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**Village of South Charleston**  
**Clark County, Ohio**

Financial Statements – Cash Basis  
December 31, 2008  
(with Independent Auditors' Report)





# Mary Taylor, CPA

Auditor of State

Village Commission  
Village of South Charleston  
35 South Chillicothe Street  
South Charleston, Ohio 45368

We have reviewed the *Independent Auditors' Report* of the Village of South Charleston, Clark County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2008 through December 31, 2008. 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 *Independent Auditors' Report* 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 *Independent Auditors' Report* 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 South Charleston is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

September 1, 2010

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## **INDEPENDENT AUDITORS' REPORT**

Village Commission  
Village of South Charleston, Ohio  
Clark County  
35 South Chillicothe Street  
South Charleston, Ohio 45368

We have audited the accompanying financial statements of the Village of South Charleston, Clark County, Ohio, (the Village) as of and for the year ended December 31, 2008. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the 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 discussed in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State of Ohio 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.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also to present the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State of Ohio permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements

The Village did not complete cash reconciliations during the audit period, its primary internal control procedure. Subsequent attempts to reconcile the Village's cash balances in the accounting records to the depository balances indicated the overall ending fund balance of the Village's funds as reported within these financial statements are overstated by \$75,097 at December 31, 2008. However, the Village could not identify which funds or which accounts within the funds needed to be adjusted to correct the ending cash balances.

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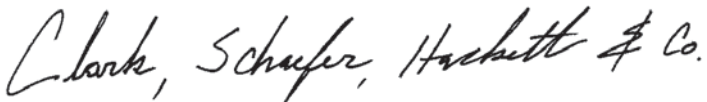
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In our opinion, because of the effects of the matter discussed the third and fourth paragraphs above, the financial statements referred to above, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2008, or its changes in financial position or cash flows, where applicable, for the year then ended.

Also, in our opinion, because of the effects of the matter discussed in the fifth paragraph above, the financial statements referred to above do not present fairly, in all material respects, the combined fund cash balances of the Village of South Charleston, Clark County, Ohio as of December 31, 2008.

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 June 30, 2010, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hachett & Co." The signature is written in black ink and is positioned above the typed name and date.

Springfield, Ohio  
June 30, 2010

VILLAGE OF SOUTH CHARLESTON  
CLARK COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 64,764	\$ -	\$ -	\$ 64,764
Municipal Income Tax	402,393	-	-	402,393
Intergovernmental Receipts	87,088	84,952	-	172,040
Charges for Services	-	18,062	-	18,062
Fines, Licenses, and Permits	39,704	923	-	40,627
Earnings on Investments	5,599	3,875	1,240	10,714
Contributions	18,761	-	-	18,761
Miscellaneous	15,788	-	-	15,788
<b>Total Cash Receipts</b>	<b>634,097</b>	<b>107,812</b>	<b>1,240</b>	<b>743,149</b>
Cash Disbursements:				
Current:				
Security of Persons and Property	167,992	-	-	167,992
Public Health Services	-	18,197	-	18,197
Transportation	-	64,405	-	64,405
General Government	396,250	-	-	396,250
Capital Outlay	248	39,240	-	39,488
<b>Total Cash Disbursements</b>	<b>564,490</b>	<b>121,842</b>	<b>-</b>	<b>686,332</b>
Total Receipts Over/(Under) Disbursements	69,607	(14,030)	1,240	56,817
Fund Cash Balances, January 1 (restated)	15,002	154,950	36,871	206,823
Fund Cash Balances, December 31	\$ 84,609	\$ 140,920	38,111	\$ 263,640

