



Dave Yost • Auditor of State

VILLAGE OF PORT JEFFERSON
SHELBY 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
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) – All Proprietary Fund Types - 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
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) – All Proprietary and Fiduciary Fund Types - For the Year Ended December 31, 2014	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
Summary Schedule of Prior Audit Findings	24

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Port Jefferson
Shelby County
100 Spring Street
Port Jefferson, Ohio 45360

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 Port Jefferson, Shelby 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.

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 Port Jefferson, Shelby County 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 February 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

February 10, 2017

**VILLAGE OF PORT JEFFERSON
SHELBY 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	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$8,014	\$2,966	\$10,980
Intergovernmental	17,917	18,070	35,987
Special Assessments		6,512	6,512
Fines, Licenses and Permits	4,364		4,364
Miscellaneous	3,557		3,557
<i>Total Cash Receipts</i>	<u>33,852</u>	<u>27,548</u>	<u>61,400</u>
Cash Disbursements			
Current:			
Security of Persons and Property	12,494	2,966	15,460
Transportation		11,092	11,092
Public Health Services	754		754
Community Environment	148		148
Basic Utility Services		7,743	7,743
General Government	25,034	1,302	26,336
<i>Total Cash Disbursements</i>	<u>38,430</u>	<u>23,103</u>	<u>61,533</u>
<i>Net Change in Fund Cash Balances</i>	(4,578)	4,445	(133)
<i>Fund Cash Balances, January 1</i>	<u>4,437</u>	<u>14,175</u>	<u>18,612</u>
Fund Cash Balances, December 31			
Restricted		18,620	18,620
Unassigned (Deficit)	(141)		(141)
<i>Fund Cash Balances, December 31</i>	<u>(\$141)</u>	<u>\$18,620</u>	<u>\$18,479</u>

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

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY**

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

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts	
Charges for Services	\$76,924
<i>Total Operating Cash Receipts</i>	<i>76,924</i>
Operating Cash Disbursements	
Contractual Services	22,762
<i>Total Operating Cash Disbursements</i>	<i>22,762</i>
<i>Operating Income</i>	<i>54,162</i>
Non-Operating Receipts (Disbursements)	
Special Assessments	13,012
Principal Retirement	(14,473)
Interest and Other Fiscal Charges	(36,198)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(37,659)</i>
<i>Net Change in Fund Cash Balances</i>	16,503
<i>Fund Cash Balances, January 1</i>	<i>122,081</i>
<i>Fund Cash Balances, December 31</i>	<i>\$138,584</i>

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

**VILLAGE OF PORT JEFFERSON
SHELBY 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	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$9,589	\$3,303	\$12,892
Intergovernmental	14,664	17,823	32,487
Special Assessments		6,589	6,589
Fines, Licenses and Permits	4,262		4,262
Miscellaneous	6,102		6,102
<i>Total Cash Receipts</i>	<u>34,617</u>	<u>27,715</u>	<u>62,332</u>
Cash Disbursements			
Current:			
Security of Persons and Property	13,305	3,538	16,843
Public Health Services	754		754
Community Environment	148		148
Basic Utility Services		8,321	8,321
Transportation		17,877	17,877
General Government	26,947	99	27,046
Other	2,765		2,765
<i>Total Cash Disbursements</i>	<u>43,919</u>	<u>29,835</u>	<u>73,754</u>
<i>Net Change in Fund Cash Balances</i>	(9,302)	(2,120)	(11,422)
<i>Fund Cash Balances, January 1</i>	<u>13,739</u>	<u>16,295</u>	<u>30,034</u>
Fund Cash Balances, December 31			
Restricted		14,175	14,175
Assigned	4,437		4,437
<i>Fund Cash Balances, December 31</i>	<u><u>\$4,437</u></u>	<u><u>\$14,175</u></u>	<u><u>\$18,612</u></u>

