



Dave Yost • Auditor of State



VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY

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# Dave Yost • Auditor of State

Village of South Amherst  
Lorain County  
103 West Main Street  
South Amherst, Ohio 44001

To the Village 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 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. 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.

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

**Dave Yost**  
Auditor of State

December 10, 2012

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of South Amherst  
Lorain County  
103 West Main Street  
South Amherst, Ohio 44001

To the Village Council:

We have audited the accompanying financial statements of the Village of South Amherst, Lorain County, (the Village) as of and for the year ended December 31, 2011. 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.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2011 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, 2011, 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 of the Village of South Amherst, Lorain County, as of December 31, 2011, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 2, during 2011 the Village of South Amherst adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 11, during 2011, the Village of South Amherst changed the financial statement presentation method to conform to presentation methods the Auditor of State prescribes or permits.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

December 10, 2012



**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Capital Projects	Permanent	Totals (Memorandum Only)
<b>Cash Receipts</b>					
Property and Other Local Taxes	\$75,309	\$6,799			\$82,108
Municipal Income Tax	207,964				207,964
Intergovernmental	200,315	81,843	\$13,927		296,085
Charges for Services	114,853	68,926			183,779
Fines, Licenses and Permits	36,248				36,248
Earnings on Investments	193	647			840
Miscellaneous	8,597	219			8,816
<i>Total Cash Receipts</i>	<u>643,479</u>	<u>158,434</u>	<u>13,927</u>		<u>815,840</u>
<b>Cash Disbursements</b>					
Current:					
Security of Persons and Property	229,767				229,767
Public Health Services	511	57,268			57,779
Leisure Time Activities	11,832	28,248			40,080
Community Environment	2,764				2,764
Transportation		108,127	13,927		122,054
General Government	183,927	234			184,161
Capital Outlay	78,987	12,672	53,874		145,533
Debt Service:					
Principal Retirement		6,665			6,665
<i>Total Cash Disbursements</i>	<u>507,788</u>	<u>213,214</u>	<u>67,801</u>		<u>788,803</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>135,691</u>	<u>(54,780)</u>	<u>(53,874)</u>		<u>27,037</u>
<b>Other Financing Receipts (Disbursements)</b>					
Transfers In		35,410	54,000		89,410
Transfers Out	(89,000)			(410)	(89,410)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(89,000)</u>	<u>35,410</u>	<u>54,000</u>	<u>(410)</u>	
<i>Net Change in Fund Cash Balances</i>	46,691	(19,370)	126	(410)	27,037
<i>Fund Cash Balances, January 1, 2011</i>	<u>1,192,241</u>	<u>170,505</u>		<u>5,279</u>	<u>1,368,025</u>
<b>Fund Cash Balances, December 31</b>					
Nonspendable				4,869	4,869
Restricted		151,135			151,135
Committed			126		126
Unassigned	1,238,932				1,238,932
<i>Fund Cash Balances, December 31, 2011</i>	<u>\$1,238,932</u>	<u>\$151,135</u>	<u>\$126</u>	<u>\$4,869</u>	<u>\$1,395,062</u>

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

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCE (CASH BASIS)  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Proprietary Fund Type
	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$ 377,002
Miscellaneous	1,079
	<u>378,081</u>
<i>Total Operating Cash Receipts</i>	<u>378,081</u>
<b>Operating Cash Disbursements</b>	
Personal Services	47,948
Contractual Services	222,688
Other	4,400
Supplies and Materials	22,530
	<u>297,566</u>
<i>Total Operating Cash Disbursements</i>	<u>297,566</u>
<i>Operating Income</i>	<u>80,515</u>
<b>Non-Operating Receipts (Disbursements)</b>	
Earnings on Investments	176
Principal Retirement	(45,321)
Interest and Other Fiscal Charges	(9,957)
	<u>(9,957)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(9,957)</u>
<i>Net Change in Fund Cash Balances</i>	25,413
<i>Fund Cash Balances, January 1, 2011</i>	<u>225,200</u>
<i>Fund Cash Balances, December 31, 2011</i>	<u>\$250,613</u>

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

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**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 South Amherst, Lorain County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water utility, park operations, and police services. The Village appropriates general fund money to support a volunteer fire department.

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's accounting basis includes investments as assets. The basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values Certificates of Deposit at cost.

**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 Fund:

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 1- Summary of Significant Accounting Policies (Continued)**

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

**4. Capital Project Fund**

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following capital projects fund:

Capital Project Fund - The fund receives money from the Ohio Public Works Commission for the resurfacing and repair of Village Roads.

