

***VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2007 & 2006

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Village Council
Village of Clarington
P. O. Box 215
Clarington, Ohio 43915-0215

We have reviewed the *Report of Independent Accountants* of the Village of Clarington, Monroe County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Clarington is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 13, 2009

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**VILLAGE OF CLARINGTON
MONROE COUNTY
For the Years Ending December 31, 2007 and 2006**

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Rockefeller Building
614 West Superior Avenue #1242
Cleveland, OH 44113-1306
Office Phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Clarington
Monroe County
P.O Box 215
Clarington, OH 43915-0215

To Village Council:

We have audited the accompanying financial statements of the Village of Clarington, Monroe County (the Village), as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2007 and 2006. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since the Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2007 and 2006, and its cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2008, 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. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.

November 11, 2008

VILLAGE OF CLARINGTON
MONROE COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Receipts:				
Property and Other Local Taxes	\$ 12,937	-	-	\$ 12,937
Intergovernmental	17,323	\$ 17,124	-	34,447
Charges for Services	2,625	4,485	125	7,235
Fines, Licenses and Permits	398	328	-	726
Interest	799	-	2,504	3,303
Miscellaneous	1,110	-	-	1,110
Total Receipts	<u>35,192</u>	<u>21,937</u>	<u>2,629</u>	<u>59,758</u>
Disbursements:				
Current:				
General Government	102,899	-	-	102,899
Public Safety	4,991	-	-	4,991
Transportation	4,400	18,585	-	22,985
Basic Utility Services	2,163	-	-	2,163
Public Health Services	1,003	4,525	100	5,628
Leisure Time Activities	-	3,146	-	3,146
Total Disbursements	<u>115,456</u>	<u>26,256</u>	<u>100</u>	<u>141,812</u>
Total Receipts Over(Under) Disbursements	(80,264)	(4,319)	2,529	(82,054)
Fund Balance 1/1/2007	<u>2,320</u>	<u>11,891</u>	<u>87,530</u>	<u>101,741</u>
Fund Balance 12/31/2007	<u>\$ (77,944)</u>	<u>\$ 7,572</u>	<u>\$ 90,059</u>	<u>\$ 19,687</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF CLARINGTON
 MONROE COUNTY
 COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN FUND CASH BALANCES
 ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 211,987
Total Operating Cash Receipts	211,987
Operating Disbursements:	
Personal Services	35,573
Fringe Benefits	9,321
Contractual Services	18,899
Supplies and Materials	15,061
Other	5,098
Capital Outlay	338,064
Total Operating Cash Disbursements	422,016
Operating Income	(210,029)
Non-Operating Cash Receipts	
Intergovernmental Receipts	350,362
Earnings on Investments	1,148
Total Non-Operating Cash Receipts	351,510
Non-Operating Cash Disbursements	
Redemption of Principal	17,209
Interest and Other Fiscal Charges	17,579
Total Non-Operating Cash Disbursements	34,788
Net Cash Receipts Over/(Under) Cash Disbursements	106,693
Fund Cash Balances, January 1	92,465
Fund Cash Balances, December 31	\$ 199,158

See accompanying Notes to the Financial Statements.

