



Mary Taylor, CPA
Auditor of State

VILLAGE OF DONNELSVILLE
CLARK COUNTY

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Mary Taylor, CPA
Auditor of State

Village of Donnelsville
Clark County
15 South Hampton Street, P.O. Box 36
Donnelsville, Ohio 45319

To the Mayor and the Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village 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. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 28, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Donnelsville
Clark County
15 South Hampton Street, P.O. Box 36
Donnelsville, Ohio 45319

To the Mayor and the Council:

We have audited the accompanying financial statements of the Village of Donnelsville, Clark County, (the Village) as of and for the years ended December 31, 2008 and 2007. 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. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 requires 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, 2008 and 2007 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 and 2007, or its changes in financial position or cash flows, where applicable for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Donnelsville, Clark County, as of December 31, 2008 and 2007, 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 January 28, 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. 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.



Mary Taylor, CPA
Auditor of State

January 28, 2010

**VILLAGE OF DONNELSVILLE
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, 2008**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$33,683		\$33,683
Intergovernmental	10,893	\$19,657	30,550
Charges for Services	2,640		2,640
Fines, Licenses and Permits	8,414		8,414
Earnings on Investments	12,670		12,670
Miscellaneous	46		46
Total Cash Receipts	<u>68,346</u>	<u>19,657</u>	<u>88,003</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	19,077		19,077
Transportation		24,914	24,914
General Government	38,633		38,633
Total Cash Disbursements	<u>57,710</u>	<u>24,914</u>	<u>82,624</u>
Total Receipts Over/(Under) Disbursements	<u>10,636</u>	<u>(5,257)</u>	<u>5,379</u>
Fund Cash Balances, January 1	<u>91,393</u>	<u>97,492</u>	<u>188,885</u>
Fund Cash Balances, December 31	<u>\$102,029</u>	<u>\$92,235</u>	<u>\$194,264</u>
Reserve for Encumbrances, December 31	<u>\$4,634</u>	<u>\$21</u>	<u>\$4,655</u>

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

**VILLAGE OF DONNELSVILLE
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, 2008**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$141,139		\$141,139
Fines and Costs		\$7,723	7,723
Total Operating Cash Receipts	<u>141,139</u>	<u>7,723</u>	<u>148,862</u>
Operating Cash Disbursements:			
Personal Services	2,854		2,854
Contractual Services	57,455		57,455
Supplies and Materials	135		135
Remittance to State		1,704	1,704
Remittance to Village		7,691	7,691
Total Operating Cash Disbursements	<u>60,444</u>	<u>9,395</u>	<u>69,839</u>
Operating Income/(Loss)	<u>80,695</u>	<u>(1,672)</u>	<u>79,023</u>
Non-Operating Disbursements:			
Redemption of Principal	(79,349)		(79,349)
Interest and other Fiscal Charges	(27,414)		(27,414)
Total Non-Operating Disbursements	<u>(106,763)</u>		<u>(106,763)</u>
Net Receipts (Under) Disbursements	(26,068)	(1,672)	(27,740)
Fund Cash Balances, January 1	<u>527,186</u>	<u>1,672</u>	<u>528,858</u>
Fund Cash Balances, December 31	<u>501,118</u>		<u>501,118</u>
Reserve for Encumbrances, December 31	<u>\$25,911</u>	<u>\$0</u>	<u>\$25,911</u>

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

**VILLAGE OF DONNELSVILLE
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, 2007**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$9,813		\$9,813
Intergovernmental	6,770	\$19,006	25,776
Charges for Services	2,880		2,880
Fines, Licenses and Permits	15,842		15,842
Earnings on Investments	23,770	821	24,591
Miscellaneous	133		133
Total Cash Receipts	<u>59,208</u>	<u>19,827</u>	<u>79,035</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	20,617		20,617
Transportation		522	522
General Government	37,394		37,394
Total Cash Disbursements	<u>58,011</u>	<u>522</u>	<u>58,533</u>
Total Receipts Over Disbursements	<u>1,197</u>	<u>19,305</u>	<u>20,502</u>
Other Financing Receipts:			
Refund of Prior period disbursements	410		410
Total Other Financing Receipts	<u>410</u>		<u>410</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	1,607	19,305	20,912
Fund Cash Balances, January 1	<u>89,786</u>	<u>78,187</u>	<u>167,973</u>
Fund Cash Balances, December 31	<u>\$91,393</u>	<u>\$97,492</u>	<u>\$188,885</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**VILLAGE OF DONNELSVILLE
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, 2007**