**5. Permanent Funds**

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Village's programs. The Village had the following permanent fund:

Cemetery Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Village's cemetery.

**6. Enterprise Fund**

This fund accounts 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 enterprise fund:

Water Fund - This fund receives charges for services from residents to cover water service costs.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund 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.

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**NOTE 1- Summary of Significant Accounting Policies (Continued)**

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash balances 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 canceled, and re-appropriated in the subsequent year.

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**Note 1- Summary of Significant Accounting Policies (Continued)**

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. 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.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment after 10 years of service, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Change in Accounting Principles and Accounting Change**

**Change in Accounting Principles** - GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types. The implementation of GASB Statement No. 54 did not have an effect on the previously reported fund balances.

**Accounting Change** - The Village reported the Income Tax Fund as a Special Revenue Fund in 2010. This fund was not correctly categorized in 2010 and the following is the adjustment to the December 31, 2010 fund type balances to properly categorize this fund for fiscal year 2011:

<u>Explanation</u>	<u>General</u>	<u>Special Revenue</u>
Fund Balance 12/31/2010	\$ 383,584	\$ 979,162
Adjustment to move Income Tax Fund to the General Fund	808,657	(808,657)
Restated Balance 1/01/2011	<u>\$1,192,241</u>	<u>\$ 170,505</u>

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**3. Equity in Pooled Deposits**

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

	2011
Demand deposits	\$ 453,366
Certificates of deposit	552,108
Savings deposits	640,202
Total deposits	\$ 1,645,676

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

**4. Budgetary Activity**

Budgetary activity for the years ending December 31, 2011 is as follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$636,098	\$643,479	\$7,381
Special Revenue	187,175	193,844	6,669
Capital Projects	17,927	67,927	50,000
Enterprise	375,110	378,257	3,147
Permanent	10	0	(10)
Total	\$1,216,320	\$1,283,507	\$67,187

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$809,804	\$596,788	\$213,016
Special Revenue	245,497	213,214	32,283
Capital Projects	67,927	67,801	126
Enterprise	370,368	352,844	17,524
Permanent	410	410	0
Total	\$1,494,006	\$1,231,057	\$262,949

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**5. 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.

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.

**6. Local Income Tax**

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**7. Debt**

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OWDA #4578	\$ 176,284	5%
OPWC C147J	4,848	0%
OPWC C123M	29,151	0%
OPWC CT45M	28,234	0%
OPWC CI08N	39,531	0%
OPWC CT29N	25,104	0%
Total	<u>\$ 303,152</u>	



**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**7. Debt (Continued)**

Ohio Water Development Authority (OWDA) loan #4578 relates to the 2006 North Lake Street Water Main Replacement Project. Loan #4578 requires semiannual installments of \$8,237, including interest. The loan matures on July 1, 2026.

The Ohio Public Works Commission (OPWC) loan C147J relates to the Buckeye East, Erie, and Juanita Street Reconstruction Phase 2. OPWC loan C123M relates to the North Lake Street Reconstruction. OPWC loan CT45M relates to the North Lake Reconstruction Phase 2. Loan CI08N was for Phase 3 Reconstruction of North Lake Street and Loan CT29N was for Phase 4 reconstruction of North Lake Street. The OWDA loan will be repaid out of the Water Fund and the OPWC loans will be repaid out of the Street Maintenance, Construction and Repair Fund.

The Village will repay loan #C147J in semiannual installments of \$1,938. The first payment was made in 2009 with the loan maturing in 2014.

North Lake Street Reconstruction was completed in four phases. Phase 1 loan C123M will be paid in semiannual installments of \$1,620. The First payment occurred on January 1, 2011 with a maturity date of July 2020. Phase 2 loan CT45M will be paid in semiannual installments of \$743, with the loan maturing in July 2030. Phase 3 loan CI08N will be repaid in semiannual installments of \$1,040 scheduled to begin in 2012 with the loan maturing in July 2032. Phase 4 Loan CT29N will be repaid in semiannual installments of \$661. The first payment is scheduled for July 2012 with the loan maturing in July 2032.

Year ending December 31:	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$16,756	\$7,997	\$24,753
2013	18,846	7,608	\$26,454
2014	18,288	7,200	25,488
2015	17,742	6,772	24,514
2016	18,189	6,326	24,515
2017-2021	95,158	24,173	119,331
2022-2026	96,919	9,460	106,379
2027-2031	21,254	0	21,254
Total	<u>\$303,152</u>	<u>\$60,076</u>	<u>\$372,688</u>

**8. Retirement Systems**

All employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS, is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contributions rates. For 2011, OPERS members, except those in law enforcement, contributed 10% of their gross salaries. Members in law enforcement and public safety contributed 11.61% and 11% of their gross salaries. The Village contributed at a rate of 14% for state and local, 18.10% for law enforcement and public safety divisions. The Village has paid all contributions required through December 31, 2011.

