
Village of South Charleston
Clark County, Ohio

Financial Statements – Cash Basis
December 31, 2009
(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, 2009 through December 31, 2009. 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.

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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, 2009. 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 more fully 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 following paragraph does not imply the amounts reported are materially misstated under the accounting basis permitted by the Auditor of State. 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 year ended December 31, 2009 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, 2009, or its changes in financial position or cash flows, where applicable for the year then ended.

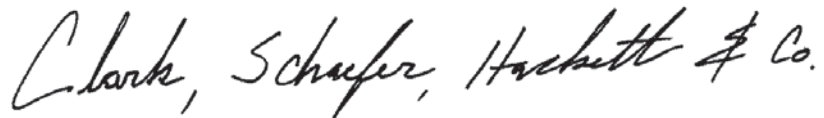
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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of South Charleston, Clark County, Ohio as of December 31, 2009, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

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

A handwritten signature in cursive script that reads "Clark, Schaefer, Hackett & 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

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 61,991	\$ -	\$ -	\$ 61,991
Municipal Income Tax	393,240	-	-	393,240
Intergovernmental Receipts	77,496	108,574	-	186,070
Charges for Services	-	12,756	-	12,756
Fines, Licenses, and Permits	43,836	1,057	-	44,893
Earnings on Investments	809	561	158	1,528
Miscellaneous	3,353	-	-	3,353
Total Cash Receipts	580,725	122,948	158	703,831
Cash Disbursements:				
Current:				
Security of Persons and Property	162,190	-	-	162,190
Public Health Services	-	15,909	-	15,909
Transportation	-	68,926	-	68,926
General Government	346,541	-	-	346,541
Capital Outlay	21,232	42,109	-	63,341
Total Cash Disbursements	529,963	126,944	-	656,907
Total Receipts Over/(Under) Disbursements	50,762	(3,996)	158	46,924
Other Financing Receipts and (Disbursements):				
Transfers-In	2,267	42,014	-	44,281
Transfers-Out	(22,167)	(24,043)	-	(46,210)
Total Other Financing Receipts/(Disbursements)	(19,900)	17,971	-	(1,929)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	30,862	13,975	158	44,995
Fund Cash Balances, January 1 (restated)	132,273	50,165	5,882	188,320
Fund Cash Balances, December 31	\$ 163,135	\$ 64,140	\$ 6,040	\$ 233,315

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

VILLAGE OF SOUTH CHARLESTON
CLARK COUNTY

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, 2009

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$ 441,145	\$ -	\$ 441,145
Court Fines & Costs	<u>-</u>	<u>30,776</u>	<u>30,776</u>
Total Operating Cash Receipts	<u>441,145</u>	<u>30,776</u>	<u>471,921</u>
Operating Cash Disbursements:			
Personal Services	59,624	-	59,624
Fringe Benefits	12,647	-	12,647
Contractual Services	125,613	-	125,613
Supplies and Materials	52,022	-	52,022
Other	4,001	-	4,001
Distribution of Court Fines	-	30,776	30,776
Capital Outlay	<u>11,867</u>	<u>-</u>	<u>11,867</u>
Total Operating Cash Disbursements	<u>265,774</u>	<u>30,776</u>	<u>296,550</u>
Operating Income/(Loss)	<u>175,371</u>	<u>-</u>	<u>175,371</u>
Non-Operating Cash Disbursements:			
Redemption of Principal	143,791	-	143,791
Interest and Other Fiscal Charges	<u>56,402</u>	<u>-</u>	<u>56,402</u>
Total Non-Operating Cash Disbursements	<u>200,193</u>	<u>-</u>	<u>200,193</u>
Excess of Receipts Over/(Under) Disbursements	<u>(24,822)</u>	<u>-</u>	<u>(24,822)</u>
Other Financing Receipts			
Transfers-In	<u>1,929</u>	<u>-</u>	<u>1,929</u>
Total Other Financing Receipts	<u>1,929</u>	<u>-</u>	<u>1,929</u>
Net Receipts Over/(Under) Disbursements	(22,893)	-	(22,893)
Fund Cash Balances, January 1 (restated)	<u>295,214</u>	<u>-</u>	<u>295,214</u>
Fund Cash Balances, December 31	<u>\$ 272,321</u>	<u>\$ -</u>	<u>\$ 272,321</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 Fund – 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 2009 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, 2009, the Village's bank balance was \$522,921. Of this amount, \$250,000 was insured; the remaining \$272,921 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 years ending December 31, 2009 is as follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 669,663	582,992	(86,671)
Special Revenue	128,341	164,962	36,621
Permanent	-	158	158
Enterprise	579,860	443,074	(136,786)
Total	<u>\$ 1,377,864</u>	<u>1,191,186</u>	<u>(186,678)</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 672,773	552,130	120,643
Special Revenue	151,277	150,987	290
Permanent	-	-	-
Enterprise	1,011,948	465,967	545,981
Total	<u>\$ 1,835,998</u>	<u>1,169,084</u>	<u>666,914</u>

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, 2009, Regional Income Tax Agency (R.I.T.A) collected income taxes for the Village.