	<u>Proprietary Fund Types</u>	<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating Cash Receipts:			
Charges for Services	\$90,330		\$90,330
Fines and Costs		\$6,142	6,142
Total Operating Cash Receipts	<u>90,330</u>	<u>6,142</u>	<u>96,472</u>
Operating Cash Disbursements:			
Contractual Services	78,031		78,031
Remittance to State		5,556	5,556
Remittance to Village		14,745	14,745
Other	17,869		17,869
Total Operating Cash Disbursements	<u>95,900</u>	<u>20,301</u>	<u>116,201</u>
Operating Loss	<u>(5,570)</u>	<u>(14,159)</u>	<u>(19,729)</u>
Non-Operating Receipts/Disbursements:			
Intergovernmental	44,021		44,021
Loan Proceeds	13,642		13,642
Redemption of Principal	(44,021)		(44,021)
Interest and Other Fiscal Charges	(13,642)		(13,642)
Refund of Prior Period Receipts		(460)	(460)
Refund of Prior Period disbursements		5	5
Total Non-Operating Receipts/Disbursements		<u>(455)</u>	<u>(455)</u>
Net Receipts (Under) Disbursements	(5,570)	(14,614)	(20,184)
Fund Cash Balances, January 1	<u>532,756</u>	<u>16,286</u>	<u>549,042</u>
Fund Cash Balances, December 31	<u><u>\$527,186</u></u>	<u><u>\$1,672</u></u>	<u><u>\$528,858</u></u>
Reserve for Encumbrances, December 31	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

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

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

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 Donnelsville, Clark County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides sewer utility and police services. The Village contracts with Bethel Township to receive fire protection 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 prescribed or permitted by the Auditor of State.

C. Deposits and Investments

Money market mutual funds checking account is recorded at share values the mutual funds report.

The Village has no investments.

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 (SCM&R) - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

7.5% Highway Fund – This fund receives gasoline tax and motor vehicle tax money for constructing and repairing highways.

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Enterprise Funds

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

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

4. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs.

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 court fines and distribution of court fines to appropriate jurisdictions.

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

A summary of 2008 and 2007 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.

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

2 EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	2008	2007
Demand deposits	\$695,382	\$717,743
Total deposits	\$695,382	\$717,743

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 46,750	\$ 68,346	\$21,596
Special Revenue	18,500	19,657	1,157
Enterprise	68,000	141,139	73,139
Total	\$133,250	\$229,142	\$95,892

2008 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 54,866	\$ 62,344	(\$ 7,478)
Special Revenue	65,500	24,935	40,565
Enterprise	178,424	193,118	(14,694)
Total	\$298,790	\$280,397	\$18,393

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$ 59,618	\$ 59,618
Special Revenue	0	19,827	19,827
Enterprise	0	147,993	147,993
Total	\$0	\$227,438	\$227,438

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$ 58,011	(\$58,011)
Special Revenue	0	522	(522)
Enterprise	0	153,563	(153,563)
Total	\$0	\$212,096	(\$212,096)

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, the Village did not obtain certificates or estimates resources or adopt appropriation measures for 2007 on or about the first day of the fiscal year. Budgetary expenditures exceeded appropriation authority in the General fund, Highway fund and Sewer fund by \$7,478, \$6,225, and \$14,694, respectively, for the year ended December 31, 2008. Also, budgetary expenditures exceeded appropriation authority in the General fund, SCM&R fund and Sewer fund by \$58,011, \$522, and \$153,563, respectively, for the year ended December 31, 2007.

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.

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.

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

5. DEBT

Debt outstanding at December 31, 2008 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan	\$2,680,421	1%

The Ohio Water Development Authority (OWDA) loan relates to the Ohio Environmental Protection Agency mandated sewer project that completed during 2006. The loan amount for the project is \$2,759,784. The Village will repay the loans in semiannual installments of \$53,354, including interest, over 30 years. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

As of December 31, 2008, the principal balance outstanding is \$2,680,421. Principal and interest requirements to retire the loan outstanding at December 31, 2008, are as follows:

Year Ending December 31:	Principal	Interest	Amount
2009	\$ 80,050	\$ 26,605	\$ 106,655
2010	80,906	25,802	106,708
2011	81,718	24,990	106,708
2012	82,537	24,171	106,708
2013	83,364	23,344	106,708
2014-2018	429,528	104,016	533,544
2019-2023	451,493	82,051	533,544
2024-2028	474,583	58,961	533,544
2029-2033	498,853	34,691	533,544
2034-2037	417,389	9,446	426,835
Total	\$2,680,421	\$414,077	\$3,094,498

**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

6. RETIREMENT SYSTEMS

The Village's part-time police officers and clerk-treasurer belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan's benefits, which include postretirement healthcare and survivor disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 9.5% and 10% of their gross salaries and the Village contributed an amount equaling 13.85% and 14% of participants gross salaries for 2007 and 2008, respectively. The Village has paid all contributions required through December 31, 2008.

7. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

8. CONTINGENT LIABILITIES

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

9. SUBSEQUENT EVENTS

The Village Council approved the purchase of a new dump truck and equipment on May 4, 2009 in the amount of \$54,305. The purchase was paid from the Street Construction, Maintenance and Repair Fund.

The Village Council approved the payment of \$42,000 to Clark County Utilities for outstanding sewer tap in fees on March 2, 2009. The payment was made from the Sewer Fund.

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Mary Taylor, CPA

Auditor of State

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

Village of Donnelsville
Clark County
15 South Hampton Street, P.O. Box 36
Donnelsville, Ohio 45319

To the Mayor and the Council:

We have audited the financial statements of the Village of Donnelsville, Clark County, (the Village) as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated January 28, 2010 wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 expressing our opinion on the financial statements, but not to opine 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 preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

**Internal Control over Financial Reporting
(Continued)**

We consider findings 2008-001, 2008-006 and 2008-012 through 2008-015 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. Of the significant deficiencies described above, we believe findings number 2008-001, 2008-006 and 2008-012 though 2008-015 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated January 28, 2010.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2008-001 through 2008-012, and 2008-015 through 2008-020.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated January 28, 2010.

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

We intend this report solely for the information and use of the audit committee, management, Mayor, and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 28, 2010

VILLAGE OF DONNELSVILLE
CLARK COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007

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

FINDING NUMBER 2008-001

Noncompliance and Material Weakness

Ohio Rev. Code Section 733.28 requires that the Village Clerk shall keep the books of the Village, exhibit accurate statements of all moneys received and expended, of all the property owned by the Village and the income derived there from, and of all taxes and assessments. **Ohio Admin. Code Section 117-2-02**, states, in part, that all public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Village's financial reports for 2008 and 2007 contained errors which resulted in numerous reclassifications and adjustments to correctly report the financial activity during the period as follows:

2008 General Fund

Property and Local Taxes receipts was understated by \$16,079
Intergovernmental receipts was overstated by \$3,940
Miscellaneous receipts was understated by \$46
Security of Persons and Property disbursements was overstated by \$2,850
General Government disbursements was overstated by \$2,479
Ending Fund Cash Balance was understated \$17,514

2008 Special Revenue Funds

Property and Local Taxes receipts was overstated \$11,509
Intergovernmental receipts was understated \$15,857
Transportation disbursements was overstated \$545
Ending Fund Cash Balance was understated \$4,893

2008 Enterprise Funds

Charges for Services receipts was overstated \$13,358
Contractual Services disbursements was understated \$9,529
Redemption of Principal disbursements was understated \$79,349
Interest and Other Fiscal Charges disbursements was overstated \$79,349
Ending Fund Cash Balance was overstated \$22,887

2007 General Fund

Property and Local Taxes receipts was understated by \$3,247
Intergovernmental receipts was overstated by \$1,665
Charges for Services receipts was understated by \$240
Fines, Licenses and Permits receipts was understated by \$596
Earnings on Investments receipts was understated by \$1,175
Miscellaneous receipts was understated by \$25
Security of Persons and Property disbursements was understated by \$85
General Government disbursements was understated by \$221
Refund of Prior Period Expenditures was understated by \$410
Ending Fund Cash Balance was understated \$3,722

**FINDING NUMBER 2008-001
(Continued)**

2007 Special Revenue Funds

Intergovernmental receipts was overstated \$4,433
Earnings on Investments receipts was understated by \$821
Ending Fund Cash Balance was overstated \$3,612

2007 Enterprise Funds

Intergovernmental receipts was understated \$44,021
Loan Proceeds receipts was understated \$13,642
Redemption of Principal disbursements was understated \$44,021
Interest and Other Fiscal Charges disbursements was understated \$13,642

Adjustments to correct the significant errors above are reflected in the financial statements and notes.

The Village should develop and implement procedures to verify accurate recordkeeping of all its activities. Failure to maintain complete accountability of public monies could increase the possibility of funds being altered, impaired, lost or stolen. Additionally, independent detailed reviews should be performed over the Village accounting records as a means of providing for their accuracy.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-002

Noncompliance

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate:** If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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 Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Village.
2. **Blanket certificate:** Fiscal officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by the members of the legislative authority against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**FINDING NUMBER 2008-002
(Continued)**

- 3. Super Blanket certificate:** The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

The Village did not issue purchase orders for any of its expenditures during 2007 and for 34% of the expenditures examined for 2008. The council also failed to establish a limit for blanket certificates as required. Failure to properly certify the availability of funds can result in misappropriation of monies and over spending resulting in negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility that Village funds will exceed budgetary spending limitations, the Village's Clerk-Treasurer should certify that the funds are or will be available prior to the obligation by the Village. When prior certification is not possible, "then and now" certification should be used. The Village should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Clerk-Treasurer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Clerk-Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-003

Noncompliance

Ohio Rev. Code Section 733.40 requires that all moneys collected shall be paid by the mayor into the municipality on the first Monday of each month. At the first regular meeting of the legislative authority each month, the mayor shall submit a full statement of all money received, from whom and for what purposes received, and when paid into the treasury.