VILLAGE OF CLARINGTON
MONROE COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES -
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Receipts:				
Property and Other Local Taxes	\$ 13,844	-	-	\$ 13,844
Intergovernmental	19,231	\$ 80,076	-	99,307
Charges for Services	2,200	3,456	-	5,656
Fines, Licenses and Permits	1,479	-	-	1,479
Interest	1,183	15	\$ 2,672	3,870
Miscellaneous	11,187	9,015	-	20,202
Total Receipts	<u>49,124</u>	<u>92,562</u>	<u>2,672</u>	<u>144,358</u>
Disbursements:				
Current:				
General Government	45,961	-	1,000	46,961
Public Safety	4,812	-	-	4,812
Transportation	-	20,176	-	20,176
Basic Utility Services	2,167	4,448	-	6,615
Public Health Services	1,832	-	692	2,524
Leisure Time Activities	500	-	-	500
Capital Outlay	-	67,314	-	67,314
Debt Service:				
Principal Payments	1,196	1,196	-	2,392
Total Disbursements	<u>56,468</u>	<u>93,134</u>	<u>1,692</u>	<u>151,294</u>
Total Receipts Over(Under) Disbursements	<u>(7,344)</u>	<u>(572)</u>	<u>980</u>	<u>(6,936)</u>
Fund Balance 1/1/2006	<u>9,664</u>	<u>12,463</u>	<u>86,550</u>	<u>108,677</u>
Fund Balance 12/31/2006	<u>\$ 2,320</u>	<u>\$ 11,891</u>	<u>\$ 87,530</u>	<u>\$ 101,741</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF CLARINGTON
MONROE COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 167,469
Total Operating Cash Receipts	167,469
Operating Disbursements:	
Personal Services	44,460
Fringe Benefits	9,836
Contractual Services	27,466
Supplies and Materials	14,566
Other	602
Capital Outlay	50,499
Total Operating Cash Disbursements	147,429
Operating Income	20,040
Non-Operating Cash Receipts	
Intergovernmental Receipts	5,000
Earnings on Investments	731
Total Non-Operating Cash Receipts	5,731
Non-Operating Cash Disbursements	
Redemption of Principal	32,363
Interest and Other Fiscal Charges	37,098
Total Non-Operating Cash Disbursements	69,461
Net Cash Receipts Over/(Under) Cash Disbursements	(43,690)
Fund Cash Balances, January 1	136,155
Fund Cash Balances, December 31	\$ 92,465

See accompanying Notes to the Financial Statements.

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Clarington, Monroe County, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides water and sewer utilities, park operations (leisure time activities). The Village contracts with the Monroe County Sheriff's department to provide security of persons and property.

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

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH AND INVESTMENTS

Certificates of deposit are valued at cost.

D. FUND ACCOUNTING

The Village uses fund accounting to segregate cash and investments that are restricted to use. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The Village classifies its funds into the following types:

General Fund: The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D FUND ACCOUNTING – (Continued)

Special Revenue Funds: These funds are used to account for proceeds from special sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. 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.
- **State Highway Fund:** This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village highways.
- **Cemetery Fund:** This fund receives fees for opening cemetery plots and maintaining the cemetery.

Permanent Fund: This fund is used to account for resources restricted by legally binding trust agreements which restrict the Village to use of only the interest earned:

- **Cemetery Bequest Fund** – Interest derived from the corpus of this fund is used for cemetery upkeep.

Enterprise Funds: These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise 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 services from residents to cover the cost of providing this utility.
- **Improvement Fund:** This fund receives intergovernmental grants used to construct and upgrade the Village's water and sewer systems.
- **Debt Service:** This fund receives charges or services from residents to cover Village Utility debt service.

E. BUDGETARY PROCESS

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

- **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and object level of control, and appropriations may not exceed estimated resources. The Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year-end and are re-appropriated.

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. BUDGETARY PROCESS – (Continued)

• **Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources. Appropriation may not exceed estimated resources.

• **Encumbrances**

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

A summary of 2007 and 2006 budgetary activity appears in Note 4.

F. PROPERTY, PLANT, AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

2. EQUITY IN POOLED CASH AND INVESTMENTS – (Continued)

<u>Balance December 31,</u>	<u>2007</u>	<u>2006</u>
Demand Deposits	\$ 40,121	\$ 2,373
Money Market	63,655	79,803
Certificates of Deposit	94,184	93,508
Savings	<u>19,885</u>	<u>17,522</u>
Total Deposits	<u>217,845</u>	<u>193,206</u>
U.S. Treasury Savings Bonds	<u>1,000</u>	<u>1,000</u>
Total Deposits and Investments	<u>\$ 218,845</u>	<u>\$ 194,206</u>

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

Investments: U.S. Treasury Savings Bonds are held in book-entry form by the Federal Reserve, in the name of the Village.