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

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY**

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

	Proprietary Fund Types	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$75,297	\$0	\$75,297
<i>Total Operating Cash Receipts</i>	<u>75,297</u>	<u>0</u>	<u>75,297</u>
Operating Cash Disbursements			
Contractual Services	25,037	0	25,037
<i>Total Operating Cash Disbursements</i>	<u>25,037</u>	<u>0</u>	<u>25,037</u>
<i>Operating Income</i>	<u>50,260</u>	<u>0</u>	<u>50,260</u>
Non-Operating Receipts (Disbursements)			
Special Assessments	14,044		14,044
Principal Retirement	(15,037)		(15,037)
Interest and Other Fiscal Charges	(37,507)		(37,507)
Other Non-Operating Cash Disbursements		(71)	(71)
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(38,500)</u>	<u>(71)</u>	<u>(38,571)</u>
<i>Net Change in Fund Cash Balances</i>	11,760	(71)	11,689
<i>Fund Cash Balances, January 1</i>	<u>110,321</u>	<u>71</u>	<u>110,392</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$122,081</u></u>	<u><u>\$0</u></u>	<u><u>\$122,081</u></u>

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

**VILLAGE OF PORT JEFFERSON
SHELBY 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 Port Jefferson, Shelby County (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general governmental services, street maintenance and repair, and sewer utilities. The Village contracts with the Shelby County Sheriff's Department to provide police services and the Port Jefferson Community Fire Company to provide fire protection services.

The Village participates in a public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is the Ohio Plan Risk Management, Inc.

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

B. Accounting Basis

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

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

C. Deposits

The Village's funds are deposited in a checking and savings account.

D. 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 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 Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Street Light Fund – This fund receives proceeds of special assessments from property owners to provide street lighting.

3. 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 Maintenance Fund - This fund receives charges for services from residents to cover the cost of providing the sewer utility.

Sewer Debt Fund - This fund receives charges for services from residents to cover the cost of debt payments related to the sewer system.

Sewer Reserve Fund - This fund receives charges for services from residents to accumulate funds for future use.

4. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

Agency funds are purely custodian in nature and are used to hold resources for individuals, organizations, or other governments. The Village disburses these funds as directed by the individual, organization, or other government. The Village had the following Agency Fund:

Mayor's Court Fund – This fund receives fines from police department citations. These monies are divided between the Village and the State, as prescribed by law. The fund had no activity during the audit period except for disbursing the existing balance during 2014 because the Mayor's Court had been previously eliminated.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain Agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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. Appropriations lapse at year end.

2. Estimated Resources

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

VILLAGE OF PORT JEFFERSON
SHELBY COUNTY

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not use the encumbrance method of accounting.

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

F. Fund Balance

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

1. 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.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

G. Property, Plant, and Equipment

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

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	\$157,063	\$140,693

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

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

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,000	\$33,852	\$1,852
Special Revenue	23,275	27,548	4,273
Enterprise	77,708	89,936	12,228
Total	\$132,983	\$151,336	\$18,353

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$38,313	\$38,430	(\$117)
Special Revenue	36,851	23,103	13,748
Enterprise	198,514	73,433	125,081
Total	\$273,678	\$134,966	\$138,712

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$33,000	\$34,617	\$1,617
Special Revenue	23,515	27,715	4,200
Enterprise	77,708	89,341	11,633
Total	\$134,223	\$151,673	\$17,450

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$46,740	\$43,919	\$2,821
Special Revenue	39,811	29,835	9,976
Enterprise	188,029	77,581	110,448
Total	\$274,580	\$151,335	\$123,245

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.

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
OWDA Loan	\$17,362	6.39%
USDA Mortgage Revenue Bonds	\$736,300	4.75%
Total	\$753,662	

The Ohio Water Development Authority (OWDA) loan relates to a sewer project. The loan will be repaid in semiannual installments of \$1,765, including interest, over 20 years. The loan is collateralized by sewer receipts.

The United States Department of Agriculture (USDA) Mortgage Revenue Bonds relates to the construction of the sanitary sewer. The bonds will be repaid in approximate annual installments of \$49,000, including interest, over 40 years. The bonds are collateralized by sewer receipts.