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

VILLAGE OF SOUTH CHARLESTON  
CLARK COUNTY, OHIO

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2008

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$ 453,931	\$ -	\$ 453,931
Court Fines & Costs	<u>-</u>	<u>23,503</u>	<u>23,503</u>
Total Operating Cash Receipts	<u>453,931</u>	<u>23,503</u>	<u>477,434</u>
Operating Cash Disbursements:			
Personal Services	51,348	-	51,348
Fringe Benefits	10,892	-	10,892
Contractual Services	103,600	-	103,600
Supplies and Materials	66,605	-	66,605
Other	3,673	-	3,673
Distribution of Court Fines	-	23,503	23,503
Capital Outlay	<u>222</u>	<u>-</u>	<u>222</u>
Total Operating Cash Disbursements	<u>236,340</u>	<u>23,503</u>	<u>259,843</u>
Operating Income/(Loss)	<u>217,591</u>	<u>-</u>	<u>217,591</u>
Non-Operating Cash Receipts:			
Earnings on Investments	<u>191</u>	<u>-</u>	<u>191</u>
Total Non-Operating Cash Receipts	<u>191</u>	<u>-</u>	<u>191</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	138,127	-	138,127
Interest and Other Fiscal Charges	<u>61,773</u>	<u>-</u>	<u>61,773</u>
Total Non-Operating Cash Disbursements	<u>199,900</u>	<u>-</u>	<u>199,900</u>
Net Receipts Over/(Under) Disbursements	17,882	-	17,882
Fund Cash Balances, January 1 (restated)	<u>277,109</u>	<u>-</u>	<u>277,109</u>
Fund Cash Balances, December 31	<u>\$ 294,991</u>	<u>\$ -</u>	<u>\$ 294,991</u>

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



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

### Description of the entity

The Village of South Charleston, Clark County (the Village), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. Pursuant to the provisions of Article XVIII of the Constitution of Ohio, the voters of the Village adopted a charter for the government of the Village on October 16, 1917. The Village is directed by a publicly-elected three-member Commission. The Village provides general governmental services, including water and sewer utilities, and police services.

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

### 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).

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

### Cash and investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit and U.S. Savings Bonds are valued at cost.

### Fund accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. 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 to be accounted for in another fund.

Special Revenue Funds – These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Fund:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Permanent Fund – The Village's only permanent fund is the Cemetery Bequest Fund used to account for financial resources donated for care and maintenance within the Cemetery.

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. This fund receives loan proceeds from the Ohio Water Development Authority to finance a utility plant expansion. This loan will be repaid from a utility surcharge, also accounted for in this fund.

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

Fiduciary Fund – Agency Fund - Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the mayor's court activity.

### **Budgetary Process**

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

Appropriations – Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Commission 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.

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 also approve 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 reappropriated. The Village did not encumber all commitments required by Ohio law.

A summary of 2008 budgetary activity appears in Note 3.

### **Property, plant and equipment**

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

### **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 investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. For the year ended December 31, 2008, the Village's bank balance was \$481,400. Of this amount, \$250,000 was insured; the remaining \$231,400 was collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name per Ohio Revised Code Section 135.181.

**3. BUDGETARY ACTIVITY:**

Budgetary activity for the year ending December 31, 2008 is as follows:

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 725,788	634,097	(91,691)
Special Revenue	128,342	107,812	(20,530)
Permanent	-	1,240	1,240
Enterprise	579,860	454,122	(125,738)
Total	\$ 1,433,990	1,197,271	(236,719)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 730,500	569,363	161,137
Special Revenue	275,829	133,519	142,310
Permanent	-	-	-
Enterprise	805,099	724,338	80,761
Total	\$ 1,811,428	1,427,220	384,208

Contrary to Ohio law, certain expenditure obligations were not properly encumbered, reduced amended certificates of estimated resources were not obtained when receipts collected were less than expected, and the Village did not adopt the annual appropriation measure at the required legal level of control.

**4. PROPERTY TAX:**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Commission. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**5. LOCAL INCOME TAX:**

The Village levies a municipal income tax of one 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. As of December 31, 2008, Regional Income Tax Agency (R.I.T.A) collected income taxes for the Village.