3. PROPERTY TAXES

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as intergovernmental receipts.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

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

The Monroe County Treasurer collects property tax on behalf of all taxing Villages within the county. The Monroe County Auditor periodically remits to the taxing Village their portions of the taxes collected.

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

4. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2007 follows:

2007 Budgeted vs Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 184,520	\$ 35,192	\$ (149,328)
Special Revenue	22,712	21,937	(775)
Permanent	2,500	2,629	129
Enterprise	1,393,225	563,497	(829,728)

2007 Budgeted vs Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 186,809	\$ 115,456	\$ 71,353
Special Revenue	32,165	26,256	5,909
Permanent	4,000	100	3,900
Enterprise	1,453,842	456,804	997,038

Budgetary activity for the year ended December 31, 2006 follows:

2006 Budgeted vs Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 115,539	\$ 49,124	\$ (66,415)
Special Revenue	91,526	92,562	1,036
Permanent	3,000	2,672	(328)
Enterprise	671,405	173,200	(498,205)

2006 Budgeted vs Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 47,929	\$ 56,468	\$ (8,539)
Special Revenue	93,177	93,134	43
Permanent	3,000	1,692	1,308
Enterprise	720,875	216,890	503,987

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

5. DEBT

Debt outstanding at December 31, 2007, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loans	\$ 461,628	6.16%-7.45%
Ohio Public Works Commission Loans	<u>112,686</u>	0%-2%
Total	<u>\$ 574,314</u>	

The Ohio Water Development Authority (OWDA) loans relate to sewer plant expansion projects that were mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semiannual installments over 25 years. The loans are collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OPWC) loans relate to street resurfacing, bridge replacement and water system replacement projects. The loans will be repaid in semiannual installments over 20 years. The loans relating to street resurfacing and bridge replacement are collateralized by the Village's taxing authority. The loan relating to the water system replacement project is collateralized by water receipts. The Village has agreed to sufficiently set utility rates to cover OPWC debt service requirements.

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

<u>Year Ending December 31:</u>	<u>OWDA Loans</u>	<u>OPWC Loans</u>
2008	\$ 64,757	\$ 9,248
2009	64,757	9,248
2010	64,757	9,248
2011	64,757	9,248
2012	64,757	9,248
2013-2017	323,785	43,847
2018-2022	32,378	34,275
2023	<u>-0-</u>	<u>6,855</u>
Total	<u>\$ 679,948</u>	<u>\$131,217</u>

6. RETIREMENT SYSTEM

Most Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code. Those who do not belong to OPERS elected to enroll in Social Security. The Village's liability is 6.2 percent of wages paid.

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

6. RETIREMENT SYSTEM – (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, members of OPERS contributed 9.5 percent and 9.0 percent, respectively, of their wages. The Village contributes an amount equal to 13.85 percent and 13.70 percent, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained insurance for the following risks:

- Comprehensive property and general liability;
- Commercial Umbrella Liability;
- Law Enforcement Liability;
- Public Officials Liability; and
- Commercial Auto Liability.

There were no significant reductions in coverage from prior years and claims have not exceeded insurance coverage in any of the past three years. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is based on accident history and administrative costs.

9. CONTINGENT LIABILITIES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

10. BUDGETARY NONCOMPLIANCE

The Village had the following citations for budgetary noncompliance:

- Contrary to **Ohio Rev. Code Section 5705.41(B)**, the Village had expenditures that exceeded appropriations.
- Contrary to **Ohio Revised Code Section 5705.10**, the Village had negative fund balances.
- Contrary to **Ohio Revised Code Section 5705.36**, the Village had actual receipts below estimated receipts to which the deficiency reduced the estimated resources below appropriations.