As required by the bond covenant, the Village has established and funded a debt service reserve fund, included as an enterprise fund. The balance in the fund at December 31, 2015 is \$43,459.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY**

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

5. DEBT (Continued)

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

Year ending December 31:	OWDA Loan	Mortgage Revenue Bonds
2016	\$3,529	\$48,974
2017	3,529	48,909
2018	3,529	49,016
2019	3,529	48,984
2020	3,529	48,920
2021-2025	3,529	244,825
2026-2030		244,798
2031-2035		244,759
2036-2040		244,774
2041-2045		97,960
Total	\$21,174	\$1,321,919

6. RETIREMENT SYSTEMS

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

The Ohio Revised 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% respectively, of participants' gross salaries. The Village has not paid all required contributions through December 31, 2015.

7. 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 PORT JEFFERSON
SHELBY COUNTY**

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

7. 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:

	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.

8. MASTER LEASE-PURCHASE AND SUBLEASE AGREEMENT

To provide for the acquisition, construction, equipping, improvement and installing of a new hospital in Bellevue, Ohio and to retire the Bellevue Hospital Series 2003 note, the Village has authorized a master lease-purchase and sublease-purchase agreement dated August 1, 2012, with Fifth Third Bank, and the Bellevue Hospital in a principal amount of \$10,000,000. The agreement includes a statement to the effect that the Village's obligations thereunder, which constitute 'revenue obligations' within the meaning of Section 140.06 of the Act, are not obligations, debt or bonded indebtedness of the Village. As of December 31, 2015, the principal outstanding aggregated \$8,874,720.

This page intentionally left blank.



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 Port Jefferson
Shelby County
100 Spring Street
Port Jefferson, Ohio 45360

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 Port Jefferson, Shelby County, (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 February 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider findings 2015-002 through 2015-004 described in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2015-007 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2015-001 and 2015-004 through 2015-006.

Village'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

February 10, 2017

**VILLAGE OF PORT JEFFERSON
SHELBY 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

NONCOMPLIANCE / FINDING FOR RECOVERY – REPAID UNDER AUDIT

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, **Ohio Attorney General Opinion 82-006** indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Further, **Auditor of State Bulletin 2003-005** states that the Auditor of State's Office will only question expenditures where the legislative determination of a proper public purpose is manifestly arbitrary and incorrect.

During 2014 and 2015, Donald Fair, worked as a part-time employee for the Village. During this period, he received periodic pay checks, which included "extra pay" in addition to his regular hourly pay ranging from \$50 to \$150. Based on the payment voucher, this "extra pay" was for cleaning the Village's Community Center. However, the Village Council had not formally approved "extra pay" for cleaning of the Village's Community Center. The total "extra pay" received during 2014 and 2015 was \$850 and \$650, respectively.

Additionally, check number 11392 issued April 4, 2014 and check number 11707 issued December 7, 2015 could not be supported by a time sheet.

Also, check number 11619 issued May 27, 2015 was supported by a time sheet that totaled 31 hours, but the payment was made based on 32 hours.

A summary of unauthorized payments made to Donald Fair is as follows:

Check#	Check Date	Gross Pay	Time Sheet Hours	Pay Rate	Expected Pay	"Extra Pay"	Unauthorized Payment
11352	February 3, 2014	\$415.50	43.00	\$8.50	\$365.50	\$50.00	\$50.00
11373	February 28, 2014	\$343.25	34.50	\$8.50	\$293.25	\$50.00	\$50.00
11392	April 4, 2014	\$261.50	None	N/A	N/A	\$100.00	\$261.50
11401	May 1, 2014	\$295.50	23.00	\$8.50	\$195.50	\$100.00	\$100.00
11411	May 22, 2014	\$372.00	32.00	\$8.50	\$272.00	\$100.00	\$100.00
11426	June 21, 2014	\$372.00	32.00	\$8.50	\$272.00	\$100.00	\$100.00
11449	August 4, 2014	\$354.00	32.00	\$9.50	\$304.00	\$50.00	\$50.00
11467	August 30, 2014	\$354.00	32.00	\$9.50	\$304.00	\$50.00	\$50.00
11490	September 26, 2014	\$358.75	32.50	\$9.50	\$308.75	\$50.00	\$50.00
11500	November 1, 2014	\$278.00	24.00	\$9.50	\$228.00	\$50.00	\$50.00
11520	December 1, 2014	\$211.75	6.50	\$9.50	\$61.75	\$150.00	\$150.00
Total							\$1,011.50
2014							