**6. DEBT OBLIGATIONS:**

The Village debt obligations outstanding at December 31, 2008 were as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan - #1896/0979	\$ 387,674	7.59%
Ohio Water Development Authority Loan - #3450/0279	42,154	2.00%
Ohio Water Development Authority Loan - #3454/143DW	1,321,398	2.00%
Ohio Water Development Authority Loan - #3941	50,416	2.00%
Ohio Water Development Authority Loan - #3573/CA	<u>54,561</u>	2.00%
	<u>\$ 1,856,203</u>	

The Ohio Water Development Authority (OWDA) loan #1896/0979 relates to a sewer plant expansion project; loan #3450/0279 relates to water tower painting project; loan #3454/143DW relates to a new well field and water system upgrade project; loan #3941 relates to a new waste water treatment plant pump station; and loan #3573/CA relates to water meter and tank improvements. The loans are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Annual debt service requirements to maturity for the OWDA loans are as follows:

Year Ending 12/31	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 143,791	\$ 57,247	\$ 201,038
2010	149,782	51,348	201,130
2011	156,119	45,105	201,224
2012	168,245	39,653	207,898
2013	175,955	32,548	208,503
2014-2018	631,358	79,883	711,241
2019-2023	427,105	17,756	444,861
2024	<u>3,848</u>	<u>59</u>	<u>3,907</u>
Total	<u>\$ 1,856,203</u>	<u>\$ 323,599</u>	<u>\$ 2,179,802</u>

In addition to the OWDA loans noted above, at the beginning of 2008 the Village had a \$100,600 Street Improvement Bond Anticipation Note payable through a local financial institution. The note was originally issued to finance the cost of street improvements to State Routes 41 and 42 within the Village limits. The Village Commission approved the issuance of this note on February 6, 2006. The proceeds from the sale of the note were received in May 2006 and posted to the Permissive Motor Vehicle special revenue fund.

The note carried a 5.39 percent rate of interest which was payable on January 15 of each year commencing in 2007, until the principal sum is paid. Principal payments of \$11,177.78 were due each January 15 of each year commencing in 2008 and continuing through 2016.

The debt service payments associated with this note were made in 2007 and 2008 however these payments were delinquent and not recorded by the Village in the accounting system. In May of 2008, the remaining balance of the note was paid by the Village but this expenditure was also not recorded in the accounting system. The early retirement of debt was not approved by the Village Commission.

#### **7. RETIREMENT SYSTEMS:**

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2008, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. For 2008, PERS members contributed 10% of their gross salaries and the Village contributed an amount equal to 14% of participants' gross salaries. As of December 31, 2008, the Village had paid 100% of its required contribution for 2008.

#### **8. RISK MANAGEMENT:**

##### **Risk pool membership**

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

##### **Casualty coverage**

PEP retains casualty risk up to \$350,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contribution to APEEP. APEEP reinsures claim exceeding \$350,000, and provides up to \$2,650,000 per claim and \$10,000,000 in aggregate per year.

If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to \$5,000,000 per year, subject to an aggregate of \$10,000,000. Governments can elect additional coverage, from \$3,000,000 to \$13,000,000, General Reinsurance Corporation.

**Property coverage**

Travelers reinsures specific losses exceeding \$250,000, and provides up to \$600,000,000 per occurrence. APEEP reinsures members for a specific loss exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined PEP members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600,000,000 per occurrence limit.

The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective PEP member.

**Financial position**

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2008:

Casualty Coverage

Assets	\$31,305,230
Liabilities	<u>(14,126,746)</u>
Retained earnings	<u>\$17,178,484</u>

Property Coverage

Assets	\$ 4,464,305
Liabilities	<u>(1,183,460)</u>
Retained earnings	<u>\$ 3,280,845</u>
# of Members	445
Unbilled claims to be billed	\$12.9 Million

The Pool's membership increased from 443 members in 2007 to 445 members in 2008.