Ohio Rev. Code 2743.70(A)(2) and 2949.091(A)(1)(b) require that all moneys collected during a month and owed to the state shall be transmitted on or before the twentieth day of the following month by the clerk of the court to the treasurer of the state.

The mayor's court failed to remit moneys collected in 2007 for January, February, March, April, June, and July by the required deadline. The January and February collections were paid on March 20, 2007. The March and April collections were paid on June 2, 2007 and June 4, 2007. The June and July collections were paid on August 30, 2007.

The mayor's court failed to submit the 2007 State filings for January, February, March, April, June, July, September, October and November by the required deadline. The January, February, March and April reports were filed as one with the May report on June 2, 2007. The June and July reports were filed as one with the August report on August 30, 2007. The September, October and November reports were filed as one with the December report on January 11, 2008.

Policies and procedures should be established to verify that the Mayor's Court pay the State and the Village their shares by the required dates.

**FINDING NUMBER 2008-003
(Continued)**

Additionally, there was no indication that the Mayor's Court presented a full statement to the Council. Policies and procedures should be established to verify that the Court submits monthly report to the Council for review and approval. This would allow for the oversight of the Courts by an independent body and would allow the Council to verify that required payments had been made.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-004

Noncompliance

Ohio Rev. Code Section 5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

The Village record of proceedings for January 10, 2007 indicates that annual appropriation measure was approved, however, no dollar amounts were identified and the appropriation resolution could not be located by the Village nor was any appropriation measure for 2007 filed with the County Auditor. Budgeting is an important management tool used by the Village Council to allocate proposed expenditures amongst various activities of the subdivision. It establishes benchmarks for the subdivision and allows the governing board to monitor the actual results to these goals. The Village should adopt an annual appropriation measure by the first day of each fiscal year or adopt temporary appropriations until the permanent appropriations are adopted on or before April 1. The Village Council could amend the appropriation at a later date if the actual expenditures are determined to exceed or significantly fall below the budgeted amounts. Failure to do so could result in the Village spending its resources on activities that are not in accordance with the Council's objectives.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-005

Noncompliance

Ohio Rev. Code Section 5705.36(A)(1) provides in part that on or about the first day of each fiscal year, the fiscal officer of each subdivision and other taxing unit shall certify to the county auditor the total amount from all sources available for expenditures from each fund set up in the tax budget. This certified amount shall include any unencumbered balances that existed at the end of the preceding year.

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

Ohio Rev. Code Section 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. **Ohio Rev. Code Section 5705.36(A)(4)** requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

**FINDING NUMBER 2008-005
(Continued)**

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

The Village failed to certify 2007 available resources to the County Auditor or obtain a certificate of estimated resources for 2007. The Village should establish policies and procedures to certify available revenue on or about the first day of each fiscal year with the county budget commission. Also, the Village should establish policies and procedures to verify that certificates of estimated resources are obtained prior to the approval of any appropriation measures. Certificate of estimated resources show how much money is estimated to be received during the year and the beginning unencumbered balance that was available for appropriation. Appropriation measures should be limited to the amount on the Certificate of estimated resources. The Village should also establish policies and procedures to monitor estimated and actual revenues throughout the year and obtain an amended certificate if revenues are going to significantly vary from the original estimate to prevent over-appropriating available resources.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-006

Noncompliance and Material Weakness

Ohio Rev. Code Section 5735.28 states that wherever a municipal corporation is on the line of the state highway system as designated by the director of transportation as an extension or continuance of the state highway system, seven and one-half per cent of the amount paid to any municipal corporation pursuant to sections 4501.04, 5735.23, and 5735.27 of the Revised Code shall be used by it only to construct, reconstruct, repave, widen, maintain, and repair such highways, to purchase, erect, and maintain traffic lights and signals, and to erect and maintain street and traffic signs and markers on such highways, or to pay principal, interest, and charges on bonds and other obligations issued pursuant to Chapter 133 of the Revised Code or incurred pursuant to section 5531.09 of the Revised Code for such purposes.