Check#	Check Date	Gross Pay	Time Sheet Hours	Hourly Rate	Expected Pay	"Extra Pay"	Unauthorized Payment	
11555	February 2, 2015	\$292.25	25.50	\$9.50	\$242.25	\$50.00	\$50.00	
11579	March 2, 2015	\$377.75	34.50	\$9.50	\$327.75	\$50.00	\$50.00	
11591	April 3, 2015	\$242.50	15.00	\$9.50	\$142.50	\$100.00	\$100.00	
11605	April 30, 2015	\$356.50	27.00	\$9.50	\$256.50	\$100.00	\$100.00	
11619	May 27, 2015	\$354.00	31.00	\$9.50	\$294.50	\$50.00	\$59.50	
11634	June 25, 2015	\$354.00	32.00	\$9.50	\$304.00	\$50.00	\$50.00	
11654	July 31, 2015	\$358.75	32.50	\$9.50	\$308.75	\$50.00	\$50.00	
11670	August 27, 2015	\$382.50	35.00	\$9.50	\$332.50	\$50.00	\$50.00	
11679	October 1, 2015	\$354.00	32.00	\$9.50	\$304.00	\$50.00	\$50.00	
11689	October 29, 2015	\$249.50	21.00	\$9.50	\$199.50	\$50.00	\$50.00	
11707	December 7, 2015	\$164.00	Note	N/A	N/A	\$50.00	\$164.00	
Total 2015							\$773.50	
Overall Total								\$1,785

In accordance with the foregoing facts, and pursuant to **Ohio Rev. Code Section 117.28**, a finding for recovery for public monies illegally expended is hereby issued against Donald Fair in the amount of \$1,785, and in favor of the Village of Port Jefferson's Street Construction Maintenance and Repair Fund.

Repayment was made via money order #49540 on February 11, 2017, in the amount of \$1,785. This amount was deposited by the Village and posted to the Village's manual records (Street Construction Maintenance and Repair Fund) on February 12, 2017.

Officials' Response:

The Fiscal Officer looked for missing timesheets and reread minutes to see where extra pay was approved, but neither could be found.

FINDING NUMBER 2015-002

MATERIAL WEAKNESS – FINANCIAL STATEMENT ERRORS

The Village's 2015 and 2014 financial statements contained various errors. The Village's financial statements and records were adjusted to correct the following errors:

- Property taxes, special assessments, and intergovernmental receipts were posted incorrectly to the records and/or financial statements as follows:

FINDING NUMBER 2015-002
(Continued)