The Pool uses reinsurance and excess risk-sharing arrangements to reduce its exposure to loss. These agreements permit recovery of a portion of its claims from reinsurers and a risk-sharing pool; however, they do not discharge the Pool's primary liability for such payments. The Pool is a member of American Public Entity Excess Pool ("APEEP"), which is also administered by ARPCO. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, the Pool retains insured risks up to an amount specified in the contracts. (At December 31, 2008 the Pool retained \$350,000 for casualty claims and \$100,000 for property claims). The Board of Directors and ARPCO periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

**9. CONTINGENT LIABILITIES:**

The Village is the defendant in a lawsuit. Although management cannot presently determine the outcome of the suit, management believes that the resolution of this matter will not materially adversely affect the Village's financial condition.

**10. FUND RECLASSIFICATION:**

Based on guidance provided by the Auditor of State, the Village has reclassified the cemetery bequest fund as of January 1, 2008 from a non-expendable trust fund to a permanent fund. As a result of this reclassification of this fund, \$36,871 of beginning cash balance previously reported as a non-expendable trust fund was reported as the beginning cash balance of the permanent fund.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Village Commission  
Village of South Charleston, Ohio  
Clark County  
35 South Chillicothe Street  
South Charleston, Ohio 45368

We have audited the financial statements of the Village of South Charleston, Ohio (the Village), as of and for the year ended December 31, 2008, and have issued our report thereon dated June 30, 2010, wherein we noted the Village prepares its financial statements using accounting practices prescribed or permitted by the Auditor of State of Ohio and that the financial statements of the Village did not present fairly, in all material respects, the combined fund cash balances or combined cash receipts and cash disbursements in accordance with the prescribed or permitted accounting practices. 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 control 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 opinion 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider items 2008-001 through 2008-007 described in the accompanying schedule of findings 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, and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2008-008 through 2008-012.

We also noted certain additional matters that we reported to management of the Village in a separate letter dated June 30, 2010.

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 response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Village Commission, the management of the Village and the Auditor of State of Ohio, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clark, Schaefer, Hackett & Co." The signature is written in black ink and is positioned above the printed name and date.

Springfield, Ohio  
June 30, 2010

**Finding Number 2008-001: Failure to Perform Bank Reconciliations**

For 2008, the Village Clerk did not perform accurate monthly bank reconciliations to the Village's records. The outstanding check listings were inaccurate and incomplete or not maintained for review. As a result, the Village hired an outside party subsequent to year end to reconcile its accounting records to the bank balance. The results of this reconciliation process indicated the overall ending fund balance of the Village's funds as reported within its accounting records were overstated at December 31, 2008. However, the Village could not identify which funds or which accounts within the funds needed to be adjusted to correct the ending cash balances.

Failure to accurately reconcile bank balances to the cash journal resulted in ongoing and undetected errors in the accounting system. The cash journal should be reconciled to the bank statements with an explanation of reconciling items on a monthly basis. The Village Commission should review monthly bank reconciliations and sign them to evidence their review to assist with the verification of accountability over Village assets.

Management response:

*The Village hired a new clerk in the fall of 2008. The new clerk puts bank reconciliations before the Commission at the end of each month for their signature. These reconciliations are on file in the Clerk's office.*

**Finding Number 2008-002: Segregation of Duties**

Adequate segregations of duties are important to adequately protect the assets of the Village and ensure accurate financial reporting. During 2008 the Village Clerk performed virtually all financial functions and duties with little or no monitoring by other individuals. Without proper segregation of duties or appropriate monitoring procedures in place, the risk increases that errors or fraud could occur and not be detected within a timely basis.

While it is recognized there will be some inherent limitations in the ability of the Village to adequately segregate all duties due to limited number of staff and budgetary constraints, the Village should institute appropriate monitoring controls within each accounting function which would provide assurance that information is being properly collected, recorded and reported. Such controls could include reviewing actual receipts compared with anticipated receipts, reviewing or performing monthly reconciliation procedures, reviewing and approving disbursements made during the period, and reviewing utility billing reports, including billing reports, receipt reports and outstanding accounts reports. Such procedures add an additional level of assurance that the financial activity of the Village is being processed in an accurate and complete manner.