The Village did not properly allocate gas and motor vehicle tax receipts between the Highway fund and the Street Construction, Maintenance and Repair (SCM&R) Fund during 2007 or 2008. The Highway fund is to receive seven and one-half percent and the remaining amount of ninety-two and one-half percent is to be received by the SCM&R fund. In 2007, the Highway fund was overstated \$306 and the SCM&R fund was overstated \$4,127. In 2008, the Highway fund was overstated \$10,360 and the SCM&R fund was understated \$10,360.

Adjustments to correct the significant errors above are reflected in the financial statements and notes.

Policies and procedures should be developed to properly allocate gas and motor vehicle tax receipts between the Highway and SCM&R funds. This will allow the Village to maintain proper fund balances for their respective special revenue funds. Failure to do so could result in incorrect fund balances being maintained and expenditures being paid for money that does not really exist in a fund and are not allowable in the other fund.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-007

Noncompliance

Ohio Rev. Code Section 5705.39 states, in part, that total appropriations from each fund should not exceed the total estimated resources. Further, 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 certificate or amended official estimate of resources.

Additionally, **Ohio Rev. Code Section 5705.40** states, in part, that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation.

The Village failed to establish or file appropriation measures for 2007 with the county budget commission. Accordingly, the Village had no certificate from the County Auditor that appropriations from each fund did not exceed the total official estimate of resources for 2007.

The Village should develop and implement procedures to file appropriations measures as approved by the Village Council with the County Auditor's Office. This would enable the Village to comply with budgetary requirements while limiting the risk of spending more than is available. When additional money becomes available, the Village should amend its certificate and appropriations accordingly if the money is intended to be spent.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-008

Noncompliance

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

The following funds had expenditures in excess of amounts appropriated at December 31, 2008:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund	\$54,866	\$62,344	(\$7,478)
Enterprise Funds			
Sewer	178,424	193,118	(14,694)

The following funds had expenditures in excess of amounts appropriated at December 31, 2007:

<u>Fund</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund		\$58,011	(\$58,011)
Special Revenue Funds			
SCM&R		522	(522)
Enterprise Funds			
Sewer		153,563	(153,563)

The Village should develop and implement procedures to properly monitor its budgetary activity as it relates to appropriations and expenditures. This will assist the Village in complying with budgetary requirements while verifying accurate financial position throughout the year.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-009

Noncompliance

Ohio Admin. Code Section 117-2-02(D) requires that all local public offices maintain accounting records in a manual or computerized format. The records used should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- 1) Cash journal, which typically contains the following information: The amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- 2) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.
- 3) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.
- 4) In addition, all local public offices should maintain or provide a report similar to the following accounting records:
 - a. Payroll records including:
 - i. W-2's, W-4's and other withholding records and authorizations;
 - ii. Payroll journal that records, assembles and classifies by pay period the name of employee, social security number, hours worked, wage rates, pay date, withholdings by type, net pay, and other compensation paid to an employee (such as a termination payment), and the fund and account charged for the payments;
 - iii. Check register that includes, in numerical sequence, the check number, payee, net amount, and the date;
 - ix. Information regarding nonmonetary benefits such as car usage and life insurance
 - v. Information, by employee, regarding leave balances and usage
 - b. Fixed asset records including such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles will want to maintain additional data. Fixed assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.
 - c. Each local public office should establish a capitalization threshold so that, at a minimum, eighty per cent of the local public office's non-infrastructure assets are identified, classified, and recorded on the local public office's financial records.

The Village did not maintain all required records from January 1, 2007 through August 31, 2008. The accounting records for this period consisted of manual receipt and appropriations ledgers. The Village did not maintain a detailed cash journal by fund and its accounting records did not provide balances for each fund maintained by the Village. No payroll journal or other records regarding nonmonetary benefits such as car usage, life insurance or information by employee, regarding leave balances and usage were maintained. The Village did not establish a capitalization threshold or track its capital assets.

Starting September 1, 2008, the Village began using the Uniform Accounting Network (UAN) accounting software to maintain their records in a computerized format. UAN system maintains the required records.

**FINDING NUMBER 2008-009
(Continued)**

Policies and procedures should be established and implemented to verify that the Village maintains all required accounting and payroll records. Additionally, the Village should establish a capitalization threshold and track all its assets over that dollar limit. This would provide for complete set of financial records that would assist the Village Council and the Mayor in decision making process and would allow the Village to comply with payroll reporting requirements of the Internal Revenue Service. Establishing a capitalization threshold would allow the Village to better track its assets for purchasing appropriate level of insurance coverage and help detect any misappropriation of assets.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-010

Noncompliance

Ohio Rev. Code Section 9.38 states that the public money must be deposited with the treasurer of the public office *or* to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

For example, a government employee, other than the fiscal officer collecting funds and issuing a receipt, must deposit the funds with the government's fiscal officer on the business day following the day of receipt. As an alternative to depositing the funds with the government's fiscal officer, the employee instead may deposit funds with the government's designated depository on the business day following the day of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

The Mayor's Court did not deposit money in a timely manner. Various months during 2007 had reconciling items for deposit in transit. May 2005 receipts in the amount of \$670 were not deposited until June 2007. In addition, reviews of the Villages receipts from the Clark County Auditor indicated that payments received were not deposited for excessive periods of time in 2007.