**VILLAGE OF CLARINGTON
MONROE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

11. RESTATEMENT OF FUND BALANCE

	<u>12/31/05 Fund Balance</u>	<u>Restatement</u>	<u>Restated Fund Balance 1/1/06</u>
Fiduciary Fund:			
Nonexpendable Trust Fund	\$ 86,550	\$ (86,550)	\$ -0-
Governmental Fund Type:			
Permanent Fund	\$ -0-	\$ 86,550	\$ 86,550

The restatement was done to comply with the Auditor of State requirement stated in Bulletin 2005-005. Bulletin 2005-005 states that local governments that prepare non-GAAP, cash-basis financial statements are required to reclassify their nonexpendable and expendable trust funds as part of the governmental fund type or private purpose trust categories effective January 1, 2006.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Clarington
Monroe County
P.O Box 215
Clarington, OH 43915-0215

To the Village Council:

We have audited the financial statements of the Village of Clarington, Monroe County (the Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated November 11, 2008, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying Schedule of Findings, items 2007-VCMC-001 through 006 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe items 2007-VCMC-001 through 006 described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed several instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2007-VCMC-001 and 003 through 006.

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.

We noted certain matters that we have reported to management of the Village in a separate letter dated November 11, 2008.

This report is intended solely for the information and use of management, the audit committee and the Village Council. It is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.

November 11, 2008

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 & 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2007-VCMC-001
Noncompliance Citation and Material Weakness**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

We noted the following funds had expenditures that exceeded appropriations at the legal level of control at December 31, 2007:

Fund	Function	Object Level	Approved Appropriations	Budgetary Expenditures	Variance
General Fund	Public Safety	Street Lighting	\$ 3,500	\$ 3,579	\$ (79)
	Basic Utility	Natural Gas	900	965	(65)
	General Government / Mayor's Ofc	Salaries/Wages	5,400	5,690	(290)
	General Government / Mayor's Ofc	Benefits	414	463	(49)
	General Government / Council	Benefits	368	393	(25)
	General Government / Clerk/Treasurer's Ofc	Salaries/Wages	2,400	3,900	(1,500)

We noted the following funds had expenditures that exceeded appropriations at December 31, 2006:

Fund	Approved Appropriations	Budgetary Expenditures	Variance
General Fund	\$47,929	\$56,468	\$(8,539)
Special Revenue Fund			
Street, Construction, Maintenance & Repair Fund	19,776	20,411	(635)

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 & 2006**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</p>

**FINDING NUMBER 2007-VCMC-001
Noncompliance Citation and Material Weakness
(Continued)**

The Clerk/Treasurer should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(B). We recommend Village Council and the Clerk/Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

Village Response

The Clerk/Treasurer will review budgetary requirements and implement as necessary.

**FINDING NUMBER 2007-VCMC-002
Material Weakness**

Incorrect Accounting Transactions

During the audit of the Village's financial records for the years ended December 31, 2007 and 2006, we noted a number of transactions incorrectly recorded. The financial statements have been adjusted to present the accounting information correctly and the Village is in agreement with and has made the required adjustments to its financial records and is in agreement with the necessary reclassifications. Below is a listing of the various erroneous accounting transactions:

- During 2007 the Village recorded water receipts as Property Tax Receipts;
- During 2007 the Village recorded 2008 Intergovernmental Receipts as a deposit in transit as of December 31, 2007;
- During 2007 utility receipts were used as petty cash. These disbursements were deemed for a proper public purpose and were supported;
- During 2007 the Village did not remit withheld payroll taxes to either the State of Ohio or the Internal Revenue Service. The amounts however were recorded as payments. When discovered by the new Treasurer, to reconcile, the Treasurer recorded these amounts as miscellaneous revenue instead of reducing the payroll related accounts.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 & 2006**

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

(Continued)

FINDING NUMBER 2007-VCMC-002

Material Weakness

(Continued)

We recommend that the Village closely follow the Ohio Village Officers' Handbook and the Ohio Revised Code when recording transactions. We also recommend that the Village Financial Officer contact the Auditor of State for additional guidance as needed.

Village Response

We will closely follow the Ohio Village Officer's Handbook and the Ohio Revised Code when recording transactions and will seek additional guidance as needed.