Management response:

*The Village intends to institute the necessary reviews and monitoring controls needed when one individual performs all the duties within an accounting cycle. It is not financially feasible for the Village to add another position. All bills are put before the commission for payment approval. The exception being monthly utility bills that are due before the commission has a regularly scheduled meeting. Those bills are paid and a copy of them marked "PAID" are put before the commissioners.*

### **Finding Number 2008-003: Village Commission Fiduciary Responsibility and Maintenance of Financial Records**

As the governing body of the Village, the Commission has a number of responsibilities, including the ultimate responsibility for the Village's continued financial and operational stability. Each Commission member is elected by the public and entrusted with a fiduciary responsibility to ensure that the Village serves its purpose. The proper expenditure of public funds is a responsibility that should not be neglected. We encourage all Commission members to participate actively in Commission meetings and to continuously monitor the Village's financial operations. Active participation includes continuous monitoring of the Village's expenditures and revenues. During this review the Village Commission should be looking for unusual items and taking prompt action, as necessary. The Village Commission also needs to reevaluate the current internal control system in place and recommend changes as necessary.

For the year ended 2008, the Village's accounting records were maintained in a manner where information was missing and incomplete. The Village's fiscal operations were not monitored appropriately, which allowed the financial records to remain incomplete and inaccurate. The lack of monitoring financial activities ultimately results in Commission's inability to control resources and make sound financial decisions.

The posting of financial activity should be performed accurately and in a timely fashion, and bank reconciliations should be performed monthly, including reconciliations between bank balances and book balances. The Village Commission should review the financial reports on a monthly basis.

To assist with determining that accurate financial information is provided, the Commission should develop and implement policies and monitor control procedures for assurance as to the timeliness and reliability of financial information within the Village.

#### Management response:

*The Village has implemented many new policies and is constantly striving to improve the Village's record retention and controls. The new clerk puts financial reports before the commissioners twice a month. The commissioners have access to all reports at any given time.*

### **Finding Number 2008-004: Budgetary Information**

For 2008, there was no indication in the minutes of the Village Commission indicating the Commission's approval of appropriation resolutions or amendments nor could the budgetary documents containing such approval be provided.

Proper adoption and monitoring of the Village's operating budget is a significant monitoring control available to the Commission to ensure public funds are being spent appropriately and in accordance with the Commission's plans for the Village. Failure to appropriately develop, implement and monitor the budget reduces the effectiveness of this control and could result in funds being spent in a manner which is inconsistent with those of the governing board.

The Village should ensure all budgetary documents are properly adopted in an open meeting, recorded in the minutes of the Commission, and implemented as the overall spending control of the Village within the accounting system. Monthly budget to actual reports should be provided to the members of the Commission which would enable Commission members to determine if resources are being allocated in the manner deemed most appropriate for the Village.

#### Management response:

*The Village will develop and adopt future budgets within the requirements of State Law and will ensure those amounts are entered into the accounting system to monitor spending.*

**Finding Number 2008-005: Utility Billing Adjustments**

During the review of the 2008 utility billings by the Village it was noted there were several adjustments made to the original billings by the clerk, however, there was no supporting documentation maintained to identify the reason for these adjustments. In addition, there does not appear to be a standardized policy regarding when adjustments should be made and what approval must be gained prior to making such adjustments.

Credits or adjustments to the utility billing system should be continuously monitored to ensure all credits or adjustments are only made for the appropriate purpose and that all such adjustments are properly approved by a party independent of the billing process.