Policies and procedures should be established to verify that all money collected is deposited in a timely manner. If the Council determines that adequate controls exist to safeguard the receipts they could adopt a policy of depositing receipts less than \$1,000 no later than three business day after receiving it. Failure to do so could result in loss and receipts before they are deposited and possible findings for recovery in future audits.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-011

Noncompliance

Ohio Rev. Code Section 149.351 (A), states that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commission provided for under sections 149.38 to 149.42 of the Revised Code. Such records shall be delivered by outgoing officials and employees to their successors and shall not be otherwise removed, transferred or destroyed unlawfully.

The Village did not have supporting documentation for \$105.50 or 1.4% of the expenditures sampled for 2007 and \$24,867.36 or 24.57% of the individually significant items tested for 2007 in addition to the sample of expenditures. The Village did not have supporting documentation for \$1,418.14 or 19.02% of the expenditures sampled for 2008 and \$2,320.66 or 2.47% of the individually significant items tested for 2008 in addition to the sample of expenditures. The expenditures above were paid to Clark County Utilities, Dickman Directories, Treasurer of State of Ohio, and to VISA. These expenditures appeared to be for Village purposes.

Failure to retain these required public records (supporting documentation for all disbursements) could result in inappropriate payments for goods or services not actually received by the Village.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-012

Noncompliance and Material Weakness

Ohio Rev. Code Section 5705.10(D), states, in part, that all revenue derived from a source other than the general property tax, and which the law prescribes shall be used for a particular purpose, is to be paid into a special fund for such purpose.

The Village failed to properly record the receipt of the following revenues during the audit period:

Description	General	Special Revenue Funds			Enterprise Funds Sewer
		SCM&R	7.5% Highway	Net Change	
2008					
Property and Local Taxes and Charges for Services	\$13,358				(\$13,358)
Local Government Revenue	551				(551)
Gas Excise Tax	(4,710)	\$4,357	\$353	\$4,710	
Gasoline Cents Per Gallon	362	(335)	(27)	(362)	
2008 Net Change in Fund Balances	\$ 9,561	\$4,022	\$326	\$4,348	(\$13,909)

Positive values reflect the fund(s) where the revenue should have been posted and the negative values reflect the fund(s) where the revenue was actually posted. In accordance with the preceding facts, finding for adjustments are hereby issued against the Village of Donnelsville for 2008.

Adjustments to correct the significant errors above are reflected in the financial statements and notes.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-013

Material Weakness - Posting Capitalized Accrued Interest

The Village borrowed money from the Ohio Water Development Authority (OWDA) for the construction of a sewer project. The Village did not make interest payments on the loan during 2007. The OWDA capitalized this accrued interest and added it to the loan balance in the amount of \$13,642 during 2007.

The Village did not post the addition of the accrued interest to the loan balance as a memo receipt indicating loan proceeds and a memo expenditure of interest payment. An adjustment was posted to the accompanying financial statements, as the variance was considered material. Policies and procedures should be established to verify that all loan activity is recorded properly. Failure to do so could result in material misstatements in the Village's financial statements and discrepancy between the loan balance per the Village and the balance per OWDA.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-014

Material Weakness - Posting of Revenues and Expenditures

The Village did not post on-behalf payments made by the Ohio Public Works Commission (OPWC) to the Ohio Water Development Authority (OWDA) during the audit period. These payments were for the OWDA Loan #4229 principal in the amount of \$44,021 during 2007. This resulted in the understatement of intergovernmental revenues and principal payment in the enterprise fund. The Village also posted \$79,349 of 2008 principal payments made on the OWDA Loan #4229 as Interest and Other Fiscal Charges rather than Reduction of Principal in the Enterprise Fund. Adjustments were posted to the financial statements, as the variances were considered material.

Additionally, the Village posted tax receipts at "net" rather than gross, thus understating General Fund actual revenues and expenditures by \$451 during 2007 and \$1,643 during 2008. Adjustments were posted to the accompanying financial statement to correct the understatements. Policies and procedures should be established and implemented to verify that all on-behalf payments are recorded on the Village's ledgers and that all principal payments are properly posted as Reduction of Principal disbursements. Failure to do so could result in material understatements of revenues and corresponding expenditures in the Village's financial statements.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-015

Noncompliance and Material Weakness

Ohio Rev. Code Section 135.21 requires that interest earned must be credited to the general fund of the subdivision.

