



Dave Yost • Auditor of State

VILLAGE OF NORTH FAIRFIELD
HURON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2015	3
Statement of Receipts, Disbursements, and Changes in Fund Balance (Cash Basis) - Proprietary Fund - For the Year Ended December 31, 2015	4
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2014	5
Statement of Receipts, Disbursements, and Changes in Fund Balance (Cash Basis) - Proprietary Fund - For the Year Ended December 31, 2014	6
Notes to the Financial Statements	7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of North Fairfield
Huron County
3 East Main Street, P.O. Box 188
North Fairfield, Ohio 44855-0188

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 North Fairfield, Huron County, Ohio (the Village) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

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, 2015 and 2014, 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 North Fairfield, Huron County, Ohio as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017, 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

March 10, 2017

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$19,655	\$2,581		\$22,236
Intergovernmental	32,269	31,938	\$13,066	77,273
Charges for Services	29,406			29,406
Fines, Licenses and Permits	4,399			4,399
Earnings on Investments	173	81		254
Miscellaneous	16,043			16,043
<i>Total Cash Receipts</i>	<u>101,945</u>	<u>34,600</u>	<u>13,066</u>	<u>149,611</u>
Cash Disbursements				
Current:				
Security of Persons and Property	7,354			7,354
Leisure Time Activities	29,779			29,779
Community Environment	809			809
Basic Utility Services	22,240			22,240
Transportation		37,886		37,886
General Government	58,202	19,625		77,827
Capital Outlay			13,066	13,066
<i>Total Cash Disbursements</i>	<u>118,384</u>	<u>57,511</u>	<u>13,066</u>	<u>188,961</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(16,439)</u>	<u>(22,911)</u>		<u>(39,350)</u>
Other Financing Receipts (Disbursements)				
Other Financing Sources	1,955	1,679		3,634
Other Financing (Uses)	(532)			(532)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>1,423</u>	<u>1,679</u>		<u>3,102</u>
<i>Net Change in Fund Cash Balances</i>	<u>(15,016)</u>	<u>(21,232)</u>		<u>(36,248)</u>
<i>Fund Cash Balances, January 1</i>	<u>44,546</u>	<u>85,763</u>		<u>130,309</u>
Fund Cash Balances, December 31				
Restricted		64,531		64,531
Assigned	27,189			27,189
Unassigned	2,341			2,341
<i>Fund Cash Balances, December 31</i>	<u>\$29,530</u>	<u>\$64,531</u>		<u>\$94,061</u>

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

VILLAGE OF NORTH FAIRFIELD
HURON COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$58,457</u>
Operating Cash Disbursements	
Personal Services	16,568
Employee Fringe Benefits	464
Contractual Services	15,496
Supplies and Materials	<u>8,334</u>
<i>Total Operating Cash Disbursements</i>	<u>40,862</u>
<i>Operating Income</i>	<u>17,595</u>
Non-Operating Disbursements	
Capital Outlay	<u>(5,391)</u>
<i>Net Change in Fund Cash Balance</i>	12,204
<i>Fund Cash Balance, January 1</i>	<u>95,471</u>
<i>Fund Cash Balance, December 31</i>	<u><u>\$107,675</u></u>

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

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

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

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$19,425	\$2,442		\$21,867
Intergovernmental	28,336	28,861	\$3,750	60,947
Charges for Services	27,757			27,757
Fines, Licenses and Permits	5,480			5,480
Earnings on Investments	313	192		505
Miscellaneous	852			852
<i>Total Cash Receipts</i>	<u>82,163</u>	<u>31,495</u>	<u>3,750</u>	<u>117,408</u>
Cash Disbursements				
Current:				
Security of Persons and Property	6,246			6,246
Leisure Time Activities	5,068			5,068
Community Environment	1,004			1,004
Basic Utility Services	21,476			21,476
Transportation		13,531		13,531
General Government	66,270	18,338		84,608
Capital Outlay			3,750	3,750
<i>Total Cash Disbursements</i>	<u>100,064</u>	<u>31,869</u>	<u>3,750</u>	<u>135,683</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(17,901)</u>	<u>(374)</u>		<u>(18,275)</u>
Other Financing Receipts				
Other Financing Sources	11	5		16
<i>Net Change in Fund Cash Balances</i>	(17,890)	(369)		(18,259)
<i>Fund Cash Balances, January 1</i>	<u>62,436</u>	<u>86,132</u>		<u>148,568</u>
Fund Cash Balances, December 31				
Restricted		85,763		85,763
Assigned	44,546			44,546
<i>Fund Cash Balances, December 31</i>	<u>\$44,546</u>	<u>\$85,763</u>		<u>\$130,309</u>

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

VILLAGE OF NORTH FAIRFIELD
HURON COUNTY

STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$59,977</u>
Operating Cash Disbursements	
Personal Services	12,540
Employee Fringe Benefits	452
Contractual Services	8,667
Supplies and Materials	<u>7,836</u>
<i>Total Operating Cash Disbursements</i>	<u>29,495</u>
<i>Operating Income</i>	<u>30,482</u>
Non-Operating Receipts (Disbursements)	
Capital Outlay	(533)
Other Financing Sources	<u>6</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(527)</u>
<i>Net Change in Fund Cash Balance</i>	29,955
<i>Fund Cash Balance, January 1</i>	<u>65,516</u>
<i>Fund Cash Balance, December 31</i>	<u><u>\$95,471</u></u>

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

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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 North Fairfield, Huron County, Ohio (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water utilities, trash removal services, park operations (leisure time activities), road and bridge maintenance (transportation) and general government services. The Village contracts with Fairfield Township for fire protection services.