Management response:

*Management has been made aware of this issue and will implement policies and procedures to specify when adjustments to utility billings are appropriate as well as the approval process for such adjustments. The village has also hired a new Village Manager. He sees all adjustments and signs the report.*

**Finding Number 2008-006: Authorized Pay Rates**

There is no evidence of the approval of the current pay rates. During our testing of 2008 payroll transactions, we noted several instances in which the employees rate of pay did not agree with the Council approved pay ordinance that was effective beginning January 1, 2008. Since payroll is a major expense of the Village, we believe that Village Council should approve rate changes and the resulting new rates and that the approval should be documented through a Village Ordinance. Written authorization for pay rate changes should be maintained in the personnel file.

Management response:

*The Village changed personnel in three main positions. The Village is currently working on a new pay rate schedule that will have a range of pay per employee position.*

**Finding Number 2008-007: Debt Service Payments**

As noted in Note 6 to the financial statements, during 2008 the Village made debt service payments on a Street Improvement Bond Anticipation Note, including paying the note off in full in May 2008. However, the interest and principal payments made on the note were not recorded as expenditures within the accounting system, payments were not made in accordance with the terms of the note, and the early payoff of the note was not approved by the Village Commission. There is no indication that any principal or interest payment made against the note was made within the normal disbursement process of the Village.

The Village should establish appropriate controls to ensure all expenditures of funds are properly approved and recorded within the accounting system, including debt service payments. Such controls should address how bank transfers or electronic fund transfers should be authorized and recorded. In addition, any significant disbursement of funds which are not originally approved through the appropriation measure adopted by the Village Commission should be brought to the Commission for their review and approval in advance.

Management response:

*The positions of Village Manager and Clerk have been filled by new people. The current village manager and clerk communicate with the Commissioners on all levels.*

**Finding Number 2008-008: Public Property and Records**

Ohio Revised Code Section 149.351(A) requires that all records that are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by the Ohio Rev. Code Sections 149.38 through 149.42. For 2008, the Village employees were unable to locate various documents requested throughout the audit testing and analysis, including income tax information selected for testing, certain billing history/transaction reports and approved budgetary documentation.

The Village should ensure all records are adequately safeguarded. In addition, Village Commission should establish a records removal policy. This will assist with ensuring that Village records are not lost or destroyed.

**Management response:**

*The Village is aware of the above issue and is currently reviewing the procedures to prevent this condition from occurring in the future. A records retention program is in effect. The village has contracted with RITA to manage the tax collections.*

**Finding Number 2008-009: Prior Certification of Expenditures**

Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The section also provides the following exception to this requirement:

If no certificate is issued at the time the contract or order is presented for payment, the taxing authority may authorize the payment provided there are appropriated sufficient sums for the purpose of such contracts and is in the treasury or process of collection to the credit of an appropriate fund free from previous encumbrance provided such action is taken within thirty days of the contract date, and the amount is less than \$3,000. This is referred to as a "then and now certificate".

Numerous expenditures tested for 2008 were initiated without obtaining the prior certification of the Clerk. None of these expenditures met the exception provided for in section 5705.41(D) (i.e., then and now certificate). Procedures should be adopted by the Village that would assure that commitments are properly encumbered prior to the expenditure of Village funds.

**Management response:**

*The Village has implemented many new policies and does a much better job monitoring the certification of expenditures.*

**Finding Number 2008-010: Negative Ending Fund Balance**

Ohio Revised Code Section 5705.10 requires, in part, that all money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The permissive motor vehicle fund reported a negative ending fund cash balance at December 31, 2008.

The Village should monitor the ending individual fund balances on an on-going basis to ensure negative cash balances from one fund are not being covered by money from another fund.

**Management response:**

*The Village will institute the procedures noted above for the reconciliation process which will provide the necessary information to monitor the ending fund balances on an on-going basis.*

**Finding Number 2008-011: Amended Certificate of Estimated Resources**

Ohio Rev. Code Section 5705.36 allows subdivisions to request reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be less than the amount in the official certificate of estimated resources. A reduced amended certificate must be obtained if the amount of deficiency will reduce available resources below the current level of appropriation.