However, the following exceptions apply:

- Interest earned on money derived from a motor vehicle license or fuel tax must follow the principal. [Article XII, Section 5a, Ohio Const. and 1982 Op. Atty Gen. No. 82-031.]
- Federal regulations may require local governments to credit interest earned on federal money to the fund to which the principal belongs. 7CFR Part 210.2, 210.5 and 210.14(a)
- Interest earned on principal of a non-expendable trust fund established to receive donations or contributions that the donor or contributor requires to be maintained intact must be credited to the non-expendable trust fund to which the principal belongs. [Section 5705.131]
- Interest earned on debt proceeds from debt issued under Ohio Rev. Code Chapter 133 must be used for purposes for which the debt was issued or credited to the general fund. [Section 5705.10(E)]

The Village did not post interest earned from two certificates of deposit that matured during 2007 to the General Fund, Street Construction Maintenance and Repair Fund, and the Highway Fund in the amounts of \$1,175, \$715 and \$106 respectively. The accompanying financial statements have been adjusted to reflect these amounts. The Village should establish and implement policies and procedures to verify that the interest income is posted to the correct funds and amounts when it is earned. Failure to do so could result in material misstatements in Village's financial statements.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-016

Noncompliance

26 USC 3402(a)(1) requires that, in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary.

Ohio Rev. Code 5747.06(A) states that except as provided in division (E)(3) of this section, every employer, including the state and its political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748. of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year.

The Village did not withhold any federal, state or local taxes from the Council, Mayor, and its employees' salaries. The Village should contact the taxing agencies and rectify such issues and begin withholding federal, state and local (if applicable) taxes from its employees and remit them to the respective agencies. Failure to do so could result in assessment of fines and penalties by the Internal Revenue Service and the Ohio Department of Taxation.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-017

Noncompliance

26 USC 3102(a) and 26 USC 3121 of the Internal Revenue Code requires public employers to withhold Social Security Medicare Tax from employees hired on or after April 1, 1986. The Village did not withhold Medicare from the Village Clerk-Treasurer, Mayor, the Council and the Patrolman during 2007 and 2008. To comply with the abovementioned section of code, the Village should contact the IRS and rectify such issues and procedures should be developed and implemented to provide for proper withholdings and submission to the appropriate authority.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-018

Noncompliance

26 CFR 1.6041-1 Return of information as to payments of \$600 or more states that:

(a) General rule. (1) Information returns required--(i) Payments required to be reported. Except as otherwise provided in Sections 1.6041-3 and 1.6041-4, every person engaged in a trade or business shall make an information return for each calendar year with respect to payments it makes during the calendar year in the course of its trade or business to another person of fixed or determinable income described in paragraph (a)(1)(i) (A) or (B) of this section. For purposes of the regulations under this section, the person described in this paragraph (a)(1)(i) is a payor (A) Salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more. (B) Interest (including original issue discount), rents, royalties, annuities, pensions, and other gains, profits, and income aggregating \$600 or more.

The section further requires all payments to attorneys of \$600 or more that are not otherwise reported (e.g., on form W-2 for attorneys who are employees) must be reported on form 1099-MISC.

26 CFR 1.6041-2 Return of information as to payments to employees states that:

(a)(1) In general. Wages, as defined in section 3401, paid to an employee are required to be reported on Form W-2.

The Village did not issue any 1099 forms to the independent contractors and its attorney for their services during 2007 and 2008. Additionally, the Village failed to report 2007 and 2008 wages to the required agencies. The Village should establish policies and procedures to verify that payments in excess of \$600 to independent contractors are reported on the 1099 form and all payments to the employees are reported on the W-2 Form at the end of the year. This would assist the independent contractors and the employees during their tax filing process and assist the federal, state and local authorities in detecting tax evasion. Failure to do so could result in assessment of fines and penalties by the Internal Revenue Service and the Ohio Department of Taxation.

Officials Response: See page 29 for response.

FINDING NUMBER 2008-019

Noncompliance

Ohio Rev. Code Section 145.03 (A) requires that membership in the public employees retirement system is compulsory upon being employed and shall continue as long as public employment continues.

Pursuant to **Ohio Rev. Code Section 145.20(A)** membership in the retirement system is optional for elected officials.

Internal Revenue Code 312(B)(7)(F) states that after July 1, 1997, employees who are not members of retirement systems of employers shall be required to pay into the social security system.

