

VILLAGE OF POLK

ASHLAND COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2016 and 2015





Dave Yost • Auditor of State

Village Council
Village of Polk
200 E Congress St.
Polk, OH 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, 2015 through December 31, 2016. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 27, 2017

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VILLAGE OF POLK
ASHLAND COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2016 and 2015

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1-2
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2016	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Proprietary Fund Types - For the Year Ended December 31, 2016	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2015	5
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances - All Proprietary Fund Types - For the Year Ended December 31, 2015	6
Notes to the Financial Statements	7-14
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15-16
Schedule of Findings	17-18
Schedule of Prior Audit Findings	19
Corrective Action Plan	20

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INDEPENDENT AUDITOR'S REPORT

Village of Polk
Ashland County
200 East Congress Road
Polk, OH 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, (the Village) as of and for the years ended December 31, 2016 and 2015.

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 of 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 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, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be 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 permitted is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

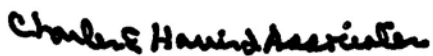
In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2016 and 2015, 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 Polk, Ashland County as of December 31, 2016 and 2015, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 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.



Charles E. Harris & Associates, Inc.
June 20, 2017

**VILLAGE OF POLK
ASHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 16,355	-	\$ 16,355
Intergovernmental	23,350	\$ 48,429	71,779
Earnings on Investments	97	39	136
Miscellaneous	3,995	-	3,995
<i>Total Cash Receipts</i>	<u>43,797</u>	<u>48,468</u>	<u>92,265</u>
Cash Disbursements			
Current:			
Security of Persons and Property	4,803	-	4,803
Public Health Services	81	-	81
Leisure Time Activities	833	-	833
Transportation	-	22,735	22,735
General Government	24,373	-	24,373
Capital Outlay	-	26,214	26,214
<i>Total Cash Disbursements</i>	<u>30,090</u>	<u>48,949</u>	<u>79,039</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	13,707	(481)	13,226
Other Financing Receipts (Disbursements)			
Sale of Capital Assets	2,850	-	2,850
<i>Total Other Financing Receipts (Disbursements)</i>	<u>2,850</u>	<u>-</u>	<u>2,850</u>
<i>Net Change in Fund Cash Balances</i>	16,557	(481)	16,076
<i>Fund Cash Balances, January 1</i>	<u>7,269</u>	<u>100,972</u>	<u>108,241</u>
Fund Cash Balances, December 31			
Restricted	-	100,491	100,491
Unassigned	23,826	-	23,826
<i>Fund Cash Balances, December 31</i>	<u>\$ 23,826</u>	<u>\$ 100,491</u>	<u>\$ 124,317</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
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Proprietary Fund Types Enterprise
Operating Cash Receipts	
Charges for Services	\$ 104,665
<i>Total Operating Cash Receipts</i>	104,665
Operating Cash Disbursements	
Personal Services	4,904
Employee Fringe Benefits	482
Contractual Services	37,699
Supplies and Materials	2,503
<i>Total Operating Cash Disbursements</i>	45,588
<i>Operating Income (Loss)</i>	59,077
Non-Operating Receipts (Disbursements)	
Special Assessments	33,704
Proceeds of Loans	251,729
Miscellaneous Receipts	100
Capital Outlay	(252,832)
Principal Retirement	(37,120)
Interest and Other Fiscal Charges	(20,781)
<i>Total Non-Operating Receipts (Disbursements)</i>	(25,200)
<i>Net Income (Loss)</i>	33,877
<i>Fund Cash Balances, January 1</i>	156,495
<i>Fund Cash Balances, December 31</i>	\$ 190,372