Based on the information available during the audit, the Village should have reduced its estimated resources for several funds during 2008 as the amount of actual receipts plus the beginning cash fund balance of those funds could not support the level of appropriations indicated by the Village's financial system.

The Village should monitor the cash receipts on an on-going basis to determine if the estimated resources, and subsequently appropriations level, need to be adjusted.

*Management response:*

*The Village will monitor cash receipts during the year and make any necessary adjustments to the estimated resources and adopted budget amounts based on the actual cash receipts received.*

**Finding Number 2008-012: Legal Level of Control**

The legal level of control is the level at which the appropriation measure is passed by the Village Council. Pursuant to the Village Charter, the Village has elected to follow the guidelines as set forth by the laws of the State of Ohio. Ohio Rev. Code Section 5705.38(C) states, an appropriation measure shall be classified, so as to set forth separately, the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services. The Village Commission currently approves appropriation measures at the fund level.

The Village should, at minimum, classify appropriation amounts for "personal services" and "other" for each fund.

*Management response:*

*The Village will adopt and approve future appropriations within the requirements of State Law and will ensure those amounts are properly classified between "personal services" and "other" within each fund.*

**Finding Number 2007-001: Failure to Perform Bank Reconciliations**

The Village Clerk did not perform accurate monthly bank reconciliations to the Village's records. The outstanding check listings were inaccurate and incomplete or not maintained for review.

*Status: Not corrected; reissued as Finding 2008-001.*

**Finding Number 2007-002: Segregation of Duties**

The Village did not have appropriate monitoring controls within each accounting function which provides assurance that information is being properly collected, recorded and reported.

*Status: Not corrected; reissued as Finding 2008-002.*

**Finding Number 2007-003: Village Commission Fiduciary Responsibility and Maintenance of Financial Records**

The Village's accounting records were maintained in a manner where information was missing and incomplete. The Village's fiscal operations were not monitored appropriately, which allowed the financial records to remain incomplete and inaccurate. The lack of monitoring financial activities ultimately results in Commission's inability to control resources and make sound financial decisions.

*Status: Not corrected; reissued as Finding 2008-003.*

**Finding Number 2007-004: Budgetary Information**

There was no indication in the minutes of the Village Commission indicating the Commission's approval of appropriation resolutions or amendments during either year being audited nor could the budgetary documents containing such approval be provided.

*Status: Not corrected; reissued as Finding 2008-004.*

**Finding Number 2007-005: Utility Billing Adjustments**

There was no supporting documentation for credits and adjustments made with the utility billing system. In addition, there does not appear to be a standardized policy regarding when adjustments should be made and what approval must be gained prior to making such adjustments.

*Status: Not corrected; reissued as Finding 2008-005.*

**Finding Number 2007-006: Public Property and Records**

The Village employees were unable to locate various documents requested throughout the audit testing and analysis, including income tax returns, certain billing history/transaction reports and approved budgetary documentation.

*Status: Not corrected; reissued as Finding 2008-008.*



**Finding Number 2007-007: Prior Certification of Expenditures**

Numerous expenditures tested for 2007 and 2006 were initiated without obtaining the prior certification of the Clerk. None of these expenditures met the exception provided for in section 5705.41(D) (i.e., then and now certificate).

*Status: Not corrected; reissued as Finding 2008-009.*

**Finding Number 2007-008: Negative Ending Fund Balance**

The Village's general fund reported a negative fund balance at December 31, 2006 indicating that money from one fund was used to cover the expenses of another fund.

*Status: Not corrected; reissued as Finding 2008-010.*

**Finding Number 2007-009: Amended Certificate of Estimated Resources**

The Village should have reduced its estimated resources for several funds during 2007 and 2006 as the amount of actual receipts plus the beginning cash fund balance of those funds could not support the level of appropriations indicated by the Village's financial system.

*Status: Not corrected; reissued as Finding 2008-011.*





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**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF SOUTH CHARLESTON**

**CLARK 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  
SEPTEMBER 14, 2010**