FINDING NUMBER 2007-VCMC-003

Material Weakness – Noncompliance Citation –Negative Fund Balance

Ohio Revised Code Section 5705.10 prohibits the Village from having negative fund balances. The General Fund and the Enterprise Debt Service Fund were found to have negative cash fund balances at December 31, 2007.

Village Response

The former Clerk paid for construction project expenses with General Fund cash before requesting grant draws. The draw requests should have been made to coincide with the payment of project expenses. We will monitor future project activities and request grant draws to coincide with payment of future project expenses.

FINDING NUMBER 2007-VCMC-004

Noncompliance Citation and Material Weakness

Failure to Remit Withheld Payroll Taxes

Internal Revenue Code (IRC) Chapter 26 – Collection of Income Tax at Source on Wages; § 3403 states that employers are liable for payment of tax deducted and withheld. **Ohio Revised Code § 5747.07** also requires “an employer shall make the payment of undeposited taxes for each calendar quarter during which they were required to be withheld no later than the last day of the month following the last day of March, June, September, and December each year. The employer shall file the return prescribed by the tax commissioner with the payment.”

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 & 2006**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

**FINDING NUMBER 2007-VCMC-004
Noncompliance Citation and Material Weakness
(Continued)**

Beginning with the second quarter of 2007 the Village did not remit any income taxes deducted and withheld from employee's wages to either the State of Ohio or the Internal Revenue Service.

We recommend that the Village Clerk/Treasurer remit all deducted and withheld payroll taxes to the State of Ohio and the Internal Revenue Service in a timely manner.

Village Response

The new Clerk/Treasurer has begun repaying all unpaid withholdings and deductions to the State of Ohio and the Internal Revenue Service, along with current withholdings and deductions.

**FINDING NUMBER 2007-VCMC-005
Noncompliance Citation and Material Weakness**

Ohio Revised Code Section 5705.36 allows subdivisions to request increased amended certificates of estimated resources and reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 & 2006**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
(Continued)**

**FINDING NUMBER 2007-VCMC-005
Noncompliance Citation and Material Weakness
(Continued)**

The following funds had actual receipts which were less than budgeted receipts to which the deficiency reduced the estimated resources below the level of appropriations in the following amounts at December 31:

	2007
General Fund	\$(149,297)
Enterprise Fund:	
Enterprise Improvement Road	\$(855,038)
	2006
Enterprise Fund:	
Enterprise Improvement Road	\$(496,300)

By not amending its certificate of estimated resources, the Village cannot make reasonable decisions regarding the monies it has available for appropriation and expenditure. The Village Council should monitor its budgeted revenues versus its actual revenues throughout the year and amend its certificate of estimated resources and appropriations accordingly.

Village Response

The Clerk-Treasurer will review budgetary requirements and procedures and implement as necessary.

**FINDING NUMBER 2007-VCMC-006
Noncompliance Citation and Material Weakness**

Ohio Rev. Code Section 5705.10 places restriction on the purpose for which funds may be used. **Auditor of State Bulletin 97-003** sets forth requirements for inter-fund advances and provides additional guidance for recording such transactions. In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established.

**VILLAGE OF CLARINGTON
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 & 2006**

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

(Continued)

**FINDING NUMBER 2007-VCMC-006
Noncompliance Citation and Material Weakness
(Continued)**

During fiscal year 2006, the Village advanced \$10,000 from the Water Operating Fund (an Enterprise Fund) to the General Fund. There is no statutory authority for the General Fund to use Enterprise Fund money.

The Village is in agreement and the financial statements have been adjusted to reverse those transactions.

We recommend that the Village closely follow the Ohio Village Officers' Handbook and the Ohio Revised Code when recording all transactions, including advances.

Village Response

We will closely follow the Ohio Village Officer's Handbook and the Ohio Revised Code when recording transactions and will seek additional guidance as needed.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the years ending December 31, 2005 and 2004, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

VILLAGE OF CLARINGTON

MONROE 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
JANUARY 27, 2009**