

VILLAGE OF PALESTINE

Darke County

Regular Audit

January 1, 2009 through December 31, 2010

Fiscal Years Audited Under GAGAS: 2009 and 2010



Caudill & Associates, CPA

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Dave Yost • Auditor of State

Village Council
Village of Palestine
P.O. Box B
Palestine, Ohio 45352

We have reviewed the *Independent Auditor's Report* of the Village of Palestine, Darke County, prepared by Caudill & Associates, CPAs, for the audit period January 1, 2009 through December 31, 2010. 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 Auditor's 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 Auditor's 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 Palestine is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 17, 2011

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VILLAGE OF PALESTINE
DARKE COUNTY

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INDEPENDENT AUDITOR'S REPORT

Village of Palestine
Darke County
P.O. Box B
Palestine, Ohio 45352

To the Village Council:

We have audited the accompanying financial statements of the Village of Palestine, Darke County, (the Village) as of and for the years ended December 31, 2010 and 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting 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 permits, but does not require Villages 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 the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 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, 2010 and 2009, or its changes in financial position for the years then ended.

Village of Palestine
Darke County
Independent Auditor's Report (Continued)

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 Palestine, Darke County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years 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 July 16, 2011, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Caudill & Associates, CPA

Caudill & Associates, CPA
July 16, 2011

**VILLAGE OF PALESTINE
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 2,229	\$ -	\$ 2,229
Intergovernmental	29,170	11,975	41,145
Fines, Licenses and Permits	548	-	548
Miscellaneous	591	100	691
	<u>32,538</u>	<u>12,075</u>	<u>44,613</u>
Total Cash Receipts			
	<u>32,538</u>	<u>12,075</u>	<u>44,613</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	6,677	-	6,677
Public Health Services	571	-	571
Basic Utility Service	190	-	190
Transportation	-	14,002	14,002
General Government	19,001	-	19,001
	<u>26,439</u>	<u>14,002</u>	<u>40,441</u>
Total Cash Disbursements			
	<u>26,439</u>	<u>14,002</u>	<u>40,441</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>6,099</u>	<u>(1,927)</u>	<u>4,172</u>
Fund Cash Balances, January 1	<u>19,839</u>	<u>23,226</u>	<u>43,065</u>
Fund Cash Balances, December 31	<u>\$ 25,938</u>	<u>\$ 21,299</u>	<u>\$ 47,237</u>

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

**VILLAGE OF PALESTINE
DARKE 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**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 2,909	\$ -	\$ 2,909
Intergovernmental	28,221	10,410	38,631
Fines, Licenses and Permits	417	-	417
Miscellaneous	3,476	145	3,621
Total Cash Receipts	<u>35,023</u>	<u>10,555</u>	<u>45,578</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	6,570	-	6,570
Public Health Services	500	-	500
Leisure Time Activities	3,400	-	3,400
Basic Utility Service	171	-	171
Transportation	5,250	11,813	17,063
General Government	17,369	-	17,369
Total Cash Disbursements	<u>33,260</u>	<u>11,813</u>	<u>45,073</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>1,763</u>	<u>(1,258)</u>	<u>505</u>
Fund Cash Balances, January 1	<u>18,076</u>	<u>24,484</u>	<u>42,560</u>
Fund Cash Balances, December 31	<u>\$ 19,839</u>	<u>\$ 23,226</u>	<u>\$ 43,065</u>

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

**VILLAGE OF PALESTINE
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Palestine, Darke County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services and park activities (leisure time activities). The Village contracts with the Darke County Sheriff's department to provide security of persons and property. The Village provides fire and emergency medical services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village maintains all funds in demand accounts.

D. 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:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

Park Fund – This fund receives grants and donations to fund maintenance of the Village Park.

**VILLAGE OF PALESTINE
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

E. Budgetary Process

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

1. Appropriations

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

2. 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.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. There were no encumbrances for 2010 and 2009.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

2. Equity in Pooled Deposits and Investments

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

	<u>2010</u>	<u>2009</u>
Demand deposits	<u>\$47,237</u>	<u>\$43,065</u>

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

**VILLAGE OF PALESTINE
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$34,200	\$32,538	(\$1,662)
Special Revenue	10,603	12,075	1,472
Total	\$44,803	\$44,613	(\$190)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$55,878	\$26,439	\$29,439
Special Revenue	32,432	14,002	18,430
Total	\$88,310	\$40,441	\$47,869

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$37,000	\$35,023	(\$1,977)
Special Revenue	11,875	10,555	(1,320)
Total	\$48,875	\$45,578	(\$3,297)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$55,110	\$33,260	\$21,850
Special Revenue	36,495	11,813	24,682
Total	\$91,605	\$45,073	\$46,532

4. Property Tax

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

**VILLAGE OF PALESTINE
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

Public utilities are also taxed on personal and real personal 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.