- In 2014, a local government receipt in the amount of \$658 was incorrectly posted as property taxes instead of intergovernmental revenue in the General Fund.
- In 2014 and 2015, property tax receipts were posted at net rather than gross in the amount of \$255 and \$200, respectively, in the General Fund. Additionally, General Fund cash and property tax revenue was incorrectly reduced by \$99 and \$77 in 2014 and 2015, respectively, related to property tax fees that should have been posted to the Fire Fund.
- In 2014 and 2015, homestead and rollback receipts in the amounts of \$2,168 and \$2,074, respectively, were incorrectly posted as property taxes instead of intergovernmental revenue in the General Fund. Additionally, a portion of these receipts were due to the Fire Fund, but were instead posted entirely to the General Fund in the amount of \$573 and \$549 for 2014 and 2015, respectively.
- In 2014 and 2015, special assessment revenue in the amount of \$14,044 and \$13,012, respectively, was incorrectly posted as charges for services in the Sewer Fund.
- In 2015, property tax revenue in the amount of \$2,966 in the Fire Fund was incorrectly recorded as special assessment revenue.
- In 2015, special assessment revenue and cash was understated by \$207 in the Lighting Fund.
- In 2015, charges for services revenue (related to special assessments) and cash was overstated by \$568 in the Sewer Fund.
- In 2015 and 2014, cable franchise fees in the amounts of \$4,239 and \$4,117, respectively, were incorrectly recorded as charges for services instead of Fines, Licenses, and Permits in the General Fund.
- In 2015, the Village recorded a payment made to the Ohio Water Development Authority (OWDA) in the amount of \$1,765 for the Sewer Debt Fund; however, this payment was made on January 4, 2016, via an electronic funds transfer. Therefore, it should not have been recorded as a 2015 expenditure.
- In 2015 and 2014, the Village recorded principal and interest payments of \$50,671 and \$52,543, respectively, as a contractual service expenditure rather than to the proper principal and interest line item.
- In 2015, the Village recorded Street Construction Maintenance and Repair Fund expenditures as general government rather than transportation in the amount of \$11,092.
- In 2015, the Village recorded Sewer Fund expenditures as supplies and materials rather than contractual services in the amount of \$22,762.

Failure to properly record and classify on the financial statements revenues and expenditures could lead to misleading financial statement information and financial statement adjustments.

The Village should implement procedures to record transactions correctly and account for activity correctly on the annual financial statements. To assist in this process, the Village should review the Village Handbook and consider utilizing an automated accounting system such as the Uniform Accounting Network (UAN).

Officials' Response:

The Fiscal Officer will take more care to make sure the postings are in correct funds with correct amounts. The County Auditor's Office will also help with understanding tax settlement sheets. We have adjusted the cash ledger balances as to the audit recommendations and their approval.

FINDING NUMBER 2015-003

MATERIAL WEAKNESS – FUND BALANCE CLASSIFICATIONS

The Village's 2015 and 2014 annual financial statements were adjusted for the following errors related to fund balance reporting:

- Governmental Accounting Standards Board (GASB) Statement 54, paragraph 16 (GASB Codification 1800.176) states, in part, that an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance. The Village failed to properly classify the amount by which appropriations exceeded estimated receipts for the subsequent year in the adjusted amount of \$4,437 for 2014. This amount should have been classified as assigned fund balance rather than unassigned fund balance in the General Fund.
- GASB Statement 54, paragraph 8 (GASB Codification 1800.168) states, in part, that fund balance should be reported as restricted when constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation. The Village's special revenue fund balances met this classification; however, nearly all such fund balances were incorrectly classified as unassigned for 2015 and 2014 in the adjusted amounts of \$18,620 and \$14,175, respectively.

Failure to properly classify fund balances could lead to misstated financial statements and misleading financial statement information.

The Village should perform a review of all Village funds and determine proper reporting of fund balances in accordance with GASB Statement 54 and Auditor of State Bulletin 2011-004 requirements.

Officials' Response:

The Fiscal Officer will take more care to make sure the postings are in correct funds with correct amounts.

FINDING NUMBER 2015-004

NONCOMPLIANCE / MATERIAL WEAKNESS

Ohio Rev. Code § 117.13(C)(3) states, in part, that the fiscal officer may distribute the total cost of an audit to each fund audited in accordance with its percentage of the total cost.

Additionally, **AOS Bulletin 2009-011** includes the following guidance for allocating audit costs to funds:

The fiscal officer should determine which funds should be charged a percentage of the audit costs. The Auditor of State is of the opinion that most operating funds of a local government, including utility funds (i.e., water, sewer, electric, refuse), special levy funds, funds that receive gas taxes, and motor vehicle registration fees can be charged a portion of the audit costs.

In determining a percentage of total cost that may be charged to a fund, any reasonable and rational method such as a percentage of the fund's revenue or expenditures compared to the total revenue or expenditures for all funds, excluding agency funds, would be acceptable. A local government's indirect cost allocation plan may also be an acceptable method for allocating audit costs.

