



Dave Yost • Auditor of State

VILLAGE OF ORWELL
ASHTABULA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Orwell
Ashtabula County
179 West Main Street
Orwell, Ohio 44076

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 Orwell, Ashtabula County, Ohio (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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2016 and 2015, and the respective 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 cash balances, receipts and disbursements by fund type, and related notes of the Village of Orwell, Ashtabula County, Ohio as of December 31, 2016 and 2015, 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.

Emphasis of Matter

As discussed in Note 12 to the 2015 financial statements, the Village's January 1, 2015 cash fund balances were restated to account for certain fund type reclassifications and other accounting adjustments. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2018, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

April 30, 2018

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Village of Orwell, Ohio
Ashtabula County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$52,763	\$48,170			\$100,933
Municipal Income Tax	739,192				739,192
Intergovernmental	32,329	65,767		\$4,150	102,246
Charges for Services	3,562	55,616			59,178
Fines, Licenses and Permits	8,701	266			8,967
Earnings on Investments	218				218
Miscellaneous	39,141	5,058			44,199
<i>Total Cash Receipts</i>	<u>875,906</u>	<u>174,877</u>		<u>4,150</u>	<u>1,054,933</u>
Cash Disbursements					
Current:					
Security of Persons and Property	442,022	98,817			540,839
Public Health Services	5,386				5,386
Leisure Time Activities	2,336				2,336
Basic Utility Services		5,784			5,784
General Government	407,341	35,636			442,977
Capital Outlay	24,956			4,150	29,106
Debt Service:					
Principal Retirement		40,463			40,463
Interest and Fiscal Charges		1,268			1,268
<i>Total Cash Disbursements</i>	<u>882,041</u>	<u>181,968</u>		<u>4,150</u>	<u>1,068,159</u>
<i>Net Change in Fund Cash Balances</i>	(6,135)	(7,091)			(13,226)
<i>Fund Cash Balances, January 1</i>	<u>121,201</u>	<u>136,017</u>	<u>\$16,683</u>	<u>(85,028)</u>	<u>188,873</u>
Fund Cash Balances, December 31					
Restricted		128,926	16,683		145,609
Assigned	108,905				108,905
Unassigned (Deficit)	6,161			(85,028)	(78,867)
<i>Fund Cash Balances, December 31</i>	<u>\$115,066</u>	<u>\$128,926</u>	<u>\$16,683</u>	<u>(\$85,028)</u>	<u>\$175,647</u>

See accompanying notes to the basic financial statements

Village of Orwell, Ohio
Ashtabula County
*Statement of Receipts, Disbursements
and Changes in Fund Balance (Regulatory Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2016*

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$624,474
Fines, Licenses and Permits	12,304
Miscellaneous	7,683
<i>Total Operating Cash Receipts</i>	<i>644,461</i>
Operating Cash Disbursements	
Personal Services	362,430
Transportation	10
Contractual Services	32,708
Supplies and Materials	34,110
Other	266
<i>Total Operating Cash Disbursements</i>	<i>429,524</i>
<i>Operating Income</i>	<i>214,937</i>
Non-Operating Receipts (Disbursements)	
Miscellaneous Receipts	5,359
Principal Retirement	(89,271)
Interest and Other Fiscal Charges	(70,610)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(154,522)</i>
<i>Income before Transfers</i>	<i>60,415</i>
Transfers In	10,000
Transfers Out	(10,000)
<i>Net Change in Fund Cash Balances</i>	<i>60,415</i>
<i>Fund Cash Balances, January 1</i>	<i>1,683,001</i>
<i>Fund Cash Balances, December 31</i>	<i>\$1,743,416</i>

See accompanying notes to the basic financial statements

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Village of Orwell, Ashtabula County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village appropriates General Fund money to support a volunteer fire department.

Public Entity Risk Pools

The Village participates in the Ohio Plan Risk Management Plan, a public entity risk pool. Note 7 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 statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for its proprietary fund type which are organized on a fund type basis.

Fund Accounting

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

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

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

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

Street Levy Fund - This fund receives real estate tax monies to help maintain the street lights within the Village limits.

Fire Levy Fund - This fund receives real estate tax monies to help maintain the fire department.