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

5. Retirement Systems

One part-time employee and two Village Councilmen belong to the Ohio Public Employees Retirement System (OPERS). OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equal to 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2010.

6. Risk Management

Commercial Insurance – The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Comprehensive vehicle liability, and
- Inland marine

7. Compliance

Contrary to Ohio Rev. Code Section 5705.41(D), the Village did not properly certify the availability of funds prior to obligation for 48% and 41% disbursements tested in 2009 and 2010, respectively.

Contrary to Ohio Rev. Code Section 5705.36, appropriations exceeded actual resources during 2009 in the General Fund, Street Construction, Maintenance, and Repair Fund, State Highway Fund and Park Fund by \$1,977, \$372, \$93 and \$855, respectively. Appropriations exceeded actual resources during 2010 in the General Fund and Street Construction, Maintenance, and Repair Fund by \$1,662 and \$592, respectively.

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources during 2010 in the General Fund by \$1,839.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Palestine
Darke County
P.O. Box B
Palestine, Ohio 45352

To the Village Council:

We have audited the financial statements of the Village of Palestine, Darke County, (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated July 16, 2011, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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 audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of 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 timely corrected. We consider finding 2010-04 described in the accompanying schedule of findings and responses to be a material weakness.

Village of Palestine
Darke County
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards* (Continued)

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed three instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2010-01, 2010-02 and 2010-03.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 16, 2011.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, Village Council, others within the Village and the Auditor of State. We intend it for no one other than these specified parties.

A handwritten signature in blue ink that reads "Caudill & Associates, CPA". The signature is written in a cursive style and is positioned above a horizontal line.

Caudill & Associates, CPA
July 16, 2011

**VILLAGE OF PALESTINE
DARKE COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-01

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)

Ohio Rev. Code Section 5705.41(D)(1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached 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 following exceptions to this basic requirement are provided by the Ohio Rev. Code Section 5705.41 (D) (1):

Then and Now Certificate: If the fiscal officer can certify that both at the time the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has 30 days from the receipt of the “then and now” certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

The Village did not properly certify the availability of funds prior to obligation for 15% and 23% disbursements tested in 2009 and 2010, respectively.

We recommend the Village implement policies to ensure that all purchases first have monies certified by the fiscal officer before purchasing or ordering an item. We also recommend the use of a “then and now” certificate in instances of emergency or absence of proper authority.

Village Response:

The Village will follow auditor’s recommendations in the future.

**VILLAGE OF PALESTINE
DARKE COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-02

Noncompliance Citation – Ohio Rev. Code Section 5705.36

5705.36(A)(5) states total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

Appropriations exceeded actual resources during 2009 in the General Fund, Street Construction, Maintenance, and Repair Fund, State Highway Fund and Park Fund by \$1,977, \$372, \$93 and \$855, respectively. Appropriations exceeded actual resources during 2010 in the General Fund and Street Construction, Maintenance, and Repair Fund by \$1,662 and \$592, respectively.

We recommend the Village monitor and modify appropriations as needed to ensure appropriations or amended appropriations do not exceed official estimates or amended official estimates of resources.

Village Response:

The Village will follow auditor's recommendations in the future.

FINDING NUMBER 2010-03

Noncompliance Citation – Ohio Rev. Code Section 5705.39

Ohio Rev. Code Section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

During 2010, appropriations exceeded estimated resources in General Fund by \$1,839.

We recommend the Village periodically review appropriations and estimated resources to ensure appropriations are limited by estimated resources.

Village Response:

The Village will follow auditor's recommendations in the future.

**VILLAGE OF PALESTINE
DARKE COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-04

Misclassification of Receipts – Material Weakness

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants must follow in conducting audits of proprietary institutions. SAS No. 115 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client's internal control over financial reporting. This new standard requires the auditor to report in writing to management and the governing body any control deficiencies found during the audit that are considered deficiencies, significant deficiencies and/or material weaknesses.

During 2010, the Village erroneously posted intergovernmental receipts as miscellaneous receipts that required adjustment to fairly present the activity of the Village.

We recommend the Village implement control procedures related to financial reporting that enable management to identify, prevent, detect and correct potential misstatements in the financial statements and footnote disclosures.

Village Response:

The Village will follow auditor's recommendations in the future.

**VILLAGE OF PALESTINE
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-01	Noncompliance citation – ORC 5705.41(D)	No	Reissued as Finding 2010-01
2008-02	Noncompliance citation – ORC 5705.41(B)	Yes	Corrected
2008-03	Noncompliance citation – ORC 5705.39	No	Reissued as Finding 2010-03
2008-04	Material weakness – Misclassification of receipts	No	Reissued as Finding 2010-04
2008-05	Material weakness – Lack of segregation	Yes	Corrected



Dave Yost • Auditor of State

VILLAGE OF PALESTINE

DARKE 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
NOVEMBER 10, 2011