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
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$ 17,464	-	\$ 17,464
Intergovernmental	20,341	\$ 21,430	41,771
Fines, Licenses and Permits	80	-	80
Earnings on Investments	6	9	15
Miscellaneous	4,784	-	4,784
<i>Total Cash Receipts</i>	<u>42,675</u>	<u>21,439</u>	<u>64,114</u>
Cash Disbursements			
Current:			
Security of Persons and Property	4,790	-	4,790
Public Health Services	59	-	59
Leisure Time Activities	2,048	-	2,048
Community Environment	1,182	-	1,182
Transportation	-	36,891	36,891
General Government	28,345	-	28,345
<i>Total Cash Disbursements</i>	<u>36,424</u>	<u>36,891</u>	<u>73,315</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	6,251	(15,452)	(9,201)
Other Financing Receipts (Disbursements)			
Sales of Capital Assets	-	6,000	6,000
<i>Total Other Financing Receipts (Disbursements)</i>	<u>-</u>	<u>6,000</u>	<u>6,000</u>
<i>Net Change in Fund Cash Balances</i>	6,251	(9,452)	(3,201)
<i>Fund Cash Balances, January 1</i>	<u>1,018</u>	<u>110,424</u>	<u>111,442</u>
Fund Cash Balances, December 31			
Restricted	-	100,972	100,972
Unassigned	7,269	-	7,269
<i>Fund Cash Balances, December 31</i>	<u>\$ 7,269</u>	<u>\$ 100,972</u>	<u>\$ 108,241</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
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Proprietary Fund Types Enterprise
Operating Cash Receipts	-
Operating Cash Disbursements	
Personal Services	\$ 580
<i>Total Operating Cash Disbursements</i>	580
<i>Operating Income (Loss)</i>	(580)
Non-Operating Receipts (Disbursements)	
Special Assessments	40,924
Proceeds of Loans	1,910,835
Intergovernmental	724,627
Capital Outlay	(2,555,889)
<i>Total Non-Operating Receipts (Disbursements)</i>	120,497
<i>Net Income (Loss)</i>	119,917
<i>Fund Cash Balances, January 1</i>	36,578
<i>Fund Cash Balances, December 31</i>	\$ 156,495

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 Years Ended December 31, 2016 and 2015

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 all proprietary fund types 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.

Permissive Motor Vehicle License Tax Fund The permissive motor vehicle license tax fund accounts for and reports the receipt of county levied motor vehicle license taxes for the purpose of completing road projects approved by the County Engineer.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

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.

Sewer Improvement Fund The sewer 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. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

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. Village Council must annually approve appropriation measures and subsequent amendments. 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 2016 and 2015 budgetary activity appears in Note 3.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 Years Ended December 31, 2016 and 2015

Note 3 - Budgetary Activity

Budgetary activity for the years ending December 31, 2016 and 2015 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$40,467	\$46,647	\$6,180
Special Revenue	42,791	48,468	5,677
Enterprise	569,687	390,198	(179,489)
Total	\$652,945	\$485,313	(\$167,632)

2016 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$42,383	\$30,090	\$12,293
Special Revenue	124,668	48,949	75,719
Enterprise	508,920	356,321	152,599
Total	\$675,971	\$435,360	\$240,611

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$38,284	\$42,675	\$4,391
Special Revenue	16,577	27,439	10,862
Enterprise	3,948,409	2,676,386	(1,272,023)
Total	\$4,003,270	\$2,746,500	(\$1,256,770)

2015 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$39,302	\$36,424	\$2,878
Special Revenue	127,001	36,891	90,110
Enterprise	3,984,986	2,556,469	1,428,517
Total	\$4,151,289	\$2,629,784	\$1,521,505

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

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 deposits and investments at December 31 was as follows:

	<u>2016</u>	<u>2015</u>
Demand deposits	\$314,689	\$264,736

Deposits

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

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 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.

Note 6 - Risk Management

Risk Pool Membership

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (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.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 6 - Risk Management (continued)

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, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% 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 772 and 783 members as of December 31, 2015 and 2014 respectively.

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, 2015 and 2014 (the latest information available).

	2015	2014
Assets	\$14,643,667	\$14,830,185
Liabilities	(9,112,030)	(8,942,504)
Members’ Equity	\$5,531,637	\$5,887,681

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. For 2016 and 2015, 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, 2016.

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 8 - Postemployment Benefits

OPERS offers 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. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #6852	\$853,628	1.5%
Ohio Public Works Loan #CT38Q	680,285	0%
Total	<u>\$1,533,913</u>	

The amounts above do not include \$4,486 in capitalized interest.

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 2015 and 2016, the Village drew down an additional \$1,482,279, in addition to the \$192,337 that was drawn in 2014. OWDA has forgiven \$596,395 of the amount drawn during 2015 and 2016, in addition to the \$187,473 forgiven in 2014. This loan will be repaid in semi-annual installments over thirty years at 1.5% interest. The amortization schedule is not yet available and will be finalized when the project is completed. 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. During 2015 and 2016, the Village drew down \$680,285. This loan will be 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.

Amortization

Amortization of the above debt is scheduled as follows:

Year ending December 31:	<u>OPWC Loan</u>
2017	\$22,676
2018	22,676
2019	22,676
2020	22,676
2021	22,676
2022-2026	113,381
2027-2031	113,381
2032-2036	113,381
2037-2041	113,381
2042-2046	113,381
Total	<u>\$680,285</u>

Village of Polk, Ohio
Ashland County
Notes to the Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 10 – Contingent Liabilities

The Village may be a defendant in lawsuits. Although management cannot presently determine the outcome of any lawsuit, 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 REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

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 Polk, Ashland County (the Village) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated June 20, 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 2016-001 and 2016-002 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 matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2016-002.