Debt Service Funds - These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

General Obligation Bond Fund - This fund holds cash balances which were restricted for payment of long-term bonds.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies – (Continued)

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

Issue II Fund – This fund accounts for grants and loans received from the Ohio Public Works Commission plus matching funds from the Village. Expenditures are restricted to specific projects within the Village

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

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

Sewer Fund - This fund receives charges for service from residents to cover the cost of providing this utility.

Basis of Accounting

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

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

Budgetary Process

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

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

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

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 budgetary activity appears in Note 4.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

Accumulated Leave

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

Fund Balance

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

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

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

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

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

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 Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 3 - Compliance

Contrary to Ohio law the Village's appropriation ordinance was approved at the fund level instead of the fund personal services level of control.

Note 4 - Budgetary Activity

Budgetary activity for the year ended December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$932,875	\$875,906	(\$56,969)
Special Revenue	189,706	174,877	(14,829)
Capital Projects		4,150	4,150
Enterprise	920,000	659,820	(260,180)
Total	\$2,042,581	\$1,714,753	(\$327,828)

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,017,536	\$886,678	\$130,858
Special Revenue	399,916	192,231	207,685
Debt Service	16,683		16,683
Capital Projects	(76,581)	4,150	(80,731)
Enterprise	2,513,839	589,405	1,924,434
Total	\$3,871,393	\$1,672,464	\$2,198,929

Note 5 – 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:

	2016
Demand deposits	\$1,919,063

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institutions public entity deposit pool.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 6 – Taxes

Property Taxes

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

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

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

Income Taxes

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

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

Note 7 - Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Until November 1, 2016, 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. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 - Risk Management – (Continued)

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, 2016.

	<u>2016</u>
Assets	\$14,765,712
Liabilities	<u>(9,531,506)</u>
Members' Equity	<u>\$ 5,234,206</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 8 - Defined Benefit Pension Plans

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Ohio Police and Fire Retirement System Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2016.

Social Security Village Volunteer Fire Department personnel contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 9 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016. OP&F contributes 0.5 percent to fund these benefits.

Note 10 – Debt

Debt Outstanding at December 31, 2016 consisted of the following:

<u>Issuance:</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>
USDA 2004 WWTP Bonds	\$1,503,200	1.90%
OWDA Loan # 2074 – Iron Removal Project	22,688	6.32%
OPWC Loan #CG02L- Breezewood / Various Road Improvements	25,000	0.00%
OPWC Loan #CG15H = Phase II Water Main Replacement	18,196	0.00%
OPWC Loan #CG16G – East Main Street Water Main Replacement	33,760	0.00%
OPWC Loan #CG400 – Leffingwell Allotment Road Improvements	93,000	0.00%
OPWC Loan # CF480 – Water Meter Grades	71,291	0.00%
OPWC Loan #CG06Q – Water Facility Rehabilitation	<u>88,800</u>	0.00%
Total	<u>\$1,855,935</u>	

The 2004 Ohio WWTP general obligation bonds were issued in 2004 to fund a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The general obligation bonds are collateralized by the Village sewer receipts and collections from user fees from the Kennametal Corporation. The Village has agreed to set utility rates sufficient to cover Ohio WWTP Debt requirements.

The Village has also entered into OWDA loans for an iron removal project and industrial park infrastructure improvements. These loans will be repaid in semiannual installments including interest, over 20 years. The Village's taxing authority collateralized the loan.

The Ohio Public Works Commission (OPWC) Phase I and Phase II East Main Street water main replacement loans were entered into in 2006 and will be repaid in semiannual installments, interest free, over twenty years. The Breezewood loan was entered into during 2008 and will also be repaid in semiannual installments, interest free, over 20 years, collateralized by the taxing authority of Village. The Leffingwell Allotment loan was entered into in 2014 and will be repaid in semiannual installments, interest free, over twenty years. The Water Meter Upgrades loan was entered into in 2014 and will be repaid in semiannual installments, interest free, over twenty years.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 10 – Debt - (Continued)

Amortization

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

Year Ending December 31:	WWTP Bonds	OWDA Loans	OPWC Loans
2017	\$95,444	\$23,595	\$23,664
2018	95,493		23,664
2019	95,484		23,664
2020	128,716		23,664
2021	0		23,664
2022-2026	538,122		106,238
2027-2031	477,599		73,805
2032-2036	477,255		31,684
2037-2041	477,429		
2042-2044	286,581		
Total	<u>\$2,672,123</u>	<u>\$23,595</u>	<u>\$330,047</u>

