (Loss)</i>	78,809
Non-Operating Receipts (Disbursements)	
Special Assessments	8,786
Proceeds of Loans	8,637
Miscellaneous Receipts	202
Capital Outlay	(12)
Principal Retirement	(44,317)
Interest and Other Fiscal Charges	(6,475)
<i>Total Non-Operating Receipts (Disbursements)</i>	(33,179)
<i>Net Income (Loss)</i>	45,630
<i>Fund Cash Balances, January 1</i>	190,372
<i>Fund Cash Balances, December 31</i>	\$ 236,002

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

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

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Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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Fund Accounting

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

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Utility Improvement Fund The utility improvement fund accounts for loan proceeds from the Ohio Water Development Authority and Ohio Public Works Commission restricted to the sewer system construction. Special assessments from residents recorded in this fund will repay these loans.

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. Council 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 disbursements when a commitment is made (i.e., when an encumbrance is approved).

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Budgetary Process

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Appropriations Budgetary disbursements (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 cash as of January 1. The County Budget Commission must approve estimated resources.

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

A summary of 2017 budgetary activity appears in Note 3.

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.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

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 (ordinance or resolution). The Village must adhere to these commitments unless the Council amends the ordinance or 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. The Village may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

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 Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 3 - Budgetary Activity

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

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,906	\$44,518	\$1,612
Special Revenue	16,577	21,989	5,412
Enterprise	121,500	145,141	23,641

2017 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$58,087	\$39,771	\$18,316
Special Revenue	29,232	4,588	24,644
Enterprise	161,208	100,344	60,864

Note 4 – 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 demand deposits at December 31 was \$383,326.

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village. At December 31, 2017, all of the deposits were insured or collateralized.

Note 5 – 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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 6 - Risk Management

Risk Pool Membership

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.

Note 7 - Defined Benefit Pension Plan

Ohio Public Employees Retirement System

All Village 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.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plan (continued)

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.

Note 8 - Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1 percent during calendar year 2017. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan (6852)	\$851,148	1.5%
Ohio Public Works Loan (CT38Q)	646,271	0%
Total	\$1,497,419	

The Ohio Development Authority Loan # 6852 was entered into to finance the design and construction of wastewater collection and treatment system. The project was started in 2014. During 2017, the Village drew down an additional \$8,637. OWDA made Principal Adjustment Cost Changes that netted to principal forgiveness of \$814. This loan will be repaid in semi-annual installments over thirty years at 1.5% interest. The loan is collateralized by the Village special assessments for sewer and the future revenue of the sewer system.

The Ohio Public Works Loan #CT38Q also relates to the design and construction of wastewater collection and treatment system. The project was started in 2014. This loan is being repaid in semi-annual installments over thirty years beginning in 2017. The loan is collateralized by the Village special assessments for sewer and the future revenue of the sewer system.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 9 – Debt (continued)

Amortization

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

Year Ending December 31:	OWDA Loan	OPWC Loan
2018	\$37,339	\$22,676
2019	37,339	22,676
2020	37,339	22,676
2021	37,339	22,676
2022	37,339	22,676
2023-2027	186,697	113,381
2028-2032	186,697	113,381
2033-2037	186,697	113,381
2038-2042	186,697	113,381
2043-2047	130,688	79,368
Total	\$1,064,173	\$646,271

Note 10 – Contingent Liabilities

The Village may be a defendant in lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village’s financial condition.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Village of Polk
Ashland County
200 East Congress Road
Polk, Ohio 44866

To the Village Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the cash balances, receipts and disbursements by fund type of the Village of Polk, Ashland County, Ohio (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 June 25, 2019, 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

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented or detected and corrected on a timely basis. 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 obtaining reasonable assurance about whether the Village's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.


We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 25, 2019.

Entity's Response to Finding

The Village's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Village's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
June 25, 2019

VILLAGE OF POLK
ASHLAND COUNTY

Schedule of Findings
December 31, 2018 and 2017

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

Mispostings and Misclassifications Resulting in Financial Statement Adjustments

During 2018 and 2017, the Village erroneously recorded numerous transactions. The more significant adjustments are as follows:

- In 2018, \$1,109, of Homestead and Rollback monies were misclassified as Property Tax receipts instead of Intergovernmental receipts.
- In 2017, \$8,637 of loan proceeds from OWDA were incorrectly posted to the Sewer fund's Special Assessments rather than Proceeds of Loan.
- During 2018 and 2017, the entire balance of the General Fund was classified as Unassigned. However, there were outstanding encumbrances, as well as an excess of subsequent year appropriations over estimated resources in the following year, that should have been reported as an Assigned fund balance in the amounts of \$9,937 and \$11,182, respectively.
- The Village charges residents for use of the sewer system. The Village established a separate checking account and deposits all sewer payments into this fund. At the beginning of the following month, the Village transfers the total account balance to the main checking account and records the revenue in UAN. However, at the end of 2018 and 2017, the Village had \$10,509 and \$10,927, respectively, in this account, which was not included on the bank reconciliation, and should have been included in Charges for Services in the Sewer fund.

Adjustments were made in the financial statements and Village records.

The Village Officers' Handbook and the UAN accounting system provide suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example). Using these classifications provide the Village with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

We recommend that the Village refer to Governmental Accounting Standards Board Statement No. 54, the Village Officer's Handbook, the UAN manual, and other Auditor of State guidance to properly classify its transactions. We also recommend the Fiscal Officer review all reports compiled by UAN to ensure their accuracy.

Management Response:

See Corrective Action Plan

VILLAGE OF POLK
 ASHLAND COUNTY, OHIO
 SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
 December 31, 2018 and 2017

FINDING NUMBER	FUNDING SUMMARY	STATUS?	ADDITIONAL INFORMATION
2016-001	Material Weakness – Mispostings and Misclassifications Resulting in Financial Statement Adjustments	Not Corrected	Repeated as Finding 2018-001
2016-002	Material Weakness and Noncompliance– Improper Recording of OWDA and OPWC Loans	Fully Corrected	N/A

VILLAGE OF POLK
ASHLAND COUNTY

CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2018 and 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The Village will refer to the recommended guidance to properly post and classify transactions and fund balances in the future.	Immediately	Sheri Ramey, Fiscal Officer

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OHIO AUDITOR OF STATE KEITH FABER



VILLAGE OF POLK

ASHLAND 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
JULY 25, 2019**