The Village participates in the Public Entities Pool of Ohio, which is a public entity risk pool that provides property and casualty coverage for its members. Note 7 to the financial statements provide 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 Rev. Code Section 117.38 and Ohio Admin. 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 Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D) permit.

C. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

Street Construction, Maintenance and Repair Fund – This fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration

VILLAGE OF NORTH FAIRFIELD
HURON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)

fees restricted for construction, maintenance, and repair of streets within the Village.

3. Capital Project Fund

This fund accounts for and reports financial resources that are restricted 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 Fund:

Ohio Public Works Commission Fund – This fund receives loan proceeds to finance capital projects within the Village.

4. Enterprise Fund

This fund accounts for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Fund:

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

D. Budgetary Process

The Ohio Revised Code requires each fund be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2015 and 2014 budgetary activity appears in Note 3.

E. Fund Balance

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

F. 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.

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

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:

	2015	2014
Demand deposits	\$191,051	\$220,583
Other time deposits (savings accounts)	10,685	5,197
Total deposits	\$201,736	\$225,780

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$100,191	\$103,900	\$3,709
Special Revenue	39,825	36,279	(3,546)
Capital Projects		13,066	13,066
Enterprise	60,575	58,457	(2,118)
Total	\$200,591	\$211,702	\$11,111

2015 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$144,656	\$118,916	\$25,740
Special Revenue	125,588	57,511	68,077
Capital Projects	13,066	13,066	
Enterprise	156,046	46,253	109,793
Total	\$439,356	\$235,746	\$203,610

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$78,860	\$82,174	\$3,314
Special Revenue	25,700	31,500	5,800
Capital Projects		3,750	3,750
Enterprise	55,000	59,983	4,983
Total	\$159,560	\$177,407	\$17,847

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$138,891	\$102,400	\$36,491
Special Revenue	110,846	43,841	67,005
Capital Projects	3,750	3,750	
Enterprise	120,249	30,295	89,954
Total	\$373,736	\$180,286	\$193,450

Contrary to Ohio law, the Village did not properly encumber all purchase commitments.

4. PROPERTY TAX

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

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

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

5. DEBT

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission (OPWC):		
Water Tower Repairs Loan	\$27,604	0%
Fire Hydrant Replacement Loan	16,816	0%
Total	\$44,420	

The Water Tower Repairs loan relates to the repair and upgrades to the Village water tower. The Village will repay the loan through semiannual installments through the year 2032.

The Fire Hydrant Replacement loan relates to replacement of fire hydrants within the Village. The Village will repay the loan through semiannual installments through the year 2046.

Amortization of the above debt is scheduled as follows:

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

Year ending December 31:	OPWC Water Tower Repairs	OPWC Fire Hydrant Replacement
2016	\$ 533	\$ 280
2017	1,692	561
2018	1,692	561
2019	1,692	561
2020	1,692	561
2021-2025	8,459	2,803
2026-2030	8,459	2,803
2031-2035	3,385	2,803
2036-2040		2,803
2041-2045		2,803
2046		277
Total	\$ 27,604	\$ 16,816

6. RETIREMENT SYSTEMS

A. Ohio Public Employees Retirement System

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 Rev. Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Rev. Code also prescribes contribution rates. For 2015 and 2014, 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, 2015.

B. Social Security

Several of the Village's officials contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

7. RISK MANAGEMENT

Risk Pool Membership

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.

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

local governments. PEP provides property and casualty coverage for its members. 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 York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

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, 2015, 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.

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2014 and 2015:

	<u>2014</u>	<u>2015</u>
Assets	\$35,402,177	\$38,307,677
Liabilities	<u>(12,363,257)</u>	<u>(12,759,127)</u>
Net Position	<u>\$23,038,920</u>	<u>\$25,548,550</u>

At December 31, 2014 and 2015, respectively, the liabilities above include approximately 11.1 million and \$11.5 million of estimated incurred claims payable. The assets above also include approximately \$10.8 million and \$11.0 million of unpaid claims to be billed. The Pool's membership increased from 488 members in 2014 to 499 members in 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Village's share of these unpaid claims collectible in future years is approximately \$5,000.

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.