Note 11 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Village of Orwell, Ohio
Ashtabula County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$60,201	\$46,357			\$106,558
Municipal Income Tax	822,993				822,993
Intergovernmental	22,956	60,018		\$37,350	120,324
Charges for Services		52,397			52,397
Fines, Licenses and Permits	3,562	25			3,587
Earnings on Investments	97				97
Miscellaneous	52,345	5,410			57,755
<i>Total Cash Receipts</i>	<u>962,154</u>	<u>164,207</u>		<u>37,350</u>	<u>1,163,711</u>
Cash Disbursements					
Current:					
Security of Persons and Property	452,732	180,740			633,472
Public Health Services	5,180				5,180
Leisure Time Activities	4,724				4,724
Transportation	1,708				1,708
General Government	426,665	77,717			504,382
Capital Outlay				36,355	36,355
Debt Service:					
Principal Retirement	6,837	32,838		9,369	49,044
Interest and Fiscal Charges	121	2,893		73	3,087
<i>Total Cash Disbursements</i>	<u>897,967</u>	<u>294,188</u>		<u>45,797</u>	<u>1,237,952</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>64,187</u>	<u>(129,981)</u>		<u>(8,447)</u>	<u>(74,241)</u>
Other Financing Receipts (Disbursements)					
Transfers In		100,000			100,000
Transfers Out	(100,000)				(100,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(100,000)</u>	<u>100,000</u>			
<i>Net Change in Fund Cash Balances</i>	(35,813)	(29,981)		(8,447)	(74,241)
<i>Fund Cash Balances, January 1 (Restated)</i>	<u>157,014</u>	<u>165,998</u>	<u>\$16,683</u>	<u>(76,581)</u>	<u>263,114</u>
Fund Cash Balances, December 31					
Restricted		136,017	16,683		152,700
Assigned	91,546				91,546
Unassigned (Deficit)	29,655			(85,028)	(55,373)
<i>Fund Cash Balances, December 31</i>	<u>\$121,201</u>	<u>\$136,017</u>	<u>\$16,683</u>	<u>(\$85,028)</u>	<u>\$188,873</u>

See accompanying notes to the basic financial statements

Village of Orwell, Ohio
Ashtabula County
Statement of Receipts, Disbursements
and Changes in Fund Balance (Regulatory Cash Basis)
Proprietary Type
For the Year Ended December 31, 2015

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$644,431
Miscellaneous	45,345
<i>Total Operating Cash Receipts</i>	<i>689,776</i>
Operating Cash Disbursements	
Personal Services	3,088
Employee Fringe Benefits	259,329
Contractual Services	144,529
Supplies and Materials	36,317
<i>Total Operating Cash Disbursements</i>	<i>443,263</i>
<i>Operating Income</i>	<i>246,513</i>
Non-Operating Disbursements	
Principal Retirement	(71,291)
Interest and Other Fiscal Charges	(76,823)
<i>Total Non-Operating Disbursements</i>	<i>(148,114)</i>
<i>Income before Transfers</i>	<i>98,399</i>
Transfers In	60,000
Transfers Out	(60,000)
<i>Net Change in Fund Cash Balances</i>	<i>98,399</i>
<i>Fund Cash Balances, January 1 (Restated)</i>	<i>1,584,602</i>
<i>Fund Cash Balances, December 31</i>	<i>\$1,683,001</i>

See accompanying notes to the basic financial statements

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Reporting Entity

The Village of Orwell, Ashtabula County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village appropriates General Fund money to support a volunteer fire department.

Public Entity Risk Pools

The Village participates in the Ohio Plan Risk Management Plan, a public entity risk pool. Note 7 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 statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for its proprietary fund type which are organized on a fund type basis.

Fund Accounting

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

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

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

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

Street Levy Fund - This fund receives real estate tax monies to help maintain the street lights within the Village limits.

Fire Levy Fund - This fund receives real estate tax monies to help maintain the fire department.