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(Continued)**

**9. Risk Management**

**Commercial Insurance**

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Law enforcement liability;
- Public officials liability;
- Employment practice liability;
- Crime;
- Inland Marine and EDP, and
- Errors and omissions.

**10. Contingent Liabilities**

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**11. Changes in Financial Statement Presentation**

In 2010, the Village reported the financial statements in accordance with cash basis of accounting. This year the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office, which is described in Note 1.B.



# Dave Yost • 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 South Amherst  
Lorain County  
103 West Main Street  
South Amherst, Ohio 44001

To the Village Council:

We have audited the financial statements of Village of South Amherst, Lorain County, (the Village) as of and for the year ended December 31, 2011 and have issued our report thereon dated December 10, 2012, wherein we noted the Village followed the accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. Furthermore, we noted the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. 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*.

During 2011, the Village of South Amherst changed the financial statement presentation method to conform to presentation methods the Auditor of State prescribes.

### **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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, 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 findings 2011-02 through 2011-04 described in the accompanying schedule of findings to be material weaknesses.

### **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 an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated December 10, 2012.

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

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



**Dave Yost**  
Auditor of State

December 10, 2012

VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

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

FINDING NUMBER 2011-01

**Material Noncompliance - Adequate Supporting Documentation**

Ohio Revised Code Section 149.351 requires that all records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by Ohio Revised Code Sections 149.38 through 149.42.

During our testing of the Recreation Department receipts, we noted that 100% of the Village receipts did not have any detail documentation as to the specific purpose of the amount recorded on the bank deposit slip. A lack of supporting documentation makes it difficult for the Village to determine how to properly classify the Recreation Department receipts.

The Village should ensure all records are properly maintained with supporting documentation and adequately safeguarded and available for inspection for audit purposes.

If there is not adequate enough detail with a receipt it could lead to the Village collecting an incorrect amount of funds, lower levels of revenue or expending Village monies on inappropriate items.

We recommend the Village implement procedures over the reporting of receipts collected at the Recreation Department. A standard receipt form should be used to ensure all necessary information is reported, including individual amount(s) received and from whom; individual cash or check amounts; activity or purpose the receipt is intended to support; date received; number of items sold and amount charged; etc, as applicable to the specific receipts. This will enable the Village to ensure the proper reporting of receipts collected at the Recreation Department

**Officials' Response:**

Starting in the 2013 season, all Recreation Department receipts will only be handled through the Village Hall. The Village Council has passed a motion and passed a policy making these changes on August 27<sup>th</sup>, 2012. No funds will be handled by any employee except the Clerk-Treasurer or Clerk-Assistant.

FINDING NUMBER 2011-02

**Material Weakness - Financial Reporting**

Sound financial reporting is the responsibility of the Clerk-Treasurer and the Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

In 2011 the following transactions were improperly recorded, and adjustments to the financial statements and accounting records were made:

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011**

**FINDING NUMBER 2011-02 (Continued)**

**Material Weakness - Financial Reporting (Continued)**

- Beginning fund balance, receipts, and disbursements totaling \$808,657, \$201,964 and \$113,919, respectively was reported in the Income Tax Fund (Special Revenue Fund) and should have been reported in the General Fund.
- Transfers in the amount of \$163,415 from the Income Tax Fund to the General Fund were improperly recorded in the financial statements. These amounts represent intra-fund transfers within the General Fund.
- Fund Balance in the Special Revenue, Capital Projects, and Permanent Endowment Funds totaling \$151,135, \$126, and \$4,869 respectively were improperly classified as unassigned. The amounts in the Special Revenue Funds should have been reported as Restricted, Permanent Funds should have been classified as Non-Spendable, and the Capital Project Fund amounts should have been reported as Committed.
- Property tax receipts totaling \$14,847 were incorrectly recorded twice in the General Fund.
- Homestead and rollback receipt totaling \$1,300 was recorded in the General Fund and should have been recorded in the Cemetery Fund.

The Village should evaluate its methods for the processing of transfers and determining fund balances. The Village should post only actual transfers between accounting funds of the Village. We also recommend the Clerk-Treasurer review Bulletin 2011-004 in order to properly to determine the classification of fund balances. Also, we recommend that the Clerk-Treasurer review the property tax settlement sheets more carefully and properly classify the amounts and record them in the correct funds.