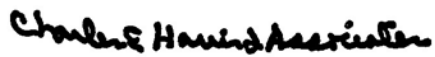
We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 20, 2017.

Entity's Responses to Findings

The Village's responses to the findings identified in our audit are described in the accompanying corrective action plan. 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.



Charles E. Harris and Associates, Inc.
June 20, 2017

VILLAGE OF POLK
ASHLAND COUNTY
SCHEDULE OF FINDINGS
December 31, 2016 and 2015

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

FINDING NUMBER 2016-001 Material Weakness

Mispostings and Misclassifications Resulting in Financial Statement Adjustments

During 2016 and 2015, the Village erroneously recorded numerous transactions. The more significant adjustments are as follows:

- In 2016 and 2015, \$2,155 and \$2,160, respectively, of Homestead and Rollback monies were misclassified as Property Tax receipts instead of Intergovernmental receipts.
- In 2016 and 2015, \$2,695 and \$2,935, respectively, of hall and park rental revenue were misclassified as Charges for services instead of Miscellaneous receipts.
- In 2016 and 2015, \$2,850 and \$6,000, respectively, of monies from the sale of Village equipment were misclassified as Miscellaneous receipts instead of Sale of Capital Assets.
- In 2015, \$724,627 of grant money from various governmental agencies were incorrectly posted to the Sewer fund's Miscellaneous receipts rather than Intergovernmental receipts.
- In 2016, \$62,042 of loan proceeds from OWDA were incorrectly posted to the Sewer fund's Special Assessments rather than Proceeds of Loan.
- In 2015, \$1,320,097 of loan proceeds from OWDA and OPWC were incorrectly posted to the Sewer fund's Miscellaneous receipts rather than Proceeds of Loan.
- In 2016, the Village began charging residents for use of the new 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 2016, the Village had \$14,988 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 the Village Officer's Handbook and UAN accounting system 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
SCHEDULE OF FINDINGS - continued
December 31, 2016 and 2015

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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FINDING NUMBER 2016-002 Material Weakness and Noncompliance

Improper recording of OWDA and OPWC Loans

Ohio Rev. Code § 5705.42 requires in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision.

In 2016 and 2015, the Village received \$780,425 from Ohio Water Development Authority (OWDA) and Ohio Public Works Commission (OPWC) for sanitary sewer construction that they did not record in UAN. Under the terms of these agreements, OWDA and OPWC make project payments directly to the vendor/contractors on the Village's behalf. These on-behalf payments were not recorded in the Village's accounting records, thus understating their enterprise funds' proceeds of loans and capital outlay disbursements.

Any payments made on behalf of the Village by another party should be recorded by the Village as a receipt and disbursement. Failure to do so results in an understatement of receipts and disbursements. Additionally, the Village should record the appropriations in their accounting records and should request an amended certificate of estimated resources to reflect the additional receipts.

Adjustments were made in the financial statements and the Village's records to reflect the proper presentation.

Management Response:

See Corrective Action Plan

VILLAGE OF POLK
 ASHLAND COUNTY, OHIO

SCHEDULE OF PRIOR AUDIT FINDINGS
 December 31, 2016 and 2015

FINDING NUMBER	FUNDING SUMMARY	STATUS	ADDITIONAL INFORMATION
2014-001	Material Weakness – Audit Adjustments and Reclassifications: Various errors were noted in financial statements that required audit adjustments and reclassifications.	Not Corrected	Repeated as Finding 2016-001
2014-002	Material Weakness and Non-Compliance – Contrary to Ohio Revised Code Section 5705.42, improper recording of loans	Not Corrected	Repeated as Finding 2016-002
2014-003	Material Weakness – Posting Estimated Revenues and Appropriations	Fully Corrected	None

VILLAGE OF POLK
ASHLAND COUNTY

CORRECTIVE ACTION PLAN
December 31, 2016 and 2015

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	Many of these issues were inherited from the Village's prior management. The new Fiscal Officer is working to correct these issues in the future.	Immediately	Sheri Ramey, Fiscal Officer
2016-002	The Fiscal Officer will check the OPWC and OWDA websites to ensure that all grant and loan monies are recorded in the UAN system in the future, even when the monies are dispersed directly to the contractor.	Immediately	Sheri Ramey, Fiscal Officer



Dave Yost • Auditor of State

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
OCTOBER 10, 2017