Debt Service Funds - These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Village had the following significant Debt Service Fund:

General Obligation Bond Fund - This fund holds cash balances which were restricted for payment of long-term bonds.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 2 - Summary of Significant Accounting Policies – (Continued)

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

Issue II Fund – This fund accounts for grants and loans received from the Ohio Public Works Commission plus matching funds from the Village. Expenditures are restricted to specific projects within the Village

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

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

Sewer Fund - This fund receives charges for service from residents to cover the cost of providing this utility.

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2015 budgetary activity appears in Note 4.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 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.

Accumulated Leave

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

Fund Balance

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

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

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

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

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

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 Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 3 - Compliance

Contrary to Ohio law the Village's appropriation ordinance was approved at the fund level instead of the fund personal services level of control.

Note 4 - Budgetary Activity

Budgetary activity for the year ended December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$920,523	\$962,154	\$41,631
Special Revenue	233,918	264,207	30,289
Capital Projects		37,350	37,350
Enterprise	929,238	749,776	(179,462)
Total	\$2,083,679	\$2,013,487	(\$70,192)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,017,536	\$899,520	\$118,016
Special Revenue	399,916	294,228	105,688
Debt Service	16,683		16,683
Capital Projects	(76,581)	45,797	(122,378)
Enterprise	2,513,839	596,430	1,917,409
Total	\$3,871,393	\$1,835,975	\$2,035,418

Note 5 – 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:

	2015
Demand deposits	\$1,871,874

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institutions public entity deposit pool.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 6 – Taxes

Property Taxes

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

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

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

Income Taxes

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

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

Note 7 - Risk Management

The Village belongs to the Ohio 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.

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.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 7 - Risk Management – (Continued)

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).

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

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 8 - Defined Benefit Pension Plans

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Ohio Police and Fire Retirement System Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 11.5% of their wages through June 30, 2015. Beginning after July 1, 2015, 12.25% of their wages were contributed. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. The Village has paid all contributions required through December 31, 2015.

Social Security Village Volunteer Fire Department personnel contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. Employees contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2015.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 9 - Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015. OP&F contributes 0.5 percent to fund these benefits.

Note 10 – Debt

Debt Outstanding at December 31, 2015 consisted of the following:

<u>Issuance:</u>	<u>Principal Outstanding</u>	<u>Interest Rate</u>
USDA 2004 WWTP Bonds	\$1,529,800	1.90%
2006 – Fire Truck Capital Lease	34,462	4.89%
OWDA Loan # 2074 – Iron Removal Project	66,715	6.32%
OPWC Loan #CG02L- Breezewood / Various Road Improvements	28,333	0.00%
OPWC Loan #CFG15H – Phase II Water Main Replacement	910	0.00%
OPWC Loan #CG15H = Phase II Water Main Replacement	20,015	0.00%
OPWC Loan #CG16G – East Main Street Water Main Replacement	37,500	0.00%
OPWC Loan #CG400 – Leffingwell Allotment Road Improvements	99,000	0.00%
OPWC Loan #CF480 – Water Meter Grades	75,252	0.00%
OPWC Loan #CG06Q – Water Facility Rehabilitation	93,600	0.00%
Total	<u>\$1,985,657</u>	

The 2004 Ohio WWTP general obligation bonds were issued in 2004 to fund a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The general obligation bonds are collateralized by the Village sewer receipts and collections from user fees from the Kennametal Corporation. The Village has agreed to set utility rates sufficient to cover Ohio WWTP Debt requirements.

The Village has also entered into OWDA loans for an iron removal project and industrial park infrastructure improvements. These loans will be repaid in semiannual installments including interest, over 20 years. The Village's taxing authority collateralized the loan.

The Ohio Public Works Commission (OPWC) Phase I and Phase II East Main Street water main replacement loans were entered into in 2006 and will be repaid in semiannual installments, interest free, over twenty years. The Breezewood loan was entered into during 2008 and will also be repaid in semiannual installments, interest free, over 20 years, collateralized by the taxing authority of Village. The Leffingwell Allotment loan was entered into in 2014 and will be repaid in semiannual installments, interest free, over twenty years. The Water Meter Upgrades loan was entered into in 2014 and will be repaid in semiannual installments, interest free, over twenty years.

The Village has entered into capital lease agreements to purchase fire trucks, police cruisers, and street vehicles and also to access railroad pipe line crossings with the Ohio Rail Development Commission. These leases are backed by the Village's taxing authority.