**FINDING NUMBER 2015-004
(Continued)**

During 2014, the Village allocated audit costs to the General Fund, Street Construction, Maintenance and Repair Fund, and Sewer Maintenance Fund with a majority of the cost being allocated to the Sewer Maintenance Fund. The Village had no reasonable basis for this allocation of audit costs. In addition to audit cost, the Village also allocated the annual liability insurance costs in 2014 and 2015 to the same funds with a majority of the cost again being allocated to the Sewer Maintenance Fund and no reasonable basis existed for this allocation. These costs were not adjusted in the accompanying financial statements. However, we identified the following expenditures that were allocated to an improper fund, which resulted in adjustment to the accompanying financial statements and to the Village's records as follows:

- The Village allocated annual property tax payments related to its Community Center to the General Fund, Street Fund, and Sewer Maintenance Fund. However, the Community Center has no activity related to the Street Fund and Sewer Maintenance Fund. Therefore, these funds should not have been charged for the annual property tax costs. For 2014, General Fund expenses were understated by \$1,400 and Street Fund and Sewer Maintenance Fund expenses were both overstated by \$700. For 2015, General Fund expenses were understated by \$2,000 and Street Fund and Sewer Maintenance Fund expenses were both overstated by \$1,000.
- For 2014, the Village incorrectly charged a \$575 expenditure to repair a truck to the Sewer Maintenance Fund rather than the Street Construction, Maintenance and Repair Fund.
- For 2015, a payment made for the Fiscal Officer's annual salary in the amount of \$1,400 was paid entirely from the Sewer Maintenance Fund instead of the General Fund. There was no support provided related to allocating the Fiscal Officer's salary to any fund other than the General Fund and the Village's sewer revenue collection is administered by the City of Sidney.

Failure to allocate costs to funds other than the General Fund based on reasonable calculations and support could lead to funds paying for costs that are not related to the activity of the fund. This could lead to misleading financial information, audit adjustments, and possible findings for adjustment in the future.

If the Village intends to allocate certain costs that impact more than one fund to the applicable funds, the Village must have a reasonable and rational method for allocating such costs. If necessary, the method should also be properly supported.

Officials' Response:

Going forward, the Fiscal Officer will only make property tax payments and pay the Fiscal Officer from the General Fund.

FINDING NUMBER 2015-005

NONCOMPLIANCE

The law requires that employers withhold taxes from employees' paychecks and remit those taxes to the government. The United States Internal Revenue Code, for example, requires employers to deduct from wages paid to employees the employees' share of FICA taxes and individual income taxes. See 26 U.S.C. §3102(a) and §3402(a). Those withholdings are considered to be held in "a special fund in trust for the United States." 26 U.S.C. §7501(a). The employer is liable for the withheld portion of the employee's wages and must pay over the full amount to the government each quarter. See *United States v. Farr*, 536 F.3d 1174, 1176 (10th Circ. 2008).

FINDING NUMBER 2015-005
(Continued)

26 U.S.C. Section 3403 states that the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter, and shall not be liable to any person for the amount of any such payment.

All Village Council members had no withholdings made on their pay during either 2015 or 2014. Total wages paid to Council members during 2015 and 2014 were \$2,655 and \$2,880, respectively. Additionally, the Village made no withholdings for a part-time employee that was paid \$3,638 and \$3,859 during 2015 and 2014, respectively. Council members were paid on a per-meeting basis and were therefore not eligible for membership in the Ohio Public Employees Retirement System. However, the Village is required to withhold and remit Social Security and Medicare taxes on the wages of all Council members to the Internal Revenue Service (IRS). The Village is also required to withhold and remit Medicare taxes on the wages of all employees to the IRS. Additionally, the Village is required to pay the employer share related to Social Security and Medicare.

Additionally, a W-2 form was not prepared for 2015 for any Village Council member and a W-2 form was not prepared for 2015 or 2014 for the above-mentioned part-time employee.

Failure to withhold and remit required tax withholdings to the appropriate agencies as required by law could lead to the full amount due (employee and employer share), including interest and penalties, becoming an obligation of the Village.