6. DEBT:

Debt outstanding at December 31, 2009 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan - #1896/0979	\$ 334,279	7.59%
Ohio Water Development Authority Loan - #3450/0279	39,405	2.00%
Ohio Water Development Authority Loan - #3454/143DW	1,235,222	2.00%
Ohio Water Development Authority Loan - #3941	47,503	2.00%
Ohio Water Development Authority Loan - #3573/CA	56,003	2.00%
	\$ 1,712,412	

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	Principal	Interest	Total
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	183,485	25,019	208,504
2015-2019	565,523	62,898	628,421
2020-2024	313,303	9,780	323,083
Total	\$ 1,712,412	\$ 266,351	\$ 1,978,763

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 2009, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. For 2009, 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, 2009, the Village had paid 100% of its required contribution 2009.

8. RESTATEMENT OF FUND CASH BALANCES

During 2009, the Village determined that various fund cash balances were not properly stated. At January 1, 2009 the beginning fund cash balances for the following funds were restated based on an analysis and reconstruction of fund balance by the Auditor of State's Office as follows:

	Balance January 1, 2009	Correction of Revenues/ Expenses	Balance January 1, 2009 as Restated
Governmental Fund Types			
General Fund	\$ 84,609	\$ 47,664	\$ 132,273
Special Revenue Funds	140,920	(90,755)	50,165
Permanent Fund	38,111	(32,229)	5,882
Proprietary Fund Types			
Enterprise Funds	294,991	223	295,214
Total	<u>\$ 558,631</u>	<u>\$ (75,097)</u>	<u>\$ 483,534</u>

9. 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 (the latest information available):

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.

10. 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.

**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, 2009, 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. 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.

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 2009-001 through 2009-004 described in the accompanying schedule of findings to be material weaknesses.

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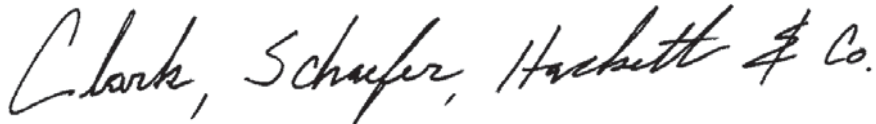
Compliance and other matters

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 2009-005 through 2009-008.

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 black ink that reads "Clark, Schaefer, Hackett & Co." in a cursive script.

Springfield, Ohio
June 30, 2010

Finding Number 2009-001: Segregation of Duties

Adequate segregations of duties are important to adequately protect the assets of the Village and ensure accurate financial reporting. During the years audited, 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 2009-002: Budgetary Information

For 2009, 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 2009-003: Negative Encumbrances

At the beginning of 2009, the Village completed a cash reconciliation and addressed various improper postings in its accounting system. As part of this process, amounts reported as outstanding encumbrances as of December 31, 2008 were reviewed and adjusted. The resulting amount of carry-over encumbrances for 2009 was approximately a negative \$25,000. The negative carryover encumbrance amount indicates the Village did not properly monitor the encumbrances cancelled during the reconciliation process at the beginning of 2009. Encumbrances represent commitments related to unperformed contracts for goods and services and the Village cannot legally expend more than the amount authorized or encumbered.

The Village should implement appropriate internal control procedures over the purchase order process to ensure that the amount of encumbrances at the end of a year represent valid commitments of resources to help ensure compliance with budgetary laws and regulations as well ensuring accurate encumbrance amounts are reported on the financial statements.

Management response:

The Village has implemented many new policies and does a much better job monitoring the purchase order process.

Finding Number 2009-004: Authorized Pay Rates

There is no evidence of the approval of the current pay rates. During our testing of 2009 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, 2009. 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 2009-005: 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 2009 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 2009-006: 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 2009 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 2009-007: Legal Level of Control

The legal level 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 2009-008: Expenditures Exceeding Appropriations

Ohio Rev. Code section 5705.41(B) prohibits the expenditure of monies by a subdivision unless it has been properly appropriated. Budgetary expenditures (expenditures plus encumbrances) exceeding appropriations at the legal level of control, enacted through the appropriation resolution, were noted throughout the year in two funds.

The Village should ensure expenditures and encumbrances do not exceed the appropriation levels established by the Village Commission through the appropriation resolutions and subsequent amendments. Any changes necessary to the appropriation accounts should be made prior to the expenditure or encumbrance being incurred rather than after they have occurred.

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 2008-001: 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: Corrected.

Finding Number 2008-002: 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 2009-001.

Finding Number 2008-003: 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: Corrected.

Finding Number 2008-004: 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 2009-002.

Finding Number 2008-005: 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: Corrected.

Finding Number 2008-006: Authorized Pay Rates

There is no evidence of the approval of the current pay rates. Employees rates of pay did not agree with the Council approved pay ordinance.

Status: Not corrected; reissued as Finding 2009-004.

Finding Number 2008-007: Debt Service Payments

Debt service payments related to the Village's Bond Anticipation Note were not paid in accordance with the terms within signed agreement with the bank.

Status: Corrected.

Finding Number 2008-008: 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: Corrected.

Finding Number 2008-009: Prior Certification of Expenditures

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).

Status: Not corrected; reissued as Finding 2009-005.

Finding Number 2008-010: Negative Ending Fund Balance

The Village's general fund reported a negative fund balance at December 31, 2008 indicating that money from one fund was used to cover the expenses of another fund.

Status: Corrected

Finding Number 2008-011: Amended Certificate of Estimated Resources

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.

Status: Not corrected; reissued as Finding 2009-006.

Finding Number 2008-012: Legal Level of Control

The Village Commission currently approves appropriation measures at the fund level. 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.

Status: Not corrected; reissued as Finding 2009-007.



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success



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**