Village of Orwell, Ohio
Ashtabula County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 10 – Debt - (Continued)

Amortization

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

Year Ending December 31:	WWTP Bonds	OWDA Loans	OPWC Loans
2016	\$95,441	\$23,074	\$24,574
2017	95,444	47,191	23,664
2018	95,493		23,664
2019	95,484		23,664
2020	128,716		23,664
2021-2025	442,605		113,321
2026-2030	477,591		75,625
2031-2035	477,345		46,434
2036-2040	477,342		
2041-2044	382,102		
Total	<u>\$2,767,563</u>	<u>\$70,265</u>	<u>\$354,610</u>

Note 11 – Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 12 – Fund Balance Restatement

The Village's prior reported cash fund balances were restated as follows by management to account for certain fund type reclassification and other accounting adjustments.

<u>Fund Type</u>	<u>December 31, 2014</u>	<u>Restatement Adjustment</u>	<u>Restated January 1, 2015</u>
General Fund	\$130,262	\$26,752	\$157,014
Special Revenue Funds	89,417	76,581	165,998
Debt Service Funds	117,406	(100,723)	16,683
Capital Project Funds	26,752	(103,333)	(76,581)
Enterprise Funds	1,483,879	100,723	1,584,602
Total	<u>\$1,847,716</u>	<u>\$0</u>	<u>\$1,847,716</u>



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 Orwell
Ashtabula County
179 West Main Street
Orwell, Ohio 44076

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 Orwell, Ashtabula County, Ohio (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 April 30, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit and the Village restated its cash fund balances.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-001 and 2016-003.

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 report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

April 30, 2018

VILLAGE OF ORWELL
ASHTABULA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015

FINDING NUMBER 2016-001

Material Weakness / Noncompliance – Bank Reconciliations

Ohio Admin. Code 117-2-02 (A) requires all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

A necessary step in the internal control over financial reporting is to reconcile the bank balance to the accounting record's cash book balance. Bank reconciliation means accounting for the differences between the bank statement's balances and the cash and investment book balances according to the entity's records at a specific point in time. In order for the bank reconciliation to be an effective internal control, the bank reconciliation should be performed each month within a few days of receiving the entity's bank statements and should include all bank accounts held by the entity. Additionally, all differences between the bank statement balances and accounting record balances should be identified, documented, and if necessary, adjusted to the accounting records immediately.

The initial December 31, 2016 and 2015 bank reconciliations indicated the Village's cash fund balances exceeded its bank balances by difference of \$26,209 and \$8,418, respectively. We also noted the Village's initial bank reconciliations did not include three Village held bank accounts (Payroll, Water Department and Volunteer Fire Department).

Subsequent review of the bank reconciliations by management identified various improperly recorded accounting system adjustments which contributed to the aforementioned variances. After factoring in these items and the initially unreconciled accounts, management determined there to be an unknown excess of bank balance over cash fund balance at December 31, 2016 of \$7,711. This difference along with the identified errors was adjusted to the accounting records and financial statements by management.

Failure to reconcile all bank accounts and clearly document all reconciling adjustments timely substantially increases the risk of bank overdrafts, theft, and various accounting and financial statement errors.

The Village should ensure bank to book reconciliations are performed monthly for all accounts. Any noted discrepancies should be promptly investigated, documented and corrected in the accounting records.

Officials' Response: While the Village recognizes the findings within, Management is committed to embracing the Auditors recommendations in a way that moves us forward in a compliant manner.

FINDING NUMBER 2016-002

Material Weakness – Financial Statement Adjustments

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

The following errors were identified in the 2016 financial statements:

- General fund security of person and property, general government cash disbursements, beginning cash fund balance and assigned fund balance were understated, \$3,972, \$33,199, \$826, and \$108,905, respectively; and miscellaneous receipts and unassigned fund balance were overstated \$50,000 and \$195,251, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.
- Special revenue funds' miscellaneous receipts, debt principal retirement, beginning cash fund balance, restricted fund balance, and unassigned fund balance were understated, \$4,239, \$3,000, \$89,037, \$18,872, and \$85,027, respectively; and intergovernmental receipts, security of persons and property and general government cash disbursements were overstated \$4,150, \$13,709, and \$4,064, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.
- Capital project funds' intergovernmental receipts and capital outlay cash disbursements were understated, \$4,150 and \$4,150, respectively; and beginning cash fund balance and unassigned fund balance were overstated \$85,028 and \$85,028, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.
- Enterprise funds' charges for services receipts, personal services cash disbursements, transfers in, transfers out, and beginning fund cash balance were understated, \$39,906, \$1,890, \$5,000, \$5,000, and \$308, respectively; and debt principal retirement and interest and other fiscal charges were overstated \$1,652 and \$15, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.