<u>Contributions to PEP</u>	
<u>2014</u>	<u>2015</u>
\$7,997	\$7,820

After one year of membership, a member may withdraw on the anniversary of the date of joining

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

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.

8. MISCELLANEOUS RECEIPTS

In 2015, General Fund Miscellaneous Receipts consist primarily of donations received for park improvements.



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 North Fairfield
Huron County
3 East Main Street, P.O. Box 188
North Fairfield, Ohio 44855-0188

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 of the cash balances, receipts, and disbursements by fund type of the Village of North Fairfield, Huron County, Ohio (the Village) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated March 10, 2017, 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed 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 2015-002.

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

March 10, 2017

**VILLAGE OF NORTH FAIRFIELD
HURON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

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

FINDING NUMBER 2015-001

Material Weakness - Financial Reporting

We identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2015:

- Miscellaneous receipts in the amount of \$16,043 were improperly classified as charges for service in the General Fund;
- Intergovernmental receipts in the amount of \$3,194 were improperly classified as property and other local taxes in the General Fund;
- Intergovernmental receipts in the amount of \$8,200 were improperly classified as other financing sources in the Special Revenue Fund Type; and
- The Village was the beneficiary of \$13,066 of Ohio Public Works Commission (OPWC) loan proceeds sent directly to the vendor by OPWC. The Fiscal Officer did not record memorandum receipt and expenditure activity nor did she post the authorized budgeted expenditures, which have been deemed appropriated, for these on-behalf payments in the Capital Projects Fund Type.

We also identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2014:

- Intergovernmental receipts in the amount of \$3,266 were improperly classified as property and other local taxes in the General Fund;
- Unassigned General Fund fund balance in the amount of \$2,337 was reclassified to assigned in accordance with GASB 54;
- Intergovernmental receipts in the amount of \$4,704 were improperly classified as property and other local taxes in the Special Revenue Fund Type; and
- The Village was the beneficiary of \$3,750 of Ohio Public Works Commission (OPWC) loan proceeds sent directly to the vendor by OPWC. The Fiscal Officer did not record memorandum receipt and expenditure activity nor did she post the authorized budgeted expenditures, which have been deemed appropriated, for these on-behalf payments in the Capital Projects Fund Type.

These errors were not identified and corrected prior to the audit due to deficiencies in the Village's internal controls over financial statement monitoring. The accompanying financial statements and notes to the financial statements, and where applicable, the Village's accounting records have been adjusted to reflect these changes. Sound financial reporting is the responsibility of the Fiscal Officer and the Village Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

**FINDING NUMBER 2015-001
(Continued)**

To help ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statement and notes by the Fiscal Officer, to identify and correct errors and omissions. The Fiscal Officer can refer to Auditor of State Bulletin 2011-004 at the following website address for information on Governmental Accounting Standards Board Statement No. 54: <http://www.ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>.

Additionally, the Village can refer to the Village Officer's Handbook at the following website address for guidance on the recording of transactions:
<http://www.ohioauditor.gov/publications/Final%20Village%20Officers%20Handbook%202016.pdf>.

Officials' Response:

The Fiscal Officer will perform a final review as part of the month end closing to determine if transactions have been recorded to the appropriate accounts.

FINDING NUMBER 2015-002

Noncompliance / Material Weakness

Ohio Rev. Code § 5705.41(D)(1) provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required for the order or contract has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Rev. Code.

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

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

2. **Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money, not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority, against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any particular line item appropriation.

FINDING NUMBER 2015-002
(Continued)

- 3. Super Blanket Certificate** – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification may, but need not, be limited to a specific vendor. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village had \$10,985 in outstanding purchase commitments as of December 31, 2014, that were not properly certified at year end. The accompanying notes to the financial statements have been adjusted to reflect this amount as part of budgetary-basis disbursements at year end in the Special Revenue Fund Type.

Additionally, a review of disbursement activity identified disbursements totaling \$2,479 made after December 31, 2015, that were improperly certified under a blanket certificate issued in the subsequent year. The failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Fiscal Officer certify all purchases to which Ohio Rev. Code § 5705.41(D) applies. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of Ohio Rev. Code § 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Blanket certificates may not extend beyond the end of the current fiscal year. Disbursements incurred under a blanket certificate in the current fiscal year that are paid by the Village in a subsequent fiscal year serve to demonstrate the Village intended to honor the commitment at December 31. In order to properly reflect this commitment and ensure the disbursement is charged against the appropriate year's appropriation measure, a separate certificate of availability should be completed in accordance with the requirements above.

Officials' Response:

The Fiscal Officer will review invoices on hand prior to the yearend close to determine if a separate purchase order has been opened. Should the Village instead cancel outstanding purchase orders as part of the yearend close the Fiscal Officer will create regular purchase orders for obligations incurred prior to year end.

This page intentionally left blank.



Dave Yost • Auditor of State

VILLAGE OF NORTH FAIRFIELD

HURON 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
MARCH 30, 2017