The Village should implement policies and procedures to verify that all required withholdings are made from employee wages and remitted, including the required employer share, to the appropriate agencies. Additionally, the Village should verify that a W-2 form is prepared and sent to each employee and elected official of the Village if wages are paid in any given year.

This issue has been referred to the IRS and the Ohio Department of Taxation.

Officials' Response:

The Fiscal Officer gave Council W-2s starting in 2016 and the street employees now both have social security and state and federal taxes and Medicare taken out of their wages.

FINDING NUMBER 2015-006

NONCOMPLIANCE

Ohio Rev. Code Section 145.01(A)(3) states that "Public employee" means any person who is an employee of a public employer, notwithstanding that the person's compensation for that employment is derived from funds of a person or entity other than the employer. Credit for such service shall be included as total service credit, provided that the employee makes the payments required by this chapter, and the employer makes the payments required by sections 145.48 and 145.51 of the Revised Code.

Required payments to the Ohio Public Employees Retirement System (OPERS) for public employees are further explained in **Ohio Rev. Code Section 145.47** (for employee share) and **Ohio Rev. Code Section 145.48** (for employer share). The required contribution rates during 2015 and 2014 were 10% and 14% of wages for employees and employers, respectively.

The Village made no withholdings for a part-time employee that was paid \$3,638 and \$3,859 during 2015 and 2014, respectively.

**FINDING NUMBER 2015-006
(Continued)**

Failure to withhold and remit required withholdings to OPERS as required by law could lead to the full amount due (employee and employer share), including interest and penalties, becoming an obligation of the Village.

The Village should implement policies and procedures to verify that all required retirement withholdings are made from employee wages and remitted, including the required employer share, to OPERS.

This issue has been referred to OPERS.

Officials' Response:

The street employees now both have social security and state and federal taxes and Medicare taken out of their wages.

FINDING NUMBER 2015-007

SIGNIFICANT DEFICIENCY – COUNCIL MONITORING

To assist in the management of financial resources, a governing body should periodically review and approve financial information. In addition, to help ensure accountability over recorded activity and depository balances, the governing body should review and approve monthly bank-to-book reconciliations and bank statements.

Monthly bills and supporting documentation were provided to the Village Council during the audit period and were approved, as documented in the minutes; however, there was no evidence that the Village County reviewed and approved monthly revenue and expenditure reports or bank statements and bank reconciliations.

It is imperative for Village Council to provide an oversight function in an entity that lacks segregation of duties as all accounting functions are controlled by one individual, the Fiscal Officer. The failure of the Council to monitor the financial activity of the Village could result in financial objectives not being achieved; violation of Ohio Rev. Code or grant requirements; or errors and/or irregularities occurring and not being detected in a timely manner.

The Village should implement monitoring procedures that require the monthly review of financial reports such as budget versus actual revenue and expenditure reports and fund balance reports, along with review of monthly bank-to-book reconciliations accompanied with bank statements. Evidence of the review and approval of financial reports should be indicated by signatures or initials on the documents reviewed and/or approval in the minutes.

Officials' Response:

Every quarter the Fiscal Officer provides Council with a report of balances, expenditures, and receipts and would let them know if funds were running low and if we need to look to adjust appropriations.

**VILLAGE OF PORT JEFFERSON
SHELBY COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2015 AND 2014**

Finding Number	Finding Summary	Status	Additional Information
2013-01	Posting Receipts and Disbursements	Not corrected	Repeated as Finding 2015-002
2013-02	ORC 733.40 - Mayor's Court Accounting	Finding no longer valid	The only activity during the audit period was the transfer of the remaining Mayor's Court balance because Mayor's Court had been previous eliminated.
2013-03	ORC 5705.41(D) – Prior Certification of Expenditures	Not corrected	Repeated as management letter citation
2013-04	GASB 54 - Fund Balance Classifications	Not corrected	Repeated as Finding 2015-003



Dave Yost • Auditor of State

VILLAGE OF PORT JEFFERSON

SHELBY 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 28, 2017