The following errors were identified in the 2015 financial statements:

- General Fund earnings on investments receipts, miscellaneous receipts, general government cash disbursements, debt principal retirement, interest and fiscal charges, transfers out, beginning fund cash balance, and assigned fund balance were understated, \$97, \$729, \$51,375, \$6,837, \$121, \$32,000, \$26,752, and \$91,546, respectively; and unassigned fund balance was overstated \$90,301, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.

FINDING NUMBER 2016-002 – (Continued)

- Special revenue Funds' charges for services receipts, miscellaneous receipts, security of persons and property cash disbursements, interest and fiscal charges, beginning fund cash balance, and restricted fund balance were understated, \$49,225, \$5,094, \$1,085, \$2,893, \$76,581, and \$132,009, respectively; and property and other local taxes receipts, intergovernmental receipts, general government cash disbursements, capital outlay cash disbursements, debt service principal retirement, and unassigned fund balance were overstated, \$49,225, \$37,351, \$2,589, \$35,731, \$12,959, and \$40,992, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.
- Capital projects funds' intergovernmental receipts, capital outlay cash disbursements, debt service principal retirement, and interest and fiscal charges were understated, \$37,350, \$36,355, \$9,369, and \$73, respectively; and beginning fund cash balance and unassigned fund balance were overstated, \$103,333 and \$85,026, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.
- Debt service funds' restricted fund balance was understated, \$16,683, respectively; and transfers in, beginning fund cash balance, and unassigned fund balance were overstated, \$30,000, \$100,723, and \$147,406, respectively, due to the net effect of various financial statement misposting and cash reconciliation errors. These items were adjusted to the financial statements as approved by management.
- Enterprise funds' charges for services, transfers in, and beginning cash balance were understated, \$308, \$30,000, and \$100,723, respectively; and general government cash disbursements, debt principal retirement, and transfers out were overstated, \$25,499, \$24,505, and \$4,600, respectively, due to the net effect of various financial statement misposting and cash reconciliations errors.

The Village should exercise due care when posting transactions to help ensure transactions are correct and posted to the proper accounts. Management should also review the financial statements to help ensure they are supported by sufficient documentation, reconciled to the trial balances, free of obvious errors and omissions, and consistent with their financial expectations. These procedures should help avoid financial statement errors and help ensure more accurate financial reporting.

Officials' Response: While the Village recognizes the findings within, Management is committed to embracing the Auditors recommendations in a way that moves us forward in a compliant manner.

FINDING NUMBER 2016-003

Noncompliance – Finding for Recovery IRS Interest and Penalties

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. **Auditor of State Bulletin 2003-005** Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State’s Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The law requires employers to 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).

On August 9, 2017, the Village of Orwell remitted a payment to the Internal Revenue Service (IRS) totaling \$11,567 related to interest and penalties incurred from the 4th quarterly reporting period of 2013 through the 1st quarterly reporting period of 2017 for failing to timely remit employee federal tax withholdings. The interest and penalties assessed against the Village could have been avoided had the Village timely remitted its employee federal tax withholdings; as such, these expenditures do not serve a proper public purpose. Ella Stanton as the Village’s Fiscal Officer was responsible for remitting tax withholding payments during the time period these fees were incurred.

In accordance with the foregoing facts and authorities, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended for failure to remit withheld income tax contributions resulting in late fees, interest, and penalties assessed against the Village is hereby issued against Ella Stanton, Village Fiscal Officer and Fidelity and Deposit Company of Maryland, the Bonding Company for Ella Stanton, jointly and severally in the amount of \$11,567 and in favor of the Village of Orwell, Ashtabula County, Ohio, General Fund.

Officials’ Response: While the Village recognizes the findings within, Management is committed to embracing the Auditors recommendations in a way that moves us forward in a compliant manner.



Dave Yost • Auditor of State

VILLAGE OF ORWELL

ASHTABULA 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
MAY 15, 2018