**Officials' Response:**

The Clerk-Treasurer has been informed on the proper procedures to handle transfers and will now follow those procedures into the future.

**FINDING NUMBER 2011-03**

**Material Weakness - Bank to Book Reconciliation**

Reconciliation of the Village's bank accounts with its cash ledgers is a necessary control procedure to adequately safeguard cash and to provide an accurate financial picture of the Village. A necessary step in internal control over financial reporting is to determine the accuracy of both the bank and the balance of "cash" in the accounting records. As part of the reconciliation, all differences between the balance appearing on the bank statements and the balance of cash according to the Village's records should be accounted for.

We noted the Village did not perform monthly bank to book reconciliations. The Village prepared a monthly reconciliation between its check register and the bank balance which resulted in a difference of \$16,000 between the bank statements and the Village's ledgers at December 31, 2011. This difference required the Clerk-Assistant to re-perform the bank to book reconciliation after year end. This led to delays in the audit process and adjustments to the original financial statements provided to the Auditor of State's office.

Failure to reconcile bank accounts and resolve discrepancies in a timely manner may result in errors or irregularities to occur and go undetected.

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011**

**FINDING NUMBER 2011-03 (Continued)**

**Material Weakness - Bank to Book Reconciliation (Continued)**

We recommend the Village complete a monthly cash reconciliation which compares reconciled bank and investment balances to the Village book balances. Also, the Clerk-Treasurer should perform an additional review of the monthly cash reconciliation. This should include reviewing support for reconciling items and verifying balances. Evidence of such review should be documented.

**Officials' Response:**

The Clerk-Treasurer has been given many lessons on the Fund Accounting system for a Village. The books have now been updated to reflect all compliance issues and the books are now reconciled bank to book.

**FINDING NUMBER 2011-04**

**Material Weakness - Recording of OPWC Receipts and Expenditures**

Auditor of State Bulletins 2000-008 and 2002-004 provide guidance for local governments participating in on behalf programs with other governments as to the application of Statement No. 24 of the Governmental Accounting Standards Board. In general, when a local government enters into an on-behalf program agreement with another local government or the State (or the federal government, if applicable), whereby the local government or its residents are the beneficiaries under the agreement, the cash value benefit of the program received under the agreement should be recorded as memorandum receipts and disbursements in the year on-behalf disbursements are made.

There are also several budgetary compliance requirements associated with the recording of such program receipts and disbursements:

- Ohio Revised Code Section 5705.09(F) requires the legislative authority to approve, by resolution, the grant or project application and must establish any fund(s) necessary to meet the grant or project objectives.
- Once the grant is awarded or the application is approved, the fiscal officer must obtain an official certificate of estimated resources or an amended certificate of estimated resources for all or part of the grant or project, based on the expected cash disbursements to be made on the local government's behalf in the current fiscal year in accordance with Ohio Revised Code Section 5705.36(A)(3).
- Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless they have been properly appropriated; therefore, appropriations should be recorded in accordance with the terms and conditions of the grant or project agreement. Ohio Revised Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure prior to recording the appropriations.

During 2011, the Village was the beneficiary of Ohio Public Works Commission (OPWC) monies that were paid directly to the vendors by OPWC, on behalf of the Village. OPWC paid vendors \$13,927 in 2011. The Village did not record the receipt and expenditure transactions relating to these OPWC on behalf of payments, nor did they amend their estimated resources and appropriations to properly budget for the expected grant receipts and expenditures. The Village's financial statements and accounting records were adjusted to reflect these transactions receipts and expenditures.

**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011**

**FINDING NUMBER 2011-04 (Continued)**

**Material Weakness – Recording of OPWC Receipts and Expenditures (Continued)**

**Officials' Response:**

The Clerk-Treasurer has now been made aware that any funds received through OPWC or OWDA should be booked on our financial statements and will do so in the future.



**VILLAGE OF SOUTH AMHERST  
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2010-01	Finding for Recovery-Water Department Receipts	No	Partial repayment of \$11,956 from the bonding company and insurance company. The County Prosecutor has declined to pursue criminal proceedings.
2010-02	5705.41 (D)- Proper Encumbering	Yes	
2010-03	Recording of OPWC Receipts	No	Repeated as Finding 2011-04
2010-04	Development of Monitoring System	No	Repeated as Finding 2011-02 and 2011-03
2010-05	Adequate Support for Recreation Receipts	No	Repeated as Finding 2011-01

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# Dave Yost • Auditor of State

VILLAGE OF SOUTH AMHERST

LORAIN 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  
DECEMBER 20, 2012