The Council did not contribute to the Ohio Public Employees Retirement System (OPERS) or Social Security. The Mayor only contributed to OPERS four times during 2007 and none in 2008. His withholdings for 2007 were at the incorrect rate. The Clerk-Treasurers did not contribute to OPERS in 2007 and January through June and November 2008. The Village should determine the eligibility of the Mayor, Council and the Clerk-Treasurer to participate in the OPERS and begin withholding retirement contributions to the system. If it is determined that the above named individuals are exempt from participation in the OPERS, the Village should begin withholding Social Security from their pay checks. Failure to do so could result in assessment of penalties against the Village, and loss of credit towards retirement for the employees.

Officials Response: See below for response.

FINDING NUMBER 2008-020

Noncompliance

Ohio Rev. Code Section 5705.34 requires each taxing authority to pass an ordinance or resolution to authorize the necessary tax levies. Each such authority is to certify the levies to the county auditor before October 1st, unless a later date is approved by the tax commissioner. The Village did not certify the levies to the county auditor until October 26, 2006 for the 2007 fiscal year. Additionally, no resolution or ordinance was passed during 2007 to certify the levies for 2008 fiscal year.

To verify the completeness and accuracy of the tax documents prepared by the County, the Village should review the rates and amount to be collected in the ensuing fiscal year and certify them to the county auditor after formal adoption through a passage of an ordinance or a resolution.

Officials Response:

The Village of Donnelsville made numerous changes during the 2008 year. The Village had three Clerk-Treasurers during a 24 month period from 2006 to 2008 and made the conversion to the UAN accounting system. The UAN system will eliminate most of these issues. The Mayor, Council and Clerk have the best interest of the Village of Donnelsville in mind.

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**VILLAGE OF DONNELSVILLE
CLARK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	Evaluation of OWDA sewer project rates and availability to meet future debt payment requirements	No	Reported in a separate letter to management of the Village
2006-002	Expenditure Procedures	No	Reported in a separate letter to management of the Village
2006-003	Failure to perform bank reconciliations	Yes	
2006-004	Failure to post capitalized accrued interest.	No	Not Corrected – Repeated as finding 2008-013
2006-005	Incorrect posting of revenues.	No	Not Corrected – Repeated as finding 2008-014
2006-006	Mayors court deficiencies.	No	Reported in a separate letter to management of the Village
2006-007	Lack of risk assessment	Yes	
2006-008	ORC 731.16 – Failure to approve contract change orders	Yes	
2006-009	ORC 117.38 – Failure to file annual financial reports with the Auditor of State.	Yes	
2006-010	ORC 733.28 – Inaccurate financial records.	No	Not Corrected – Repeated as finding 2008-001
2006-011	ORC 135.21 – Inaccurate posting of interest.	No	Not Corrected – Repeated as finding 2008-015
2006-012	ORC 5705.41(D) – Failure to use purchase orders.	No	Not Corrected – Repeated as finding 2008-002
2006-013	ORC 733.40 & 2743.70 & 2949.091 – Failure of mayors court to remit funds to the Village and State.	No	Not Corrected – Repeated as finding 2008-003
2006-014	ORC 5705.38(A) – Failure to pass appropriations by the required date.	No	Not Corrected – Repeated as finding 2008-004
2006-015	ORC 5705.36(A)(2) – Failure to obtain certificate of estimated resources.	No	Not Corrected – Repeated as finding 2008-005

Village of Donnelsville
 Clark County
 Schedule of Prior Audit Findings
 Page 2

2006-016	ORC 5705.41(B) – Expenditures exceeding appropriations.	No	Not Corrected – Repeated as finding 2008-008
2006-017	OAC 117-2-02(D) – Failure to maintain required financial records.	No	Not Corrected – Repeated as finding 2008-009
2006-018	ORC 9.38 – Failure to deposit money in a timely manner.	No	Not Corrected – Repeated as finding 2008-010
2006-019	ORC 149.351(A) – Lack of supporting documentation for expenditures.	No	Not Corrected – Repeated as finding 2008-011
2006-020	ORC 5705.10 – Failure to record revenues in the appropriate funds.	No	Not Corrected – Repeated as finding 2008-012
2006-021	26 USC Section 3402(a)(1) and ORC 5747.06(A) – Failure to withhold federal, state or local taxes.	No	Not Corrected – Repeated as finding 2008-016
2006-022	26 USC Section 3102(a) – Failure to withhold medicare tax from employees.	No	Not Corrected – Repeated as finding 2008-017
2006-023	26 CFR Section 1.6041-1 and 1.6041-2 – Failure to issue 1099's and W-2's.	No	Not Corrected – Repeated as finding 2008-018
2006-024	ORC 145.03(A) – Failure to withhold PERS from employees.	No	Not Corrected – Repeated as finding 2008-019



Mary Taylor, CPA
Auditor of State

VILLAGE OF DONNELSVILLE

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
FEBRUARY 25, 2010